Developing value

Annual Report 2012

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Development Securities PLC is a property development and investment company. Our principal objective is to create value and growth through real estate development and regeneration in sectors and locations in the UK where demand is in evidence, generating maximum value for shareholders.

Contents

Financial Highlights

Demonstrable operating progress yet to be realised within earnings

Net assets

£313.2m

Net assets reduced by £(19.9) million. Total comprehensive income for the period was a negative £(15.4) million, including property revaluations of £(4.4) million, interest rate swap revaluations of £(4.8) million and an exceptional impairment and provision of £(2.8) million in respect of the serviced office segment, together with a dividend paid of £(5.9) milllion.

Net gearing

58.9%

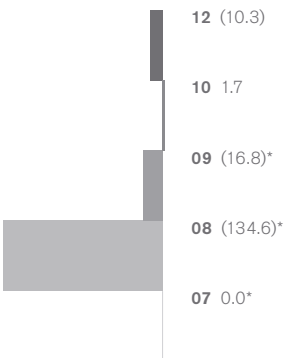
Gearing has increased during the period to a more efficient level as we have invested the proceeds of our capital raisings.

Net debt

£152.9m

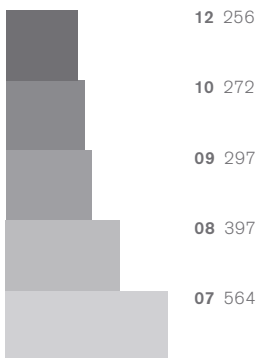
Weighted average debt maturity of 9.4 years. £118.8 million of new facilities raised in the period including £39.7 million raised by joint ventures.

(Loss)/earnings per share (pence) restated

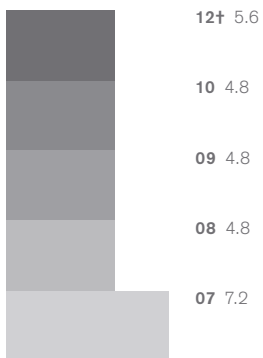


*Restated following the Placing and Rights Issue.

Net assets per share (pence)



Dividend per share (pence)



†The dividend for the 14-month period ended 29th February 2012 is equivalent to the dividend paid for the prior year.

On track to achieve our strategic objectives

David Jenkins
Chairman

With demonstrable progress and significant activity achieved during the period, I am pleased to report that your Company is on track to achieve its strategic objectives: creating value and growth through real estate development and asset transformation in sectors and locations in the UK where demand is in evidence. The impact of this progress in financial terms is yet to be captured in our results and we report a loss before tax of £10.2 million for the 14 months ended 29th February 2012, as compared to a profit before tax of £2.6 million for the year ended 31st December 2010. Shareholders' funds declined accordingly to £313.2 million from £333.1 million at the end of 2010. Net assets per share ended the period at 256 pence per share, compared to 272 pence per share at 31st December 2010.

Given our balance sheet strength and the emerging and likely success of our business plan, the Board has recommended the payment of a final dividend for the period of 3.2 pence per share payable on 26th October 2012 to shareholders on the register on 28th September 2012. This brings the total dividend payment for the 14-month period to 5.6 pence, equivalent to that paid for the previous twelve months.

The main contributory factors to the loss before tax were a charge of £4.7 million arising from a small downturn in the valuation of our £237.9 million investment portfolio and an impairment provision of £2.8 million in respect of our small serviced office division. Asset realisations from our development and trading portfolio have begun to benefit our earnings statement and setting aside revaluation movements and the impairment provision, we broke even in the eight months to 29th February 2012; we anticipate a stronger impact as more assets are realised from our active value creation strategy. The net asset decline of £19.9 million over the 14 months reflects the loss before tax of £10.2 million, together with the dividend of £5.9 million paid to shareholders and a provision of £4.3 million arising from the mark-to-market impact of a long-term fixed rate loan, the impact of which will unwind over the term of this financing.

Developing value

As you will be aware, in July 2010, we completed the second of two step changes in the size of your Company when we raised equity of £100 million, the same amount as raised twelve months previously. We set out to invest the proceeds of this fresh equity in real estate opportunities through which we could apply our development expertise to realise gains through repositioning and redeveloping secondary assets into the prime or near-prime market. The majority of these funds has now been invested into the property market in more than 40 separate transactions. It is from these transactions and others that we intend will follow in the near-term, that significant value will be added for our shareholders. The business case for our two approaches to shareholders for further funds was based on our assessment that the banking sector would not be able to provide the liquidity essential for a fully functioning property market for some time and that equity would therefore command a powerful position in deal negotiations. We anticipated that this restriction on the markets would continue for some time, thus allowing us to execute our individual asset business plans and recycle some of the proceeds back into a still illiquid marketplace for a further round of profitable opportunities. Our assessment was that the average asset business plan would take just over three years to execute and generate realised gains and that is a view to which we adhere today.

Accordingly, at 29th February 2012, with 32 months passed since our first equity raise in July 2009, we are now beginning to realise gains on these newly acquired assets. It is pleasing to note that not only have some gains been realised ahead of time but also that the quantum of the gains realised on assets where exits have been secured, has been in line or ahead of their individual business plans.

This progress is reported against a backdrop of ongoing and much reported difficulties in the European banking sector which have exacerbated the continuing economic uncertainties in both the UK and in Continental Europe. In addition, the eurozone fiscal crisis has not only reduced the demand for UK exports to that region, but has also restricted the banks' access to funds for lending to businesses and perhaps above all, undermined business confidence. Whilst the UK Government appears to have a credible strategy for its own necessary fiscal consolidation, a return to sustained growth will also need a resolution to the eurozone crisis as an important precursor. Meanwhile, it seems that the best the UK economy can

> "Creating value and growth through real estate regeneration and asset transformation in the UK, in locations and sectors where demand is in evidence

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chairmans-statement

hope for in the near-term is a more or less sideways movement in GDP performance – effectively, stagnation.

In the investment property markets, 2011 was characterised by an increasing flow of overseas funds into Central London's prime office and residential markets. The financial and political turmoil in various parts of the world caused a significant flow of funds into the Sterling-denominated Central London property markets, to some extent seeking a safe haven from the perceived risks elsewhere and only tentatively based on property fundamentals. The secondary property market continued to languish and, indeed, in the final few months of the period under review, values declined slightly. This was largely a result of prospects for rental growth continuing to recede and the flight to quality strengthening amidst increasing uncertainty in the eurozone and continuing concerns over the weakness of the UK economy. For the first time in over a decade our performance was less than that of the IPD UK Monthly Property Index. The largest contribution to our 4.2 per cent underperformance was the insolvency at Peacocks in February 2012. We believe that the prime markets of Central London will ease back and the secondary markets will recover lost ground in the near- to medium-term.

It is our view that the UK needs a vigorous regeneration of its redundant and derelict real estate assets into prime or near-prime investments servicing those areas of the economy which still retain an element of demand strength; effectively, changing functional obsolescence into functional strength. Accordingly, at this stage in the economic cycle, we do not see a strong demand for large-scale office development in our country's major conurbations, including Central London. That demand must largely await a recovery in GDP growth both domestic and international. It is our continued belief that, in an economy with virtually no upward and possibly some downward momentum, the opportunity to create growth in our industry will rely on the value-added component that can be generated through repositioning real estate into areas of demand. We will continue to pursue this strategy as and until the wide arbitrage between secondary and prime yields begins to narrow significantly. The alternative approach of expanding our investment portfolio does not hold attractions for us at this stage of the economic cycle. Whilst that strategy might offer a more stable income base for us, it offers little in the way of significant capital growth. Our skills as a developer have naturally led us into our current area of activity that relies on a detailed and technical understanding of real estate fundamentals in which we are accomplished and confident. We believe that the successes now emerging from within our development and trading portfolio are evidence of our strategy coming to fruition. Of course, our Group policy of maintaining a moderate level of gearing offsets, to a large extent, the risks associated with our development and trading property assets that are either nil or low income yielding.

Outlook

The yield curve is indicating that interest rates will remain at current minimal levels for some considerable amount of time and we would not disagree. Current fiscal policy, together with further rounds of quantitative easing, are helping to support asset values and we believe will continue to do so. Of course, at some time, one would anticipate interest rates returning to long-term trend but that will probably need to await a perceived recovery in the UK's economic performance. When that re-rating of the cost of money does occur, it may impact negatively on property values since the perceived offset of increased rental growth will take several years to work through the cash flows attaching to individual assets. We expect the banking groups to continue to gradually reduce their exposure to real estate in a way that does not significantly impact on property values. In that regard, they will be consistent with their policy of recent years of not unduly disturbing current market equilibrium.

Conclusion

After nearly nine years of sterling service on behalf of your Company, both Victoria Mitchell and Michael Soames will be stepping down from the Board at this year's Annual General Meeting. On your behalf, I would like sincerely to thank both of these Non-executive Directors for their valuable contribution to our deliberations and for their resolute efforts and commitment in support of the progress we have made. I would also like to welcome our new Non-executive Board member, Nick Thomlinson, senior partner and Chairman of the Knight Frank Group, who joined the Board on 3rd January 2012 and brings with him significant expertise and experience derived from a lengthy career in the property industry.

The period under review has seen an enormous effort from the management and staff at Development Securities PLC in deploying equity and debt into the market across a multitude of sometimes very complicated transactions, and implementing our strategy for each either in joint venture or on our own account. I would like to place on record my thanks for their commitment, professionalism and teamwork in a challenging market where credibility, track record and brand strength have played such an important role.

David Jenkins
Chairman
1st May 2012

Creating value in spite of a weak economy

Michael Marx
Chief Executive

Looking at the IPD All Property Returns for 2011, one might be forgiven for thinking that nothing much has happened in the property sector. Capital returns were low over the period, as was rental growth. Given that UK GDP growth across the same period was also negligible, it should not surprise us that the key property return indicators reflected a period of economic stagnation. The UK economy is seemingly bound hand and foot by global events, from the pressures within the eurozone, to the banking crisis across most of Europe, geopolitical tensions and rising commodity prices. To the extent that it has been able, the UK Government has responded with several rounds of quantitative easing, continuing the policy of maintaining minimal interest rates at a level to sustain both economic activity and asset values and of course reducing government expenditure to lower debt levels.

Within this environment, the challenge for our industry remains how value can be created. The course we set ourselves in 2009, before our first equity raise of £100 million in July of that year, was to create capital value by the selective acquisition of secondary assets which had the potential to be repositioned or redeveloped into prime or near-prime assets rather than purely collect income return. The equity raised has allowed us to engage in such an investment strategy within a market where the value of equity has been amplified by significant constraints on the banks' ability to generate liquidity. For the most part, we have acquired these assets from third parties who, for one reason or another, are under financial pressure and/or lack the expertise to resolve progress on a particular asset or portfolio of assets. The severe economic downturn in our sector followed the pattern of previous cycles when the upswing in property values after the crash was led by prime real estate, with secondary real estate also improving in value but nowhere near to the same extent. Accordingly, the yield differential between secondary and prime property has widened considerably. This yield differential provides us with a generous margin within which to trade and effectively exploit the arbitrage opportunity that the market presents by transforming assets from secondary to prime. This is precisely where we have placed the majority of our new equity funds.

Our initial view was that it would take an average period of some three to four years to deliver a profitable exit from each of the new investments we had made and were likely to make. It was clear, therefore, that patience would be required before we would be able to deliver the full returns we were seeking. Nevertheless, for the period under review, some of the projects have already been brought to fruition. More will be delivered in the near-term with progress made across several projects to significantly advance their individual business plans. In recent months we have achieved planning success in six projects and in some instances, have also been able to secure the exit.

We have now invested in over 40 projects in a period of just over two years, an unprecedented deal flow for the business. This has enabled us to diversify specific asset risk, thus reducing our exposure to any one particular project.

At least 50.0 per cent of these acquisitions were secured to benefit from planning gain. In a weak economy, the process of granting planning consents continues almost regardless of the difficulties besetting the economy and surrounding circumstances. Indeed, one could argue that a recession or stagnation is positive for the planning process since it encourages local authorities to allow schemes to come forward more rapidly in order that appropriate regeneration, economic stimulation and job creation can occur. To date, this seems to have been the case on the schemes on which we are working.

The difficulties of the banking sector have been subject to much comment and there is still clearly a need for the banks operating in the UK to significantly reduce their exposure to real estate lending before they can consider any serious volume of new loan originations. Since early 2009, net new commercial property lending has been below zero and we anticipate this will continue for some years until total loan exposure to our sector has been significantly reduced from present levels. Whilst, against this trend, the Group has been able to raise new bank debt on our own balance sheet, we have given consideration to the extent that limited bank lending might impact on our property exit strategies.
Given that we are aiming to sell to prime or near-prime participants, we have focussed our investments in areas of relative wealth, prosperity and hence liquidity within the UK. An analysis of the assets acquired since July 2009 reveals a concentration in Greater London, the South East and South West of England, as well as

"Our identified strategy is starting to deliver its anticipated returns

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Manchester. With regard to sectors, we have recognised the continuing demand for foodstores, retail schemes around foodstores, selected residential and student accommodation and, in certain locations, hotels.

A broad analysis of the planned disposals indicates that approximately one-third is targeted at institutional investors, one-third at housebuilders and one-third at the wider investor market. The institutional purchasers require little or no bank leverage and the housebuilding sector is now benefiting from restructured balance sheets and fresh bank facilities urged on by government policy. Even the final sector mentioned, the wider investor market, is willing to acquire good secondary assets sometimes with cash and sometimes with bank facilities, albeit at a significantly lower level of gearing than would have been achieved prior to 2007.

The strategy we have set ourselves cannot be pursued by all market participants, not only because it requires a significant level of development expertise, but also because it generally involves smaller rather than large-scale development. Accordingly, those substantial domestic and global real estate funds that are seeking further exposure to the real estate markets in the UK are unable to easily access this part of the marketplace. They are, however, willing to partner with real estate businesses, such as ourselves, who have the expertise, brand strength and transparency that a publicly listed company provides, as well as the local knowledge that goes with being a UK specific developer. We have already entered into a number of partnership agreements with real estate funds and would anticipate more being concluded in the medium-term.

As shareholders will be aware, the overwhelming majority of our recent transactions have been outside Central London. Whilst large-scale office development in the City and the West End has been an important part of our traditional business model, market conditions have now militated against such development opportunities. For one thing, the surge of overseas investment into Central London offices has driven values to a point at which it is difficult for us to justify development risk. Whilst we have noted the declining vacancy rates in both the City and the West End markets, our concern in the last few years has been that demand may be constrained by lack of GDP growth, the continuing uncertainty that attaches to the current European economy, further redundancies in the financial services sector and improved occupational efficiencies. These difficulties are now becoming more apparent and will ultimately need to be resolved before further major office development can prudently commence. Until then, pre-lets will be hard to come by, bank loans difficult to secure and equity reluctant to come forward to take the associated risks. In the meantime, it is our view that selected business districts in London, where there is a marked supply/demand imbalance with respect to prime office stock, will offer a more realistic opportunity for commercial office development. In Hammersmith, we recently broke ground at our 275,000 sq. ft. prime office development in partnership with Scottish Widows Investment Property Partnership Trust. Our next phase at PaddingtonCentral, of 140,000 sq. ft. net, is a similar opportunity, both in terms of size and location.

The current economic slowdown has significantly impacted the serviced office sector in the UK, where we are represented by Executive Communication Centres (ECC), our wholly owned subsidiary that operates out of seven locations across the UK. Its profitability has been squeezed considerably by the impact of declining short-term income on one hand and the fixed, longer-term nature of its own rental obligations to its various landlords on the other. Since recovery of its margins is likely to be a slow and uncertain process, we have made a £2.8 million provision this year for impairment of its fixed assets and the resultant onerous leases of certain of the properties from which ECC trades.

It is now likely that the real estate sector will find it challenging to demonstrate value gains in a low growth, largely sideways-moving economy, with the ever present threat that, at some stage, interest rates begin to rise thus potentially undermining an element of property value in the near- to medium-term. Our identified strategy of driving capital growth through real estate regeneration is starting to deliver its anticipated returns. We believe that this strategy, reliant as it is on development expertise and a unique access to complex parts of the market, will allow us to navigate these difficult times and emerge with significant value growth for our shareholders.

Michael Marx
Chief Executive
1st May 2012

A stable and risk-averse business model that supports our progress through changing property cycles

For 15 years, the management team has adopted a consistent approach to risk management and commercial focus, allowing the Company to pursue opportunities in different stages of the property and economic cycles whilst mitigating the effects of major market fluctuations.

The following five principles underpin our strategy and approach. Adherence to these principles enabled the Company to survive the financial crash in 2008 without recourse to shareholder funds.

01

Low risk financial and funding structure

The Group maintains modest levels of gearing at 50 – 60 per cent.

02

Large-scale development projects in partnership with major institutions

We consider large-scale development projects to be generally a late economic cycle activity driven by an expanding economy and strengthening demand. In our experience, large and complex developments delivered at the right part of the cycle offer greater profit potential than smaller schemes. Nonetheless, we have never believed it appropriate for a company of our size to accept sole development risk in relation to our complex and substantial development projects and, consequently, we share the majority of development project risk with financial institutions and partners who are the more appropriate long-term investors.

Our funding partners on major projects have included:

- Standard Life Investments
- Scottish Widows Investment Property Partnership Trust
- The Prudential Assurance Company
- Legal & General Assurance Society
- Aviva Investors
- Corpus Sireo Immobilienfonds

03

Focus on commercial property

Whilst the emphasis of our activities may shift between major, complex developments and smaller scale development and trading properties at the different stages of the property cycle, we maintain a predominant focus on securing planning consents and redeveloping commercial property.

Our property portfolio is focused on:

- Single, prestige office developments
- Multi-phase office developments
- Regional urban regeneration projects
- Food-anchored retail development projects
- Mixed-use developments
- Selected residential schemes, hotels and student accommodation

Since July 2009, we have broadened the scope of our real estate activities to take advantage of specific opportunities, partnering with specialist operators and developers as necessary.

04

Actively managed investment portfolio for steady income

We maintain an investment portfolio that is proactively managed to drive capital growth and enhance rental income. Thus, the investment portfolio provides a steady and predictable flow of funds, contributing significantly towards central overheads and mitigating the more uneven profits and cash flow arising from the major development and trading portfolio. The investment portfolio accounts for a significant element of invested equity and represents a diverse portfolio of assets across the UK, comprising carefully selected retail and office properties. The scale and profile of our portfolio does not suit the concentration of risk from any significant investment in Central London commercial property.

05

Geographic focus

All of our development and investment activity is conducted within the United Kingdom.

Five year summary

	2012†	2010	2009	2008	2007
Revenue (£m)	**80.0**	44.4	35.1	171.1	60.4
(Loss)/profit before taxation (£m)	**(10.2)**	2.6	(11.4)	(65.6)	0.2
Net assets (£m)	**313.2**	333.1	244.0	161.0	228.9
(Loss)/earnings per share*	**(10.3)p**	1.7p	(16.8)p	(134.6)p	0.0p
Net assets per share	**256p**	272p	297p	397p	564p

*Restated following Placing and Rights Issue.
†14-month period.

Executive Team

A high calibre, professional and stable team

From left to right:

Michael Marx
Chief Executive

Julian Barwick
Executive Director

Graham Prothero
Finance Director

Matthew Weiner
Executive Director

Applying development expertise in a risk-averse manner across a diversified portfolio to generate attractive returns

We apply our real estate development and investment expertise across three principal areas, each guided by a distinct approach, to achieve a diversification of assets that minimises risk and maximises potential gains.

Major development portfolio

- Focus on prime office developments in specific locations with limited potential supply
- Continue to seek opportunities for major forward-funded development projects but avoiding Central London acquisitions where price does not justify risk

Development and trading portfolio

- Focus on the right buying opportunities where terms of trade are in our favour and where sufficient occupier demand exists to support our exit strategies
- Targets, on average, a three to four year turnaround of assets and IRRs of 20 per cent and above
- Capital gains achieved by upgrading secondary assets into prime/near-prime, effectively arbitraging the yield differential between these two asset categories

Investment portfolio

- Targets assets with core defensive income and enhancement potential in sectors where occupier demand is strong and supply of accommodation restricted
- Drives income growth through proactive asset management
- Provides stable income and prospect of significant capital appreciation

Including joint ventures and strategic partnerships

Structured selection and management of risk

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our-business/risk

Principal risks

The Group's business model is defined by the nature and extent of the risks which the Directors consider appropriate to its skills and size. Project specific risk and cumulative portfolio risk are key measures by which the Executive Directors appraise potential new transactions. The Group's risk profile is maintained under continual review by its Risk Committee, which meets quarterly, and by the Board.

The Directors consider the following to be the principal risks and uncertainties facing the business. They may be grouped as external risks, whose occurrence is beyond the control of the Group, and business risks, which the Directors choose to manage as part of the Group's operations.

External risks

Market risk

The real estate market is closely linked with the health of the local and national economies. Recessionary or stagnant conditions undermine the demand for new developments and exacerbate occupier risk in existing investment properties, hence significantly reducing their value. Taking into account changing consumer behaviour, some properties may be rendered not merely cyclically redundant, but functionally obsolete.

Lack of liquidity available to prospective purchasers of our completed projects may delay our ability to realise planned disposals or reduce the prices we achieve.

Current and prospective market conditions are a principal focus for both executive management and the Board. Our more detailed assessment of the position and our strategic and operating responses are set out in the Chairman's Statement and Chief Executive's Review on pages 2 to 5, and in the Operating Review on pages 11 to 31.

Scarcity of opportunities

The Group's business is transactional and requires a flow of opportunities, which can be sparse either because of lack of market demand for new product or through excess equity forcing uncompetitive market pricing. Since the first equity raising in 2009, the Group's strategy of exploiting the current spread between prime and secondary yields, targeting properties which offer opportunities for refurbishment or redevelopment, has attracted a strong pipeline of potential projects, owing to the lack of liquidity generally available for this part of the market and a restricted field of competition for such complex projects.

The Group maintains a flexible approach to market opportunity, resisting the temptation to chase activity when prices move too high, and seeking sectors and locations where value can be generated, as described in the Operating Review on pages 11 to 31.

People risk

The Group's success depends on the ability and experience of its Directors and management. The departure of key individuals or the failure to attract and retain new talent can result in the loss of core competencies and industry knowledge and networks.

The Group aims to motivate and reward its team appropriately and competitively as described in the Remuneration Report, and the Board keeps the strength and depth of the team under continual review.

Funding, liquidity and counterparty risks

The transactional nature of our trading and development businesses means that the amount and timing of cash receipts is subject to variability, making cash flow forecasts uncertain. In addition the pressure on banks to reduce their exposure to real estate and to increase the risk-weighting of such lending, as well as the continuing risk of a credit crisis in the European banking sector, all threaten to constrain the liquidity available to us to fund acquisitions or refinance existing borrowings as they fall due.

Such conditions also heighten counterparty risk both operationally, in sale contracts and joint venture agreements, and financially, in cash deposit and hedging arrangements.

These risks are kept under continuous review by the executive team and discussed by the Board at every meeting. Further analysis of the risks and our processes for analysis and management are set out in the Financial Review on pages 39 to 40.

Business risks

Planning risk

Procuring an appropriate and valuable planning consent is a key element of the creation of value through property development. Our current strategic focus on regeneration and redevelopment relies significantly on our skills in this area. Securing planning permission is a complex and uncertain process with applications subject to objection from a wide range of potential stakeholders, and hence is prone to delay, modification and rejection.

The Directors rely on their experience and local knowledge supplemented by advisors and, in some cases, by sector-specialist partners, to maximise the chance of success and reduce the risks and costs of failure.

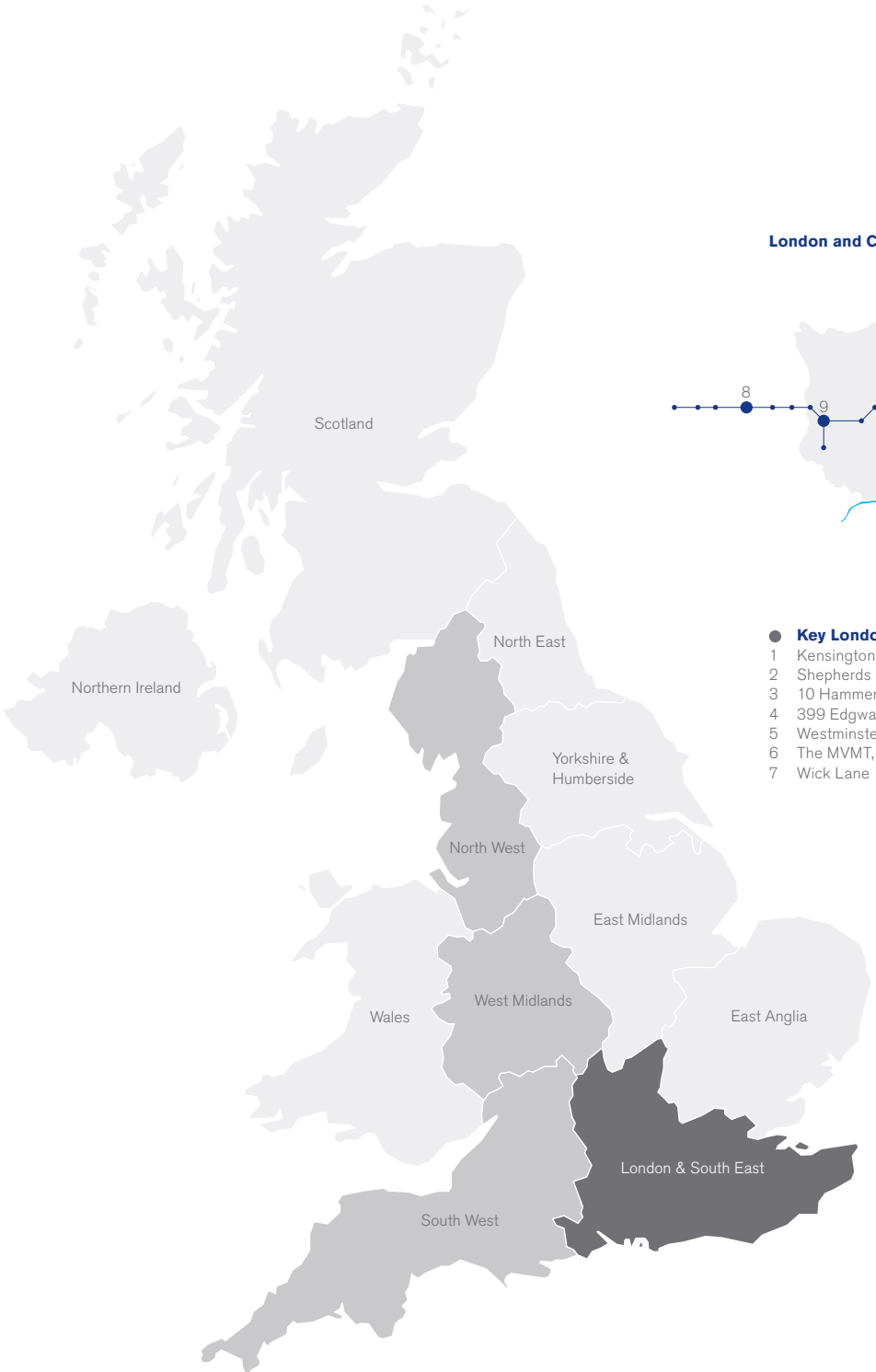
Construction risk

Construction is subject to risks of cost overruns, delay and the failure of an appointed contractor.

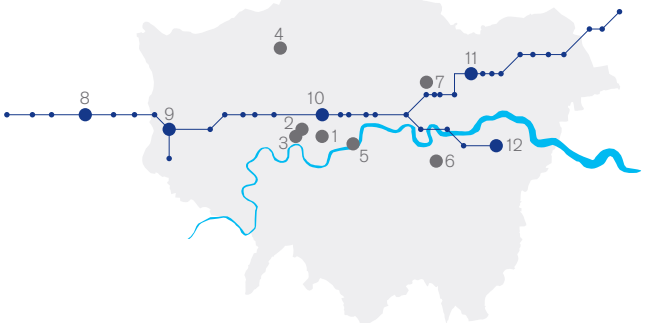
The Group examines these risks in each case, conducting appropriate due diligence on the capabilities and financial security of its prospective contractors. The Group deploys its own experienced project managers to minimise the likelihood and impact of the above risks.

Geographic Focus

A strategic focus on locations and regions with good infrastructure and relative economic strength



London and Crossrail



Key London assets

1 Kensington Church Street
2 Shepherds Bush
3 10 Hammersmith Grove
4 399 Edgware Road
5 Westminster Palace Gardens
6 The MVMT, Greenwich
7 Wick Lane

Crossrail-enabled projects

8 Brunel Place, Slough
9 The Old Vinyl Factory, Hayes
10 PaddingtonCentral
11 Valentine's House, Ilford
12 Cross Quarter, Abbey Wood

Key

5 properties or less
6–20 properties
21–35 properties

The Courtyard,
Westminster Palace Gardens

Operating Review

Developing value

Westminster Palace Gardens, London

This 46,000 sq. ft. period Grade II listed building was acquired in June 2010 for £10.1 million and comprised commercial, residential and retail space. Planning consent was secured to convert the majority of the office suites to residential. The residential units have been pre-sold for £20.6 million and are currently being converted into luxury flats with practical completion anticipated in Q2 2012. The residual office component was sold for £2.3 million in January 2012. The retail units and freehold are under offer at £1.3 million and £1.1 million respectively.

The Old Vinyl Factory, Hayes, Greater London

An 18-acre site purchased for £16.0 million in joint venture with Cathedral Group plc. The masterplan, currently under public consultation, proposes 1.5 million sq. ft. of mixed-use regeneration paying homage to the site's rich history (this was the former HQ of EMI) creating a vibrant new district in West London. Extensive works to reposition the site and integrate the changes proposed within the community are underway. Planning consent has been secured for the first phase, 132 new residential homes, and an 80.0 per cent stake has been sold in a shell office building for an initial receipt of £3.8 million. Further value is expected from overage linked to this sale.

www.theoldvinylfactory.com


PRIMARK
ARMS

Bexleyheath, Kent

A prominent retail parade located on the pedestrianised high street in Bexleyheath, Kent. The building provides retail units of between 4,500 – 39,500 sq. ft. arranged over three floors. During the period £1.2 million was invested in the asset adding 17,000 sq. ft. of retail space for Primark Stores and achieving a rental uplift and a lease term extension to 25 years. This has resulted in a weighted average unexpired lease term across the asset of 18 years.

Wick Lane, London

Acquired in April 2012 for £15.7 million, in joint venture with Canadian property investor Realstar Group. This currently vacant 112-unit live/work development benefits from an excellent location overlooking the Olympic Park. A planning application for private residential use has been submitted and the units will be refurbished and let to create a long-term residential investment.


PERI
SELWOOD

328 Sandbanks Road, Dorset

A single residential property in the prime Sandbanks area was acquired in February 2011 for £5.0 million and planning consent was subsequently secured for its redevelopment into five luxury apartments. Works are currently underway with practical completion targeted for the beginning of Q3 2012. An early targeted marketing campaign has been launched with strong anticipated interest for these prime waterside apartments.

www.three-two-eight.com

Making strong progress to generate and unlock value

Matthew Weiner
Executive Director

Julian Barwick
Executive Director

Property

The UK commercial property market still lacks clear direction and is showing signs of slipping back into a further period of negative value growth. Of the two main drivers to property value growth, one has probably run its course and the other requires a more positive economic environment before it can begin to manifest itself. The first, declining interest rates, led to a period of sustained, very low gilt yields ushered in by quantitative easing. One of the effects of this was to sustain property values at a higher level than that to which they might otherwise have fallen. Interest rates are now effectively at their lowest possible level and any further rounds of quantitative easing are likely only to sustain rather than boost property values. It is likely that this period of low interest rates will continue for some time given the macroeconomic indicators of economic stagnation, rising unemployment, continued fiscal tightening and extended uncertainty over the economic outlook within the eurozone. The second main driver, rental growth, requires an expanding economy which is absent today and is likely to remain so for some time. In a number of sectors, rental growth is likely to be negative rather than positive in the near-term.

Retail sector

The dramatic slowdown in the UK economy and the decline in consumer spending has served to exacerbate the decline in our high streets. In addition, structural change is increasingly evident as a result of changing consumer habits, most notably the ever increasing rise of multi-channel retailing. Such widespread functional obsolescence is more apparent than it has ever been. A real challenge lies ahead for towns and cities to regenerate substantial areas of the high street that are unlikely ever again to return to vibrant retail activity. Town centre sales fell by 1.4 per cent in 2011, the fourth consecutive year that sales have declined and the fifth year that it has been the weakest performing sub-sector of the retail market. Growth is apparent within selected areas of the market: at one end of the spectrum, the luxury goods market and at the other end, value retailers. It is the mass market, middle ground where retailers are cutting back space and our investment flows reflect these trends.

The foodstore sector has shown the strongest demand for new development product as the major food retailers have staked their respective claims for increased market share. Whilst it is encouraging to identify a sub-sector that demonstrates some strength, clearly there will come a time when this trend abates. Indeed the recent indications from one or two of the major stores suggest that competition for sites has already reduced. Nonetheless, it is helpful that the main food retailing groups are financially strong, which makes them

> “The main driver to value creation is change of use, which repositions real estate towards those sectors where demand persists

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attractive as prime tenants for institutional investment and appropriate to lead development activity.

Office market

Outside of Central London, the office market is also retrenching, reflecting the impact of reduced levels of economic activity and demand. Vacancy rates are by no means at their highest historic levels, but a sustained period of weak occupier demand has, in some instances, outweighed any perceived supply shortages. Central London is a possible exception to this since London has an outward facing role to the global economy as a leading business and financial centre. However, even here, demand is weak, especially within the financial services sector and there is not only a risk that new supply could be brought to the market somewhat prematurely but also that an expanding Canary Wharf will remain a competitive challenge, especially as Crossrail approaches completion in the medium-term. To a lesser extent, the office sector is also impacted by structural change evident throughout Western Europe as the population ages and the birth rate declines, with a consequent reduction in the size of the workforce. Within the office buildings, changes are occurring and will continue to occur regarding space utilisation. Effective headcount densities within the buildings will increase as more flexible workspace solutions are implemented in order to reduce costs, often on the back of increasing technological developments. Greater demand will be required to offset the diminution in space requirements from these factors. The present scenario for global economic activity does not bode well in that regard.

Large-scale office property development is traditionally a late cycle activity as demand increases on the back of economic growth and vacancy rates fall. Accordingly, at this early point in the property cycle, new office development is primarily restricted to Central London and even there is not without its risks.

Value creation

In response to this challenging scenario, the Group continues to chart a course between secondary and prime markets. If value gain cannot be generated by either rental growth or yield compression, it can only be found within the areas of intensive asset management, regeneration and redevelopment. Simply put, our main activity in the last two years has been to realise capital growth from properties that have been sourced by us in the secondary or tertiary markets and which we endeavour to reposition towards the prime or near-prime markets. In many instances, the main driver to value creation is change of use, which repositions real estate towards those sectors where demand persists. The more than 40 projects acquired since the date of our first equity raise cover a range of sectors and regions of the UK, with an emphasis on areas that have been least impacted by the economic downturn. Hence we have a heavier weighting in Greater London, the South, South East, South West and Manchester and a focus on foodstores, retail around foodstores, selected residential schemes, student accommodation, hotels and leisure. We have largely excluded the office, traditional high street and industrial sectors from this view.

Risk management

The number of assets that we are actively managing achieves risk diversification across a range of transactions rather than a concentration of value in one or two individual assets. This is a tactical move that mitigates our move up the risk curve as we seek higher returns. Where assets have been large, we have sought to bring in partners to provide risk equity, reducing our own exposure and improving our potential returns at the same time. This is yet another way in which risk is managed. Of course, the corollary to this is that our tasks are more management intensive in order to achieve our desired levels of returns.

On pages 24 to 27 of this Annual Report, a matrix of current properties can be found, giving information as to scheme details and progress achieved to date.

This matrix is not all-inclusive and it is worth making reference to some of the other more significant projects within our portfolio on pages 28 to 30.

Matrix of Properties

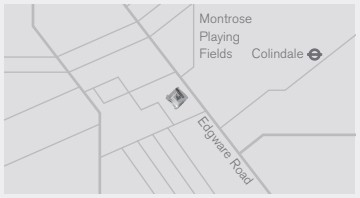
Progress key

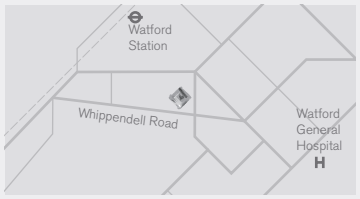
Planning submitted | Planning secured | Under construction | Acquisition | Sales achieved | New lettings | Forward-funded

Major development assets

	Property	Property overview	Progress made since 1st January 2011
	**Hammersmith Grove** London	275,000 sq. ft. prime office development in West London	▪ **First phase 110,000 sq. ft. office space plus 6,000 sq. ft. of restaurants and cafes forward-funded by Scottish Widows Investment Partnership Property Trust** ▪ **Construction underway with practical completion anticipated in Q2 2013**
	**Two Kingdom Street** London	235,000 sq. ft. prime office building within wider PaddingtonCentral development Tenants include AstraZeneca, Nokia and Rio Tinto	▪ **26,000 sq. ft. let to Rio Tinto** ▪ **58,000 sq. ft. let to Nokia**

Development and trading assets

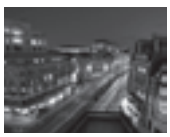
	Property	Property overview	Progress made since 1st January 2011
	**Kensington Church Street** London	Joint venture scheme with Brockton Capital 14 storey office block on one-acre site in a prime London location. Acquired in June 2011 for £47.5 million. Includes surface parking for 55 cars and 13 retail units	▪ **Site has a high degree of optionality and a site analysis study is close to completion**
	**399 Edgware Road (formerly known as Colindale)** London, NW9	Seven-acre mixed-use site in North West London Former site of Oriental City, an Asian retail and food centre	▪ **Pre-let secured with Morrisons for an 80,000 sq. ft. foodstore as part of wider mixed-use regeneration scheme** ▪ **Working up revised planning application with submission anticipated during H2 2012** ▪ **Discussions ongoing with housebuilders over residential component**
	**The MVMT Greenwich** London	Scheme in partnership with Cathedral Group acquired September 2010 c.350,000 sq. ft. mixed-use development to include 181 private residential apartments, 358 student apartments, hotel accommodation and community facilities	▪ **Sale of residential component for £16.2 million to Willmott Dixon** ▪ **106 bed hotel pre-let to Travelodge** ▪ **Total revenue of £25.0 million generated into the partnership** ▪ **Student accommodation under offer**

Development and trading assets	Property	Property overview	Progress made since 1st January 2011
	**Shepherds Bush** London	Scheme in partnership with Orion Land & Leisure in order to facilitate the regeneration of the Shepherds Bush Market area Six-acre site running between Uxbridge Road and Goldhawk Road	▪ **Outline planning consent secured for a mixed-use regeneration comprising a rejuvenated Shepherds Bush market at its core, up to 212 residential units, retail and leisure amenities and new public realm**
	**Airport House** Croydon	61,800 sq. ft. of office accommodation, 3,500 sq. ft. of conference rooms plus ancillary space acquired in July 2010	▪ **Occupancy rates and tenant quality significantly improved following extensive upgrades and refurbishments. Six per cent increase in occupancy and 24 per cent increase in net operating income since January 2011**
	**Rembrandt House** Watford	3.4-acre site comprising offices and industrial uses including four storey office building, Rembrandt House Acquired in January 2011	▪ **Resolution to Grant Planning secured for redevelopment of site including refurbishment of Rembrandt House and development of 107 new residential units** ▪ **Residential site under offer for sale**
	**The Square** **Hale Barns** Cheshire	42,000 sq. ft. retail development including 30,000 sq. ft. foodstore anchor pre-leased to Booths and 24 residential apartments	▪ **Improved original planning permission for redevelopment of retail centre and completed the S106 agreement** ▪ **Start on site anticipated in Q4 2012**
	**Ladybarn House** Manchester	Joint venture scheme with Accrue Capital Limited Established 120-bed hall of residence adjacent to main campus of the University of Manchester Acquired in September 2011 for £6.4 million at an initial yield of 6.3 per cent	▪ **Minor refurbishment undertaken prior to letting for 2011/12 academic year. Full occupancy secured** ▪ **Reviewing comprehensive refurbishment options to maximise income and room mix to meet demand** ▪ **Exploring the potential to extend the building by 20–30 rooms**
	**Wick Site** **Littlehampton** West Sussex	Site of former Body Shop International headquarters acquired in July 2010 for £7.6 million	▪ **Secured Planning Consent for food-anchored retail scheme** ▪ **47,500 sq. ft. foodstore pre-sold to Morrisons**
	**Rock portfolio** Various	Portfolio of properties bought for £23.2 million from administrators acting on behalf of Lloyds Banking Group Mixture of commercial, leisure and residential assets across the UK Acquired in October 2010	▪ **39 per cent of portfolio by book value sold generating revenue of £17.2 million and profits of £3.8 million** ▪ **Good progress made on individual business plans with planning secured on six assets** ▪ **Further disposals in hand**

Development and trading assets	Property	Property overview	Progress made since 1st January 2011
	**Lawley Village** Telford	4.5-acre urban development site to include 40,000 sq. ft. foodstore (pre-let to Morrisons), 15,700 sq. ft. retail units and 39 residential units	▪ **Morrisons unit forward-funded to a client of LaSalle Investment Management for £12.0 million** ▪ **1.1-acre plot sold to Sanctuary Group for development of an £8.0 million Extra Care facility** ▪ **Remaining retail and residential units being speculatively developed**
	**Eastgate Quarter** Llanelli	100,000 sq. ft. edge of town leisure scheme plus offices, hotel and car park	▪ **Construction underway with practical completion expected in Q4 2012** ▪ **Currently 67.0 per cent let with a further seven per cent of space under offer. Pre-lets include Odeon, Travelodge and Carmarthenshire County Council**
	**Stanground South** Peterborough	New district centre with Morrisons foodstore anchor, additional retail units, community and leisure facilities. Adjacent to and will serve new 1,500-unit residential development	▪ **Retail parade reached practical completion in December 2011** ▪ **All six units have been let with three units open and trading**

Strategic partnerships	Property	Property overview	Progress made since 1st January 2011
	**Hattersley** Greater Manchester	Scheme in partnership with CTP c.100,000 sq. ft. foodstore pre-leased to Tesco plus 650 parking spaces	▪ **Forward-funding of development secured from Wolverhampton County Council Pension Fund** ▪ **Practical completion anticipated in Q2 2012**
	**Castle House** Sheffield	Scheme in partnership with CTP 150,000 sq. ft. former Co-operative department store in good secondary pitch acquired in August 2011	▪ **Acquired former Co-operative department store with leaseback on 12,000 sq. ft. to Co-operative** ▪ **Undertaking refurbishment works and lease up strategy** ▪ **Leasehold interest re-geared with Local Authority**

Investment assets	Property	Property overview	Progress made since 1st January 2011
	**Manchester Arena Complex** Manchester	Joint venture scheme with Patron Capital Largest indoor venue in Europe and second busiest venue in the world Acquired in June 2010	▪ **Following the expiry of the previous naming rights deal, the contract is in the process of being re-tendered** ▪ **Asset management initiatives include refurbishment of vacant office space and working with Network Rail regarding the refurbishment of Victoria Station to provide a new "front door" to the Arena Complex**
	**The Furlong Shopping Centre** Ringwood	85,000 sq. ft. food-anchored retail centre in an affluent catchment with few competing schemes Key tenants include Waitrose, Jaeger, Hobbs, Phase Eight, Joules, AGA, Boston Tea Party, Crew Clothing	▪ **Continued asset management initiatives to improve tenant mix** ▪ **Waitrose rent review settled securing an uplift from £12.50 per sq. ft. to £19.50 per sq. ft.** ▪ **7,000 sq. ft. of new lettings across five units** ▪ **Currently preparing a revised planning application for a 12,000 sq. ft. extension to the centre**
	**Kingsland Shopping Centre** Thatcham	42,000 sq. ft. local shopping centre Key tenants include Waitrose, The Co-operative, Costa Coffee, Lloyds Pharmacy	▪ **Retail-led planning consent on the car park currently being renewed** ▪ **Rent review of the Waitrose lease from a low base of £15.00 per sq. ft. in progress**
	**Swanley Shopping Centre** Kent	Town centre scheme benefiting from a 100,000 sq. ft. ASDA opposite (not in our ownership) Conveniently located off the M25/M20 motorways Key tenants include Wilkinson, Poundland, The Co-operative, Boots, Superdrug, Holland & Barrett	▪ **Key lettings accomplished in 2011/12 to re-anchor the centre** ▪ **Planning secured and 7,000 sq. ft. extension completed for Poundland. Planning for a further extension of 6,500 sq. ft. submitted**
	**Atlantic Village** Bideford	110,000 sq. ft. outlet scheme in popular tourist town anchored by ASDA (not in our ownership) Key tenants include Nike, M&S, Gap, Holland & Barrett	▪ **Secured Resolution to Grant Planning for a further 104,000 sq. ft. of new retail space subject to S106 agreement** ▪ **22,400 sq. ft. of space let through tenant mix upgrades and lease renewals**
	**Crown Glass Shopping Centre** Nailsea	Local shopping centre in Bristol suburb anchored by Waitrose (not in our ownership) and a mixture of national multiple and local retailers Key tenants include WHSmith, JD Wetherspoon, HSBC, Boots	▪ **Continued improvement in tenant mix with two new lettings completed to WHSmith and HSBC** ▪ **Refurbishment of office accommodation underway**
	**Chorlton Cross Shopping Centre** Manchester	Local shopping centre in Manchester suburb acquired in November 2011 for £9.0 million at a net initial yield of 8.1 per cent Includes retail units, an office block and surface car parking	▪ **£0.8 million of rental income added to the investment portfolio with potential for future redevelopment or refurbishment**



St Bride Street
London, EC4

Premier Inn
Southampton

Brunel Place
Slough

Major development portfolio

At 10 Hammersmith Grove our building contractor, Wates Group, is making good progress and we expect to finish the building in the spring of 2013 at a moment of limited competition. If the building lets swiftly following completion, there is no reason why we should not roll straight into the development of the second phase, 12 Hammersmith Grove, comprising 160,000 sq. ft. offices with planning permission already granted.

The pace of letting at Two Kingdom Street has been disappointing, taking two years to get the building two thirds let at a rental tone that we considered acceptable. However, the quality of the tenant register is impeccable.

The letting process at St Bride Street, a 44,000 sq. ft. prime office accommodation, forward sold to Corpus Sireo, has been similarly extended, but we continue to apply ourselves to the task of letting the final two floors. No profit will arise to us from this activity.

Our hotel development at West Quay, Southampton, was successfully completed in the summer, and we received our profit payment from AMEC Pension Fund.

Turning to the future, we hope to start a further phase of offices at PaddingtonCentral, Four Kingdom Street, with planning consent for 140,000 sq. ft. of prime office accommodation. Our site in Slough, with planning consent for 385,000 sq. ft. offices, is now cleared, ready to start and surrounded by impressive new public realm, but development in the current economic environment will only be triggered by a pre-let.

We were delighted to be appointed by Trinity Hall, Cambridge, as development manager for three of its sites on the Cambridge Science Park, immediately to the north of the city centre. It is Trinity Hall's intention to structure the funding for the development using its banking relationships, subject, of course, to occupier demand. The Cambridge occupier market has been an exception to the subdued rule and has been quite active. If we are able to secure the right level of occupier demand, we could find ourselves on site in Cambridge this year.

As to new business, we continue to seek out sites and opportunities, but only in prime locations. Bidding remains very competitive, to the point where returns to ourselves and our investors are too low to be attractive. Our outlook is cautious.

Development and trading portfolio

At Cross Quarter, Abbey Wood in South East London, we are in detailed discussions with foodstore groups to anchor a mixed-use development. We would hope to secure an operator within the next three months following which a planning application can be submitted. To date, pre-application consultation with stakeholders has shown support of our proposals.

In Ilford, North East London, discussions are also in hand with a major food retailer and the site masterplan has now been completed, having benefited from positive engagement with the Local Authority.

The 82-bed care home development in Dartmouth, pre-let to European Care, is proceeding broadly on time and on budget, and expected to reach practical completion in August 2012.

At the hotel in Braehead, operated by the Group under a management agreement with Campanile, trading has been below target, though remaining profitable. We are working with our partner and the manager to enhance performance and achieve our business plan.

At the Friarsgate Shopping Centre in Lichfield, the 395,000 sq. ft. retail led mixed-use scheme is now in an advanced stage of scheme design and, together with our partners, S Harrison Developments Limited, we are shortly to submit a revised planning application. Accordingly, we are now in a position to identify anchor tenant demand. Separately, the cinema is under offer by way of a pre-let. Retailer demand in the town is strong, as there is a level of under supply.

The retail element of HDD's local centre scheme at Bannerbrook was sold in December 2011 generating proceeds of £1.8 million. At our retail led 19-acre development in Buckshaw Village, five retail units have been pre-let and two plots have been sold allowing construction to commence in June 2012. At Bridgwater, the progress is similar with sufficient lettings now completed to secure development funding and start on site to take place later in the year. We have also now commenced on site at Tranmere, a local retail scheme in The Wirral, with 60.0 per cent pre-let to retailers including The Co-operative and funding secured from Santander.

Bannerbrook
Coventry

Braehead
Glasgow

Strategic partnerships

CTP

CTP, our associate company based in Manchester, has continued to recycle capital into new opportunities. In addition to progress at Hattersley, Greater Manchester and Castle House, Sheffield (referred to in the matrix of properties on page 26), the Company also completed the acquisition of its joint venture partner's share in three projects within the Yorkshire region and has already secured several lettings on vacant elements, adding value to the projects. CTP also continues to bid for new business in the Local Authority sponsored town centre market, an area where it has had significant success and has been selected by a Local Authority to bring forward an exciting town centre mixed-use project.

Beyond Green

In the summer, Beyond Green was disappointed to lose its planning appeal for the project in Tilehurst, West Berkshire. However, the Inspector's decision was positive in many areas and we have begun work with the planning authority and objectors to examine how a revised smaller scheme, that better reflects local environmental concerns, could be brought forward. In due course we anticipate submitting a fresh application for a reduced scheme benefiting from strong local support.

At the project in Broadland, north of Norwich, we remain on track to submit a planning application in summer 2012 for a mixed-use urban extension including around 3,500 homes. We have been encouraged by the receptive attitude of the local planning authority to a comprehensive scheme, positive stakeholder feedback on the design and sustainability principles adopted, and confirmation of Central Government funding for the Northern Distributor Road.

Barwood

Following the successful completion of two projects, where planning consent was obtained and the sites subsequently sold, the Group's loan of £2.3 million was repaid, together with a dividend of £0.3 million. The Group immediately reinvested £2.5 million into a new associate, Barwood Development Securities Ltd, which has itself entered into a long-term £15.0 million fund, as an investor alongside Aberdeen Asset Management, to secure and promote similar sites. The fund has already secured four projects and is hopeful of being fully invested during the course of 2012.

Renewable energy

During 2011, we entered into a joint venture arrangement with Njord Energy to secure and promote sites for medium sized wind farms. We view this sector very much in the same vein as strategic land promotion, being high risk but with limited capital exposure and high potential returns. To date £0.5 million has been committed, rising to a potential of £2.1 million in the event that selected projects mature. Five sites have been secured under promotion agreements and initial technical and planning analyses on all of the sites have been supportive of making detailed planning applications. These will be made later in the year and initial determinations should be forthcoming in 2013, at which point a decision will be made as to how to progress what will be consented sites in a marketplace short of such projects and very much still part of the Government's green agenda.

Investment portfolio

We have continued with a profile of investments that focuses on both core defensive income and asset initiatives that will create value in the medium-term.

At 29th February 2012, the portfolio comprised 42 assets with a fair value of £237.9 million, increased from 37 assets with a fair value of £199.2 million at 31st December 2010.

The revaluation of the direct investment portfolio at 29th February 2012 showed a capital decrease of £4.7 million or 1.9 per cent. We were disappointed not to match the IPD Monthly Property Index return for the twelve months to 31st December 2011, but this was due in no small part to the strong contribution from Central London within the IPD Index return. Overall, our total return for this period was 4.2 per cent as against the IPD Index return of 8.7 per cent. Whilst our income return was higher by 0.7 per cent, our capital return was 4.2 per cent negative as against the Index. In the two months ended 29th February 2012, our total return was a negative 1.6 per cent as compared to positive 0.6 per cent for the Index. Of the overall decline in values of £4.7 million for the 14 months to 29th February 2012, £2.3 million alone derived from the impact of the administration at Peacocks, which resulted in multiple store closures on 22nd February 2012. This was the first significant tenant failure within our portfolio in recent years, but has and will continue to be mitigated by the good location of the five properties involved. Indeed, at the time of writing, we estimate that approximately 50.0 per cent of the

£2.3 million diminution in value has already been recaptured with two stores being retained by the Peacocks business and one store re-let to a superior covenant. The fourth store is very small and will be most probably re-let to a convenience store operator and the fifth is under offer to a national retailer, albeit at a reduced rent.

Had it not been for the demise of Peacocks, the portfolio returns would have been much closer to the IPD Index albeit still negatively impacted by the lack of Central London properties within the investment portfolio.

We continue our strategy of active management of our investment portfolio. During the period we have added 18 new lettings, representing 67,100 sq. ft. and rental income of £0.8 million. Vacant space now stands at 11.4 per cent, 99,000 sq. ft., with an ERV of £1.0 million.

Top five occupiers as at 29th February 2012

	Annual rent £'m	% of contracted rent
Waitrose	**1.82**	**13.22**
Primark Stores	**0.49**	**3.53**
Martin McColl	**0.47**	**3.42**
Sports World	**0.46**	**3.31**
Brausch & Co	**0.42**	**3.04**

Top five occupiers as at 31st December 2010

	Annual rent £'m	% of contracted rent
Waitrose	0.99	7.89
Peacocks	0.65	5.18
Sports World	0.45	3.59
Brausch & Co	0.32	2.55
HMV	0.32	2.55

Top five occupiers as at 31st December 2009

	Annual rent £'m	% of contracted rent
Waitrose	0.99	8.56
House of Fraser	0.98	8.48
Peacocks	0.65	5.62
Sports World	0.45	3.89
Brausch & Co	0.32	2.77

Investment property key statistics

Investment property – key statistics

	Portfolio value £m	Contracted rent £m	Number of assets held at 29th February/ 31st December No.	New lettings in period £m/sq.ft.	Initial yield in period %	Equivalent yield %	Voids (excluding developable land) %	Rate of rental collections within 30 days %
29th February 2012	**237.90**	**13.74**	**42**	**£0.80m/67,100 sq.ft.**	**7.27**	**7.54**	**11.43**	**95.28**
31st December 2010	199.24	12.54	37	£1.29m/101,067 sq.ft.	6.12	7.32	7.97	92.33
31st December 2009	181.04	11.56	33	£1.26m/98,975 sq.ft.	6.82	8.07	7.54	91.88

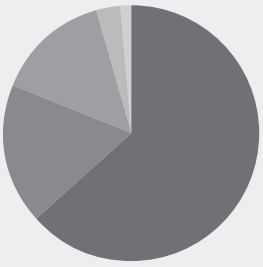
Income generating properties – Like-for-like rental income received

14-month period ended 29th February 2012

	Property owned throughout the period £'000	Acquisitions £'000	Disposals £'000	Transfers £'000	Total rental income £'000
Investment	**11,583**	**3,942**	**77**	**1,326**	**16,928**
Development and trading	**1,591**	**3,495**	**316**	**(1,326)**	**4,076**
Joint ventures	**—**	**2,800**	**—**	**—**	**2,800**
	13,174	**10,237**	**393**	**—**	**23,804**
					Year ended 31st December 2010
Investment	10,058	1,428	1,265	—	12,751
Development and trading	1,313	1,057	69	—	2,439
Joint ventures	—	925	—	—	925
	11,371	3,410	1,334	—	16,115

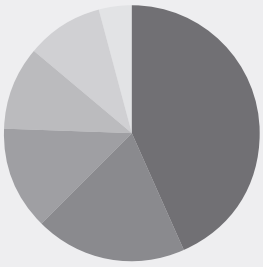
Completed investment portfolio – 29th February 2012

Gross rental income – Tenant profile



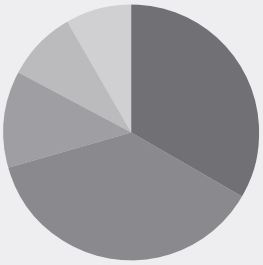
PLC/Nationals	63.4%
Local Traders	17.9%
Regional Multiples	14.4%
FTSE 100	3.0%
Government	1.3%

Capital value – Location profile



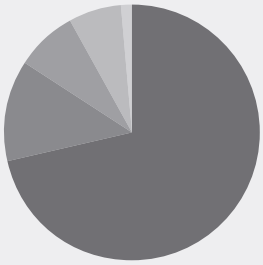
South East	43.6%
South West	19.0%
North	13.2%
Wales	10.4%
London	9.8%
Midlands	4.0%

Gross rental income – Lease term profile



0 – < 5 years	33.5%
5 – < 10 years	37.3%
10 – < 15 years	12.1%
15 – < 20 years	8.8%
20 years +	8.3%

Capital value – Sector analysis



Retail	71.6%
Industrial	12.6%
Mixed	7.9%
Office	6.6%
Residential	1.3%

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corporate-responsibility

We recognise the significant impact that our large-scale property developments can have on a diverse range of groups. Our stakeholders include our employees, shareholders and co-investors and also our suppliers, our tenants and their employees, their customers and the communities surrounding our properties.

Our approach
We work constructively within the strong framework of regulation which exists to balance the interests of all these groups. However, there are many situations in which exceeding minimum standards creates economic, social and environmental benefits, contributing to the sustainable success of our Company.

We continue to work to the same high standards that we have reached to date, and we will continue to prioritise those activities with which we believe we can make a positive impact for our stakeholders.

As our business strategy continues to evolve in this challenging market, our portfolio of activity has become more diverse. Therefore, our strategy for Corporate Responsibility has also had to adapt and we are beginning to identify priorities in each area of our business.

Our governance system
At the start of each financial year, the Executive Directors set objectives based on the material issues relating to each of our stakeholder groups. Objectives are also set considering wider environmental issues.

Performance is recorded throughout the year and is consolidated by the Director responsible for Corporate Responsibility. The progress made is assessed and new targets are set for the following year.

Our overall objectives
In all of our activities we strive to:
- achieve and maintain good practice in all aspects of sustainable and responsible development.
- improve the measurement of what we do and ensure continuous improvement in our performance.

Respect for people:
Maintain a collegiate atmosphere and safe working environment for our employees and encourage and facilitate employee development.

Engage our major suppliers in our sustainable development programmes, share our objectives with them and ensure compliance with health and safety best practice on all of our sites.

Create diverse and balanced developments that reflect the socio-economic diversity of the local communities and contribute to their enrichment through support for youth programmes, skills development, arts projects and environmental projects.

Respect for the environment:
Minimise energy and water consumption through considered design, construction site best practice and clear advice to occupants.

Minimise waste from all our operations.

Appoint suitably qualified consultants to advise on all aspects of environmental protection and sustainable development.

Reputation and risk:
Contribute to the better working of our industry by participating in debate and publishing research.

Identify and manage risks to the achievement of our corporate strategy, including harm to our good reputation, arising from our work with people and the environment. See also the section on Risks on page 9.

Report on progress and highlights of 2011/12

Case study

St Andrew's Club

Earlier this year, we committed to sponsoring a local charity, St Andrew's Club, the world's oldest youth club. The club offers a range of exciting and meaningful programmes for young people, focusing on skills, teamwork and responsible citizenship. Currently we are supporting their 'Masterchef' style cookery classes for budding young chefs.

Corporate

Our corporate operations employed an average of 45 people in 2011, in a single office in Central London.

We actively encourage and support our employees with personal and career development. This year we have supported three employees in achieving accountancy accreditation and four employees with real estate qualifications. We have also hosted three people on work experience.

We contribute to a wide range of charities and social enterprises. We particularly focus on those serving the needs of the communities in which we work. In 2011 we supported 37 local and national charities, notably in Newham, Paddington and Hayes and we are also a supporter of the 'Give More' campaign (givemore.org.uk) that seeks to promote the role of philanthropy in our society.

Three of our Executive Directors act as trustees of charities and we have committed internal resource to assist with their initiatives.

For 2012, we intend to focus a higher proportion of our charitable support on the charities associated with our developments.

Table of targets and performance for 2011/12 and targets for 2012/13 – Corporate

Target for 2011/12	Progress in 2011/12	Target for 2012/13
Ensure that every major supplier understands our sustainability objectives and targets and achieves satisfactory performance. Review our Standard Briefing Document in March 2011.	▪ Our Standard Briefing Document was reviewed and issued to every major supplier. ▪ All contractors report on compliance with environmental legislation. ▪ All our major development sites are registered with the Considerate Contractors scheme.	▪ Ongoing requirement to annually review our Standard Briefing Document. ▪ Future projects will continue to be registered under the Considerate Contractor Scheme.
Review our selection procedures for the appointment of the consultants that advise us on health, safety and environmental issues and Construction Design and Management (CDM) matters.	▪ Our selection process for CDM and environmental issues is well documented and considered. ▪ We have a preferred supplier for CDM responsibilities to retain consistency in reporting and keep standards across the business. ▪ For review of the Investment Portfolio, a detailed selection process was undertaken and proposal made to and accepted by the Executive Board.	▪ To review our preferred supplier for CDM services in 2012. ▪ To assess the performance of the consultant who reviewed the portfolio in consideration to the recommendations going forward.
Extend health and safety reporting process to our joint venture partners and the main Board, through an obligation to report on any accidents on our developments.	▪ We have procedures in place for reporting from our JV operations and subsidiary companies.	▪ To consolidate the information gathered and improve our statistical reporting and analysis of trends.
Allocate a CR Co-ordinator internally to monitor our CR activities and review our targets annually.	▪ Duncan Trench, our Head of Delivery, assumed the role, reporting to Julian Barwick.	▪ To co-ordinate activity within the business and continue to improve our reporting internally and externally.
Review our health and safety policies including our Internal handbook and HSE briefing documents for external consultants.	▪ Our staff handbook was issued in 2012. ▪ We have an updated standard briefing pack for our CDM consultants. ▪ All external health and safety matters are now reported to the Investment and Projects Boards, both feeding into the Main Board.	▪ To collate the health and safety information presented to the Board and produce statistics for 2012/13. ▪ Future reports will detail any positive or negative trends. ▪ To review the CDM briefing pack document in 2012/13. ▪ To see that reporting to the Boards is maintained.
Update and review our corporate website to include current objectives and policy.	▪ New, accessible, website launched. Objectives and policy available.	▪ Update objectives and policy annually. ▪ Complete a review in 2013.
Aim to participate in a minimum of two sectoral debates or research programmes per year. **Actively seek to part-sponsor one or two research projects and initiatives beneficial to our work each year.**	▪ Published Who Owns the City 2011? – a major research report. ▪ We chaired debates at various conferences including MIPIM and the BCO. ▪ We have been involved in and contribute to several other industry bodies including London First, NLA, RICS, BPF, West London Business Alliance and the BCO.	▪ Either publish ourselves, or fund at least one research paper on a topic that is relevant to progressive thinking in the British property industry. ▪ To arrange, chair or speak at five property related events in the year. ▪ To support through funding or practical assistance at least two technical initiatives that relate to our business and improve knowledge or efficiency. ▪ To support and be proactive members of at least four of the industry's recognised professional and lobbying bodies.

Major developments

We manage the design and construction of these projects from planning application to delivery. At the outset and throughout the life of each project, we consider the issues of sustainability, from lifetime carbon footprint to sustainable transport and community socio-economic development. By doing these well we will continue to create premium products for responsible owners.

A formal report is made to the Projects Board on every live development project each month. These reports refer to health and safety matters and all other material issues affecting the Company's CR objectives.

When planning and bidding for development and investment opportunities, the briefing material we give to our consultants lists our detailed aspirations and outlines our CR policies. Through early consideration in the design process, safety, sustainability, environmental and social considerations become embedded in all our projects.

Our recent start on site at Hammersmith confirms our ambition to create BREEAM Excellent schemes and we are working with our contractor, Wates, to achieve demanding targets for waste management during construction.

In 2011 we achieved our targeted BREEAM accreditations for Premier Inn in Southampton (very good) and Two Kingdom Street (excellent). At HDD's Lawley Village development we shall achieve BREEAM very good on all the commercial units and Code 3 for sustainable homes. At Stanground we have worked closely with the local authority and Morrisons to develop one of their greenest superstores to date, featuring solar heating, energy saving lighting, heat recovery and rainwater harvesting.

Table of targets and performance for 2011/12 and targets for 2012/13 – Major developments

Target for 2011/12	Progress in 2011/12	Target for 2012/13
Benchmark and reduce carbon emissions from all future developments, in advance of legislation, by working with our design and contracting teams on specifications and site management techniques.	▪ Premier Inn's specification for our Southampton project was fixed and not conducive to benchmarking future developments. However, key statistics are: – A BREEAM rating of 'very good' – Awarded gold standard under Considerate Contractors scheme – Very strong EPC rating of 'A' – Design team achieved a 65 per cent improvement on Part L requirements of Building Regulations, for Carbon emissions – Achieved a 20 per cent renewable energy target – 58 per cent of our crushed concrete recycled into our building – 87 per cent of our site waste diverted away from landfill ▪ Our technical review of Two Kingdom Street can be summarised: – BREEAM rating of 'Excellent' – EPC rating of C – 20 per cent improvement on the requirements of Part L2A of the Building Regulations – A 20 per cent improvement on One Kingdom Street's carbon footprint with 0.5 tCo_2/m^2 on the GIA – A Bronze award for the Considerate Contractors scheme – Waste was managed, separated and minimised throughout construction	▪ 10 Hammersmith Grove is targeting to achieve an 'Excellent' BREEAM rating and incorporates a large amount of Photovoltaics (PV) on its roof contributing towards emission reductions. ▪ We anticipate an EPC rating of 40 equating to carbon emission reductions in excess of 20 per cent from the baseline levels. ▪ We shall look to achieve a 10 per cent improvement on the carbon footprint of 10 Hammersmith Grove compared to our last major scheme. ▪ Our environmental strategy for the building already includes: – Very efficient lighting, heating and cooling strategy – Electricity generation from PV – Improved building fabric: low u value glazing/curtain walling, very good insulation (A+ rated) throughout the building – Adoption of extra low energy LED lighting – Green Materials with A/A+ Green Guide ratings – In excess of 170 cycle racks and showers for the cyclists – A sustainable travel plan and very good transport links
Ensure that all new development projects have a 'brief' based around the Standard Brief Documentation.	▪ Our Standard Brief Document is used as the basis of all project briefs. ▪ This document clarifies the key ambitions for the contract and articulates our core values to the people we employ. It embodies many of the principles of our Corporate Responsibility strategy.	▪ To maintain the discipline of issuing a Project Brief on each and every development project. ▪ To update the Project Brief to reflect this year's report.
Review our project briefing document and standard consultant appointments to reflect current CR Policy.	▪ We completed a review of our consultancy agreements in November 2011.	▪ We shall review the documents towards the end of 2012.
Improve our reporting structure further.	▪ All reports from surveyors on live development schemes incorporated a written statement on CR matters for the Projects Board.	▪ We shall continually review our reporting procedures and seek to make further improvement.
Continue post-completion review programme with local stakeholders at all major developments to obtain feedback within a year of completion.	▪ The post-completion review for our hotel development in West Quay III, Southampton is scheduled for April 2012.	▪ Post-completion reviews will be scheduled for Westminster Palace Gardens and 10 Hammersmith Grove.
Publish a written case study of one of our major developments highlighting the issues of socially responsible development.	▪ Not achieved.	▪ We shall fulfill this on 10 Hammersmith Grove.
Continue to maintain relations with our suppliers during periods of inactivity through a structured approach to communications.	▪ We continued to maintain a real spirit of partnership with our key suppliers during 2011. In at least one case, we actively supported a key partner's business through a difficult period. ▪ Our Delivery team is encouraged to maintain relations and the Head of Delivery co-ordinates interest from and to the business, with a structured approach to communication.	▪ To maintain this approach.

Case study

Who Owns the City

In November 2011, we launched the fourth report in a series of major studies investigating the ownership of City office buildings. Researched and written by the University of Cambridge, it was launched at an event attended by over 250 industry peers and professionals.

Investment portfolio

Our investment portfolio is a deliberately diverse range of properties with many types of end use and therefore it is very challenging to apply universal principles. Within our portfolio there may be situations in which focused investment could make individual properties significantly more environmentally and socially sustainable, and more successful for tenants, thereby adding value.

In 2011 we commissioned an 'environmental' study of the current portfolio, which will be completed in 2012. It is expected to identify specific opportunities to improve our CSR performance at some properties, and to highlight general principles that may be used to guide improvement in our longer-term property management and development.

This study will examine energy use, emissions, waste management, public transport facilities, the provision of public facilities, landscaping and 'public realm' and existing partnerships with local communities.

This will allow us to establish benchmarks and set targets on which we will report in future years.

The study has already identified a number of examples of the support that Development Securities PLC provides to the community. For example, the use of empty shops as 'pop up units' for temporary charitable use at The Furlong shopping centre and the provision of accredited training opportunities for staff at Atlantic Village.

Other development and trading and joint ventures

The majority of these properties are owned and developed in conjunction with joint venture or project partners. Our focus is therefore to play an influential role by working with our partners to ensure their good environmental, social and governance practice. This not only helps the spread of good practice across our industry but it also provides an important aspect of risk management for our Company.

Table of targets and performance for 2011/12 and targets for 2012/13 – Other development and trading and joint ventures

Target for 2011/12	Progress in 2011/12	Target for 2012/13
Develop a 'briefing document' for our JV partners and Investment team.	▪ All our JV partners are now aware of our commitment to responsible development.	▪ To continue this.
Issue guidance notes to our JV partners and encourage them to adopt our objectives and target.	▪ We encourage our partners to report on the same basis that we do. Some of our partners are advanced in aspects of sustainable development and we aim to learn from them to improve our own performance.	▪ To continue this and for the Head of Delivery to disseminate the information throughout the Company.

Graham Prothero
Finance Director

The typical sources and models for property finance seem to be at a point of change. The banks are slowly but resolutely reducing their commitment to the sector, with most restricting their appetite, and several withdrawing altogether. Net lending to UK commercial real estate has been negative in all but two quarters since April 2009. Current and prospective regulatory requirements around risk classification and capital allocation will surely exacerbate this trend, as well as driving up cost to the borrower. On the demand side, a significant proportion of the total outstanding debt to the sector of £217 billion (as at 31st January 2012) is due for repayment or refinancing by the end of 2013. To this can be added the looming maturities of some of the £47 billion of outstanding Commercial mortgage backed securities (CMBS).

We therefore face an increasing need for debt in a market where supply will be progressively constrained. This prompts a strong focus on certainty of funding, with term probably even more important than cost, and emphasises the importance of our relationships with a number of stable institutions who demonstrate long-term commitment to our marketplace and to the Group.

During 2011 we were pleased to secure two major refinancing transactions, drawing £22.5 million and £37.9 million respectively from Aviva Commercial Finance and Lloyds Banking Group, both key long-term lenders to the Group. As at 29th February 2012, our weighted average maturity was 9.4 years (8.4 years including our share of joint ventures), compared with 9.1 years as at 31st December 2010 (8.5 years including share of joint ventures). Within this average, it is important to note that we have decreased the proportion of loans maturing within four years, as can be seen from the analysis provided in note 18(c) to the financial statements.

We also continue to deploy partner equity at the project level, thereby extending our own equity and leveraging our expertise. Since our last year-end we have invested alongside some £24.1 million of partner capital, including £18.6 million provided by Brockton Capital at Kensington Church Street.

Following the two share issues in July 2009 and July 2010, we have been highly active in deploying the proceeds into the market. Our cash resource provides advantages of speed and certainty and enhances our ability to transact, in particular with the banks' lending timetable now typically extended by risk-averse credit approval and legal processes. Between summer 2009 and summer 2011 we executed a number of deals from equity, refinancing with debt after completion. In the second half of 2011, as economic storm clouds gathered over Europe, and in particular as uncertainty mounted over liquidity in its banking sector, we moderated that approach and currently complete transactions only when our financing is secure.

As at 29th February 2012 we had invested £157.4 million of equity in 46 projects since July 2009, representing acquisitions and development expenditure of £372.7 million, including partner capital of £33.2 million and debt of £182.1 million. Since the period-end this figure has risen to equity investment of £163.4 million and 48 projects, with a total acquisition cost of £397.4 million.

Consequently the Group's gearing, including share of joint ventures, has increased to a more efficient level of 58.9 per cent as at 29th February 2012, compared with 27.7 per cent as at 31st December 2010. If joint ventures are excluded, the figures are 48.8 per cent as at 29th February 2012 and 21.4 per cent as at 31st December 2010. As described on page 6, we target a level of between 50 and 60 per cent as an efficient operating level for the business.

Capital structure and liquidity management

The Group's strategy for capital structure and liquidity management is to maintain a conservative balance of equity and debt appropriate to the nature and profile of our asset portfolio, achieving both certainty and flexibility. This takes into consideration our operational strategy and our intention for each asset, together with our expectations for the availability and cost of alternative sources of finance.

Our cash and overall liquidity is managed at Group level, with each of our portfolios assessed and monitored according to their own specific risks. The increasing importance of the development and trading portfolios to our business model increases the inevitable uncertainty as to timings of cash flows. We keep our liquidity under continual review and maintain cash buffers sufficient to absorb delays in planned asset sales.

"Our continuing strong relationships with several major lenders mean that the Group has not been restricted in raising new debt for both investment and development projects

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Within our debt portfolio we maintain a mix of fixed and variable rates, in general preferring the certainty of fixed rates for our larger and longer-term borrowings. In particular we have taken advantage of current low rates to fix a higher than usual proportion of the portfolio, taking the view that certainty at these levels outweighs the potential savings in floating rates (should current levels persist into the medium-term). For shorter-term facilities we also consider caps, though the high volatility of rate expectations has typically made these instruments expensive to purchase.

As described on page 6, the Group limits its risk in major development projects through the principle of forward sales. This is achieved in various ways, from the completed forward sale of the land and project assets, through to the contracted sale of the prospective development, with appropriate guarantees of completion. The Group's direct contribution to more modest development project finance is provided by way of equity and medium-term bank facilities which provide the necessary flexibility to draw down funds as required.

The Group's investment portfolio is financed by a blend of equity, the debenture loan and bank borrowings of an appropriate term for each asset or group of assets. Our investments in joint ventures and associates are funded from equity, with any relevant gearing deployed within the ventures themselves.

Responsibility for management of cash and liquidity risk rests with the Board. The executive team has systems in place for the monitoring and management of this key aspect of our business. Daily review is delegated to the Finance Director, who discusses this with the other members of the executive team at least on a weekly basis. The Board formally reviews the position at its meetings, which occur eight times a year.

The principal tools of assessment are: 15-month, risk-analysed cash flow forecast, which is updated in full on a quarterly basis and monthly for material changes; a schedule of agreed bank facilities and amounts drawn against them; a summary of net debt, including derivative instruments; a summary of current cash deposit balances; and a formal commentary on the position prepared by the Finance Director for each Board meeting.

For the longer-term, the Directors review the Group's capital structure, taking account of the real estate cycle, any changes in the nature and liquidity of the Group's asset portfolio, the likely forthcoming risks and opportunities for the Group, and the market for equity and debt finance. This is formally revisited at least twice a year, via the Group's Risk Committee, which reports to the Board, and at the Board's annual strategy review. In addition this is discussed as appropriate at each Board meeting.

Medium-term liquidity is provided through a mix of the Group's equity and its debt facilities. Our continuing strong relationships with several major lenders mean that the Group has not been restricted in raising new debt for both investment and development projects. We have also arranged facilities with new lenders during the period, increasing our access to finance in a constrained market. During the 14-month period to 29th February 2012, we raised new facilities totalling £118.8 million, including £39.7 million of new facilities raised by joint ventures.

Reflecting the nature of the Group's business, short-term liquidity requirements are fairly predictable. Cash requirements are monitored on a monthly and weekly basis, and short-term cash balances are deposited accordingly.

Cash management

Cash may be invested across a range of instruments, including instant and term deposit accounts, money market funds and commercial paper. Our policy prioritises security and liquidity ahead of returns, and the Board has set limits for both minimum credit ratings and maximum concentrations with respect to counterparties. As at the period-end the Group had £50.2 million of cash held across nine banks.

Current bank facilities and borrowings

The Group's bank facilities are set out in the table on the next page. As at 29th February 2012, the value of the Group's gross borrowings was £203.1 million (31st December 2010: £175.5 million). Cash balances were £50.2 million (31st December 2010: £104.1 million), including amounts of £14.6 million held as restricted deposits, giving net debt of £152.9 million and gearing of 48.8 per cent (31st December 2010: £71.4 million and 21.4 per cent).

The Group's share of net debt in joint ventures was £31.5 million (31st December 2010: £20.8 million); if this is aggregated with Group balances, net debt rises to £184.4 million and gearing to 58.9 per cent (31st December 2010: £92.2 million and 27.7 per cent).

During the 14-month period, the Group has drawn new facilities of £79.1 million, of which £37.9 million was applied to refinance existing loans and £41.2 million represented new debt.

In addition to the loans of £37.9 million from Lloyds Banking Group and £22.5 million from Aviva Commercial Finance, the Group arranged finance of £6.0 million from Royal Bank of Scotland (RBS) and £7.2 million from The Co-operative Bank secured against investment assets. We also obtained development finance of £2.5 million from RBS in respect of the project at 328 Sandbanks Road, Dorset, and a further £3.0 million from Investec Bank in respect of the acquisition of Valentines House, Ilford.

In respect of projects held in joint venture, we borrowed £26.0 million from RBS for the acquisition of Newcombe House, Kensington Church Street. We also drew £9.1 million from HSBC in respect of The Old Vinyl Factory, Hayes and £4.6 million from The Co-operative Bank for the purchase of the Manchester student accommodation.

In addition to the amounts repaid through refinancing, the Group repaid a further £18.7 million, principally representing sales proceeds from the Rock portfolio and Westminster Palace Gardens. Committed facilities as at 1st May 2012 total £204.1 million, with a weighted average term of 9.0 years, (falling to 8.0 years including the Group's share of joint ventures). Unutilised facilities are £9.9 million.

Within the portfolio the earliest maturity date is June 2012, in respect of the Westminster Palace Gardens project. This asset has been forward sold to a purchaser who is paying for the units as they are delivered. Subject to this counterparty risk, the loan is anticipated to be repaid in advance of its term. Should there be a change to this plan the Directors do not anticipate difficulty in extending this small facility, held with a key relationship bank, to cover any delay. The loan of £2.5 million in respect of 328 Sandbanks Road, Dorset is due for repayment by February 2013. The Directors anticipate that this will be repaid from sales of the apartments during 2012. No other facilities fall due within the next twelve months. The earliest maturity in respect of facilities financing longer-term assets is June 2013.

					Principal financial covenants			
Facility type	Total facility £'000	Utilised as at 29th Feb £'000	Interest rate	Maturity	Loan to value ratio	Interest cover ratio	Minimum net worth £'000	Notes 1
Loans financing longer-term assets								
Term loan	47,500	46,255	Hedged	16-Jun-13	65%	160%	—	4
Term loan	3,000	3,000	Variable	08-Jul-14	—	—	—	
Term loan	5,669	5,638	Hedged	24-Nov-14	60%	150%	—	
Term loan	1,531	1,522	Hedged	24-Nov-14	60%	150%	—	
Term loan	6,200	6,200	Variable	12-Jul-15	80%	—	—	
Term loan	4,500	4,437	Hedged	06-Oct-15	60%	200%	100,000	
Term loan	1,500	1,500	Hedged	06-Oct-15	80%	110%	100,000	
Revolving credit	38,000	37,913	Hedged	16-Dec-16	70%	105%	—	
Term loan	57,565	56,128	Fixed	12-Mar-25	80%	110%	—	
Term loan	22,470	22,176	Fixed	12-Mar-25	80%	110%	—	
Loan notes	32,844	32,844†	Hedged	25-Oct-27	—	—	100,000	2
Debenture	20,000	20,000	Fixed	06-Jan-16	66%	—	—	
Loans financing development and trading assets								
Term loan	6,565	4,682	Hedged	25-Jun-12	65%	—	100,000	
Revolving credit	2,500	2,110	Variable	20-Sep-12	50%	150%	—	4
Term loan	5,355	2,539	Variable	04-Feb-13	45%	—	—	
Term loan	15,296	353	Hedged	28-Oct-13	65%	160%	—	
Term loan	7,000	7,000	Hedged	30-Mar-14	50%	150%	—	4
Term loan	6,750	–	Variable	02-Jun-14	60%	–	–	
Term loan	26,000	25,490	Hedged	23-Jun-14	60%	125%	100,000	4
Term loan	15,610	15,610	Variable	06-May-15	65%	—	100,000	3,4
Term loan	4,550	4,528	Variable	18-Sep-26	65%	150%	—	4
Revolving credit	3,455	—	Hedged	24 months from draw	50%	—	100,000	

1 Interest cover ratios are specific to the loan and the relevant property. Minimum net worth refers to the net asset value of the Group per its latest Balance Sheet (29th February and 31st August).
2 These unsecured, variable rate loan notes are denominated in Euros, with a nominal value of €47 million. The Group has entered into a cross-currency interest rate swap, such that interest rates are fixed and the Group will repay a fixed Sterling amount. The minimum net worth covenant applies to the hedge rather than the loan notes.
3 The loan to value ratio covenant is only testable after the third anniversary of the loan being refinanced (May 2013).
4 Loans relating to Joint Ventures represent the total loan facility and not the Group's share.
† Represents the amount of the Group's liability in Sterling taking account of the hedging instrument.

The £15.6 million bank loan to the Curzon Park Ltd joint venture matures in May 2015, and the Group is keeping this under review, whilst monitoring the prospects for the asset itself (see page 88). The loan-to-value covenant is scheduled to be measured in May 2013, which is expected to generate a partial repayment of the loan. The Group is currently in discussions with its joint venture partner and the bank to agree the approach to this exercise.

The loan of £46.3 million to the Manchester Arena Complex joint venture matures in June 2013, and the Group is currently negotiating with the lenders for an extension to this facility.

The Directors keep bank covenants under review, and are content with the current position. We aim to agree our loan-to-value covenants at comfortably tolerable levels, leaving sensible headroom for foreseeable changes in the general market or the specific asset. We also incorporate cure mechanisms into the facility documentation, such that we have an appropriate opportunity to restore the required loan-to-value ratio by making cash deposits or prepayments.

Interest rate risk and hedging

As at 29th February 2012, the summary of the Group's interest rate exposure was as follows:

	Excluding share of joint ventures %	Including share of joint ventures %
Fixed rate	49.4	42.1
Floating rate, swapped into fixed	41.5	42.6
Floating rate with cap	3.2	9.3
Floating rate	5.9	6.0

The weighted average interest rate payable was 6.0 per cent, 5.7 per cent including joint ventures.

As noted in the table in note 18(d), interest rate caps and swaps are used to provide protection against exposure to interest rate fluctuations. The Directors have maintained a mix of fixed and variable rates, in order to provide an appropriate measure of certainty within the portfolio.

Facilities with variable rates of interest, in particular longer-term facilities, expose the Group to the risk of interest rate fluctuation, whilst fixed rate instruments reduce flexibility and incur break costs in the event of early settlement. The Directors keep these risks under continual review, and regularly consider the possibility and likely cost of extending our interest rate hedging. Interest rate swaps also carry counterparty risk, in respect of the potential failure of the bank on the other side of the transaction. The Group mitigates this risk by dealing only with major banks and monitoring their continuing creditworthiness. There is no current indication that any of the Group's hedging counterparties may be unable to settle its obligations.

Interest rate swaps are marked to market in the Balance Sheet, giving rise to the risk of fair value movements in the derivative instrument, and a consequent impact on net asset value. The Group also holds a cross-currency interest rate swap, which is designated as a cash flow hedge. Movements in the foreign currency leg of this swap provide a hedge against movements in the fair value of the €47 million loan notes. Movements in the interest leg are taken to reserves. The effects of these fair value adjustments in the 14 months ended 29th February 2012 are set out in the note 18(d) on page 98.

Other financial instrument risks

Development and trading portfolios

The principal financial instrument risks in these assets are the credit risk in counterparties. Given the nature of these assets the amounts owed to the Group can be significant, and these arrangements are monitored very closely both before contracts are exchanged and throughout the execution period.

As at 29th February 2012, the Group had no material, unsecured debtors in respect of the sales of development and trading assets. As the recycling of our development and trading portfolio gains further momentum in the coming months, the Directors will remain alert to counterparty risk, in particular where purchasers are reliant on uncertain bank debt to fulfil their commitments to the Group.

The Group is contracted to provide £5.0 million of development funding for each phase at PaddingtonCentral, in respect of which it earns interest and a profit share, both subject to the profitability of the phase. The Group's development partners, who are contracted to pay this interest and profit share at the completion of each phase, and to repay the capital at the end of the development, are large financial institutions. This risk capital is held as a development participation within available-for-sale financial assets, and at the period-end was valued at £5.0 million (31st December 2010: £5.0 million), as described in note 18(a) to the Group financial statements. The Directors are satisfied that the combination of the Group's risk-averse approach to development funding, its cautious selection of development partners and its focused and active management of each project provide reasonable comfort over the risks of these financial exposures.

Investment portfolio

The principal financial instrument risk in the investment portfolio is the credit risk implicit in potential tenant failure. The Group maintains the portfolio under continuous review. The portfolio is managed by local agents, with active involvement by the Group's investment team. The Board receives at each of its meetings analyses of tenant profile (including the concentration of credit risk, both by sector and by entity), existing and anticipated voids, overdue rents, and future and outstanding rent reviews, as well as a formal commentary by the investment team. The current profile of the portfolio and comments on performance in the period are set out in the Operating Review on pages 11 to 31.

Projects in partnership

As described in the Operating Review, the Group conducts a number of projects in partnership with others, where the Group brings both development expertise and funding. These interests are carried in a number of balance sheet categories, and are summarised in note 27 to the Group financial statements.

The financial instrument risks in respect of projects in partnership are the financial strength and integrity of the operating partner, the contractual risk in the partnership arrangements and the operating success of the venture. The Group manages these risks by securing appropriate rights in each case over the use of the Group's invested capital and by active participation in the joint strategic and operating control of the ventures.

Contingent liabilities

Contingent liabilities are described in note 24 to the Group financial statements. The Directors ensure that these risks are appropriately documented and monitored, and that the risk of actual liabilities arising is restricted so far as is possible.

Foreign currency risk

The Group's operations are conducted almost exclusively in the UK. The Group's principal exposure to foreign currency movements is in the €47 million Euro-denominated loan notes, which is fully hedged to provide an effective Sterling liability. The details of the Group's sensitivity to exchange rate movements are set out in note 18(c) to the Group financial statements.

Maximum credit risk exposure

The Directors consider that the maximum credit risk exposure in each class of financial asset is represented by the carrying value as at 29th February 2012.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out on pages 6 and 9, in the Chief Executive's Statement on pages 4 and 5 and in the Operating Review on pages 22 and 23. The financial position of the Group, its cash flows, liquidity position, borrowing facilities and financial instrument risks are described in the Financial Review on pages 36 to 44, which also covers the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk. Note 18 to the financial statements gives further information about the Group's financial instruments and hedging activities.

The Group has considerable financial resources. The Directors maintain a risk-averse capital structure, with gearing ideally in the range of 50-60 per cent and long average debt maturities, with borrowings spread across a number of lenders. The Group continues to enjoy access to bank finance, as demonstrated by loans arranged during the period and further activity to date. Banking covenants are regularly monitored and appropriate cure mechanisms are incorporated in facility documents.

The Directors are alert to potential liquidity risk in the Group's cash flow forecast which, in the current phase of operations, includes significant uncertain sales income. The Directors keep both short- and medium-term cash flows under continual review, and moderate outflows according to the level of this uncertainty. The model preserves a cash buffer of £20.0 million at all times, to protect against delays in asset realisations.

The Group's rental income is also subject to risk of delay or non-payment, as demonstrated by the recent failure of Peacocks, at the time the Group's second largest tenant by rental income. This risk is mitigated by proactive asset management, which includes close monitoring of tenant resilience, and a strong focus on actual and potential voids.

As a consequence of the above, the Directors believe that the Group is well-placed to manage its business risks successfully, despite the continuing uncertain economic outlook. The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the financial statements.

Result for the period and movement in net asset value

Total comprehensive income for the 14 months ended 29th February 2012 was a loss of £15.4 million (31st December 2010: £0.7 million loss). After dividend payments of £5.9 million and a change in minority interest of £1.4 million, net asset value reduced by £19.9 million to £313.2 million (31st December 2010: £333.1 million), representing a fall of 16.0 pence per share to 256 pence per share (31st December 2010: 272 pence per share).

The movement in net asset value may be analysed as follows. Excluding revaluation movements and the exceptional provision, profit before interest and taxation for the 14 months was £7.5 million (31st December 2010: £3.8 million). Net interest costs for the period were £10.1 million (31st December 2010: £10.0 million), aggregating to a realised loss for the 14 months of £2.6 million, reduced from the 31st December 2010 figure of £6.2 million loss. This result was increased by three fair value losses, being the exceptional provision in respect of the serviced office business of £2.8 million (31st December 2010: £nil), property revaluations of £4.4 million (31st December 2010: credit of £8.5 million), and revaluations of swap instruments of £4.8 million (31st December 2010: £2.8 million loss). Dividends paid were £5.9 million (31st December 2010: £3.9 million).

In the following analysis, all percentage movements are expressed after adjusting for the additional two months in the current reporting period.

Net rental income

Gross rental income from our investment portfolio increased to £16.9 million, compared with £12.8 million for the year ended 31st December 2010. Part of this increase reflected the inclusion of £1.3 million from Weeke Local Centre, Winchester, which in the prior year represented £1.1 million in the development and trading portfolio. Adjusting for the transfer of Winchester to the investment portfolio (and for the 14-month period), this represents an increase of 4.8 per cent over the prior year. The increase was achieved through rent from new acquisitions of £1.0 million. Direct costs were £3.7 million, giving net rental income from the investment portfolio of £13.2 million, an increase of 11.4 per cent from 2010.

Our annual rent from five Peacocks stores aggregated to £0.7 million. We suffered no loss of rent in the period, and are pleased to have retained the brand in the two largest stores, generating £0.2 million per annum. We have assigned one further lease of £0.1 million per annum, and are in negotiations to re-let the final two stores. Bad debts in the investment portfolio were restricted to £0.1 million in the 14-month period, and our void rate as at 29th February was 11.4 per cent (including 1.6 per cent in respect of the Peacocks stores), compared with 8.0 per cent as at 31st December 2010.

The Group also earned net rental income of £1.9 million from the development and trading portfolio, equivalent to the amount generated in the prior year.

Development and trading profits

Profits from development and trading increased to £8.5 million from £5.5 million in the year ended 31st December 2010. The principal projects were the residential and retail sales at Westminster Palace Gardens, which contributed £2.4 million in the period, and seven disposals from the Rock portfolio, which produced profits of £3.8 million, together with £0.7 million from the completion of the hotel at Southampton.

Operating costs

Operating costs of £14.8 million for the 14-month period were slightly below the equivalent figure of £12.9 million for the twelve months ended 31st December 2010. Within this total, staff costs were £8.8 million, equivalent to the prior year.

Exceptional impairment and provision for serviced office segment

The Group's serviced office business has made operating losses for several periods, in very difficult market conditions. Aggressive price discounting by competitors over an extended period has forced the Group to accept lower occupancy levels and reduced licence fees. The business continues to make a positive contribution to its committed, fixed costs, but certain centres are expected to continue to generate losses into the future. Consequently the Directors have determined that the fixed assets of five of the seven centres are impaired, and have made provision of £1.6 million for such impairment. In addition, four of the centres are not expected to cover all of their committed rental costs, and a further provision of £1.2 million has been made in this regard, aggregating to an exceptional charge of £2.8 million.

Net finance costs

Finance costs for the 14-month period was £13.2 million, broadly equivalent to the corresponding amount for the prior year. However the total for 2010 included a cost of £0.8 million in respect of the termination of two interest rate swaps. The higher interest charge for the reporting period reflected higher average loan balances and an increased proportion of fixed rate loans.

Finance costs include a charge of £0.5 million in respect of the fair value of interest rate swap instruments, as medium-term interest rates ended the period close to their lowest points, leaving our fixed rate hedging arrangements out of the money. In addition a similar charge of £4.3 million was included in Other comprehensive income, in respect of the interest leg of the currency and interest rate swap relating to the €47 million 2027 Unsecured Subordinated Loan Notes (see note 18(d)).

Investment portfolio

The investment property portfolio increased from £199.2 million at the beginning of the period to £237.9 million at 29th February 2012. New acquisitions of £20.2 million include Colston Tower, Bristol at £7.6 million in June and, in November, the Chorlton Cross Shopping Centre at £9.0 million, along with the Vicus Building in Manchester at £1.5 million. Improvements of £3.2 million included works across a number of assets, notably £0.9 million in respect of Swanley Shopping Centre.

The Directors have also transferred Weeke Local Centre, Winchester from the development and trading portfolio to the investment portfolio. The centre was developed for sale over 2008-2010, and letting of the final units was completed in 2011. The Group has received a number of offers to sell the centre, but the Board has decided instead to retain the asset for its income and capital growth potential. The carrying value of the asset at time of transfer was £20.0 million, which, following further capital expenditure of £0.4 million, has been increased as at 29th February 2012 to its fair value of £21.4 million, in accordance with IAS 40.

Further details of acquisitions, disposals and valuation movements are set out in note 10 to the financial statements, and further analyses of the management and performance of the portfolio are given in the Operating Review on pages 11 to 31.

Inventory – development and trading properties

We have now invested close to 90 per cent of the net proceeds of the equity raises in 2009 and 2010 in projects with potential for redevelopment. The following table analyses this investment between the principal balance sheet categories (with shares of assets held in partnership allocated to their relevant categories).

Gross acquisition cost including development expenditure to date £'m	DS Equity to date £'m	Investment properties as at 29th February 2012 £'m	Development and trading properties as at 29th February 2012 £'m
397.4	163.4	95.4	157.0

Whilst the investment properties are carried at fair value, the majority of our acquisitions are held as development and trading assets, which are stated at the lower of cost and net realisable value, with no uplift recognised until the asset is sold. As set out in the Operating Review on pages 11 to 31, we are making progress with our plans for these assets, which, as indicated when we raised the new equity, we expect to take three to four years on average. To date we have sold assets with a gross purchase cost of £47.9 million, reporting profits of £9.7 million; the continuing projects represent circa £157.0 million of the Group's inventory (including shares of assets in partnership) as at 29th February 2012. We anticipate that the rate of recycling these projects will accelerate in the years ending 28th February 2013 and 2014.

Inventory also includes some £42 million of "legacy" assets, whose original plans predate the market crisis of 2008, and which were disrupted by that event. We are making good progress on several of these, notably 399 Edgware Road, London NW9 (formerly known as Colindale), as described on page 24, which represents by some way the largest of these projects.

Associates and joint ventures

Reflecting our strategy of working with partners, investments in associates and joint ventures has increased during the period. The Group's interests in projects in partnership are structured in several ways, resulting in a number of different accounting categorisations. Note 27 to the financial statements summarises the position.

The current carrying values of associates and joint ventures are analysed in note 14. Notable additions to joint ventures in the period include a 24.0 per cent share of Notting Hill (Guernsey Holdco) Limited, which acquired the office and retail asset at Kensington Church Street, London for £47.5 million, with bank debt of £26.0 million; in addition we took a 50.0 per cent interest in Purplexed LLP, established to develop The Old Vinyl Factory, Hayes, which was acquired for £16.0 million, with bank debt of £9.1 million.

The Group's share of joint ventures is reported at the net asset level, as prescribed by accounting standards. The net figure of £26.6 million includes shares of investment property of £23.1 million (stated at fair value), shares of inventory of £27.0 million (stated at lower of cost and net realisable value), and shares of bank debt of £26.8 million (all figures excluding the Group's share of Curzon Park Limited).

The Group's share of the net assets of Curzon Park Limited was written down to £nil in 2008. As at 29th February 2012, the Group has a debtor due from the joint venture of £5.0 million, held within Financial assets (note 18(a)), and has provided a guarantee for its share of the joint venture's bank loan of £15.6 million, as noted within contingent liabilities. The current status of the project is described in note 14(b).

Financial assets and financial liabilities

Financial assets and financial liabilities are analysed in note 18 to the Group's financial statements.

Derivative financial instruments

The Group's Euro-denominated loan notes and the related cross-currency hedge are carried as separate instruments in the Balance Sheet. During the 14-months ended 29th February 2012, Sterling strengthened against the Euro, decreasing the Sterling liability of the loan by £1.0 million to £39.3 million, and reducing the fair value of the currency and interest rate swap by a similar amount. The continuing softening of long-term EURIBOR interest rates over the period caused a further reduction in the value of the instrument, such that its total fair value declined to a liability of £1.9 million as at 29th February 2012, compared with an asset of £3.3 million at 31st December 2010. Other interest rate swaps were fair valued at a liability of £0.5 million.

Other financial assets

Other financial assets include the Group's participation in the third phase of PaddingtonCentral, which has been revalued by the Directors at £5.0 million (unchanged from the previous year), together with loans to a number of joint operations and associate companies. During the period, the Group advanced a further £4.7 million to CTP, which, together with accrued interest of £1.3 million, took the total investment in the group to £21.5 million. The loan to Orion Shepherds Bush Limited in respect of Shepherds Bush was increased by £2.1 million to £2.5 million. A further £0.7 million was lent to Cathedral Group in respect of The MVMT, Greenwich, taking the total to £2.2 million. As described in the Operating review on page 29, the loan to Barwood, which stood at £1.2 million as at 31st December 2010, was repaid during the period, and immediately reinvested in the new associate, Barwood Development Securities Limited.

Cash and borrowings

Details of the Group's borrowings and cash management are set out in note 18(b) and (c) to the financial statements, and in the Financial Review on pages 36 to 44.

		29th February 2012	31st December 2010
Net debt and gearing			
Gross debt	£m	**(203.1)**	(175.5)
Cash and cash equivalents	£m	**50.2**	104.1
Net debt	£m	**(152.9)**	(71.4)
Net assets	£m	**313.2**	333.1
Gearing	%	**48.8**	21.4
Share of net debt in joint ventures	£m	**(31.5)**	(20.8)
Gearing including joint ventures	%	**58.9**	27.7
Adjusted gearing	%	**40.1**	12.7

The gross debt figure includes the €47 million 2027 Unsecured Subordinated Loan Note facility, stated in Sterling at the current fair value of £39.3 million (31st December 2010: £40.3 million), and ignoring the hedging instrument. If these long-term loan notes are removed from borrowings, gearing falls to 40.1 per cent. This is calculated by deducting from net debt the current fair value of £39.3 million (31st December 2010: £40.3 million) and adding back relevant restricted cash balances of £11.0 million (31st December 2010: £10.1 million) and transaction costs of £1.0 million (31st December 2010: £1.1 million).

Loan to value gearing

Net debt expressed as a proportion of total property assets, (including shares of properties and net debt in all projects in partnership), was 37.0 per cent.

Taxation

The net current tax charge in the Statement of comprehensive income was £0.8 million principally in respect of non-resident landlord income. The Group has significant potential deferred tax asset balances, but the Directors have restricted recognition to the amount of corresponding deferred tax liabilities, as uncertain market conditions do not offer sufficient probability of profits in the foreseeable future within the terms of IAS12.

Dividends

The Board will recommend to shareholders at the Annual General Meeting on 28th August 2012 a final dividend of 3.2 pence per share (2010: 2.4 pence per share) to be paid on 26th October 2012 to shareholders on the register on 28th September 2012. This final dividend, amounting to £3.9 million, has not been included as a liability at 29th February 2012, in accordance with IFRS. The total dividend for the 14-month period will be 5.6 pence per share, equivalent to the rate of 4.8 pence per share for the year 2010.

(Loss)/earnings per share

Basic and diluted earnings per share for the 14-month period represented a loss of 10.3 pence (31st December 2010: earnings of 1.7 pence). After removing the unrealised revaluation of the investment portfolio and the gain on the disposal of trading properties and impairment of development and trading properties, the EPRA adjusted loss per share was 8.2 pence (31st December 2010: loss of 11.8 pence).

Performance measures

Key performance indicators are set out below:

		29th February 2012	31st December 2010
Net asset value movement	%	**(6.0)**	36.5
Gearing	%	**48.8**	21.4
Investment property portfolio return as reported under IPD*	%	**4.2**	15.2
Total shareholder return	%	**(25.4)**	(32.8)

*IPD monthly return reported for the 14-month period to 29th February 2012. IPD quarterly return quoted for the 12 months to 31st December 2010.

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David Jenkins (67)
Non-executive Chairman

Joined the Board in February 2007 and appointed Chairman on 15th May 2007. A Fellow of the Institute of Chartered Accountants in England and Wales. Previously a partner in Deloitte LLP, London, and was Managing Partner of their Real Estate Practice until his retirement in May 2004. Senior Independent Director of MITIE Group PLC and Non-executive Director of Renewable Energy Systems Holdings Limited. He is also advisor to several companies and was a Governor of Downe House School until November 2011.

Michael Marx (64)
Chief Executive

Appointed to the Board in September 1994. A Fellow of the Institute of Chartered Accountants in England and Wales and a Member of the UK Listing Authority Advisory Committee 2004 to 2007. Non-executive Chairman of Nationwide Accident Repair Services PLC.

Graham Prothero (50)
Finance Director

Appointed in November 2008. A Member of the Institute of Chartered Accountants in England and Wales. From 2001 until 2008 a partner with Ernst & Young LLP. Previously Finance Director of Blue Circle Properties and Finance Director of Taylor Woodrow's UK housebuilding.

Julian Barwick (58)
Executive Director

A Fellow of the Royal Institution of Chartered Surveyors. Joined the Board in May 1998. Formerly property advisor to the Bedford Estate from 1997 to 2003, Chairman of the Paddington Regeneration Partnership from 2000 to 2002 and Board Member of the British Council for Offices from 1996 to 2006. Appointed to the Board of London & Continental Railways Ltd in 2005.

Matthew Weiner (41)
Executive Director

Appointed in March 2004. A Member of the Royal Institution of Chartered Surveyors. Joined Development Securities PLC in November 2000 as Director of Investments. Trustee of the Manor House Trust.

Victoria Mitchell (61)
Non-executive Director

Appointed in August 2002. Currently Consultant Director to Savills PLC, Non-executive Deputy Chairman of The Berkeley Group Holdings PLC and Non-executive Director of The Golding Group (South Africa), London First and Lennox LLP. Formerly an Executive Director of Savills PLC from 1988 to 2000.

Michael Soames (61)
Non-executive Director

Appointed in August 2002. Previously Surveyor to The Mercers' Company, Group Corporate Development Director of Regus PLC and partner of Knight Frank LLP. Currently a Non-executive Director of the ISIS Property Trust Limited. A Fellow of the Royal Institution of Chartered Surveyors and past President of the British Council for Offices.

Sarah Bates (53)
Non-executive Director

Appointed in January 2010. Currently a Non-executive Director of St James's Place PLC, and of four listed investment companies, an advisor to several pension and charitable funds and is Chairman of the Stena Line (UK) Pension Scheme and the Association of Investment Companies. Former CEO of Invesco Asset Management's UK institutional business until 2003.

Nicholas Thomlinson (59)
Non-executive Director

Appointed in January 2012. A Member of the Royal Institution of Chartered Surveyors. Currently Senior Partner and Chairman of the Knight Frank Group.

The Directors present their report and the audited financial statements for the financial period ended 29th February 2012.

Principal activities
The principal activity of the Company is that of a holding company. The principal activities of the Group during the period were property development, investment and trading.

Incorporation
Development Securities PLC is incorporated in Great Britain and registered in England and Wales, registration number 1528784.

Business review and future developments
A review of the Group's operations, the current state of the business and future prospects, including financial and non-financial key performance indicators, principal risks and uncertainties, is contained in the Chairman's Statement, Chief Executive's Statement, Operating Review and Financial Review, and should be read in conjunction with this report. The Directors consider the financial and non-financial key performance indicators of the business to be gearing, liquidity, project returns and profitability, and occupancy rates. Further details are disclosed on page 44. The principal risks of the Group are set out on page 9. The information which comprises the business review as required by Section 417(1) of the Companies Act 2006 may be found in the Operating Review on pages 11 to 31 and in the Corporate Responsibility Report on pages 32 to 35.

Results and dividends
The loss for the financial period attributable to shareholders amounted to £12,592,000 (31st December 2010: £1,678,000 profit). An interim Ordinary dividend of £2,937,000 representing 2.4 pence per Ordinary share was paid on 27th October 2011 (31st December 2010: £1,974,000 representing 2.4 pence per Ordinary share). The Board recommends a final Ordinary dividend of 3.2 pence per Ordinary share amounting to £3,915,000 payable on 26th October 2012 to shareholders on the register at 28th September 2012 (31st December 2010: £2,937,000 representing 2.4 pence per Ordinary share). Subject to shareholder approval this makes a total dividend payment of 5.6 pence per Ordinary share for the financial period, equivalent to the previous year.

Group structure
Details of the Group's principal subsidiary undertakings are disclosed on page 90.

Share capital
The Company's issued share capital of 122,352,504 Ordinary shares of 50 pence each as at 29th February 2012 represents a single class of shares, with all shares ranking equally and fully paid. Details of the share capital are set out on pages 100 and 101.

The rights and obligations attaching to the shares are specified in the Company's Articles of Association, or alternatively may be governed by statute. There are no restrictions on the transfer of shares in the Company other than those specified by law or regulation. There are no restrictions on voting rights other than as specified by the Articles of Association.

Three resolutions relating to share capital will be proposed as Special Business at the forthcoming Annual General Meeting. The full text of the resolutions can be found in the enclosed Notice of Annual General Meeting.

Change of control
The Company has entered into significant agreements with its commercial partners, which contain change of control clauses and which may give rise to termination or renegotiation in that event. If enforced, the Company may be deprived of potential future earning capacity from such schemes. The Company is party to a number of committed bank facilities which upon a change of control are terminable at the bank's discretion. In addition, under such circumstances the Company's share option schemes would normally vest or become exercisable subject to the satisfaction of the performance conditions.

Corporate Governance
The Company's statement on corporate governance can be found in the Corporate Governance Report on pages 52 to 56 of the financial statements. The Corporate Governance Report forms part of this Report and is incorporated into it by cross-reference.

Share option schemes
The fourth grant under the Save As You Earn Option Plan 2005 was made on 24th October 2011 for a total of 193,205 options over shares at 152.0 pence per share to 45 members of staff, including 5,921 options over shares each for M H Marx, M S Weiner and G Prothero. Further

details of the share option schemes are contained on page 100 and in the Remuneration Report on pages 57 to 64.

Directors

The Directors serving during the period and up to the date of signing the Group financial statements were as follows:

D S Jenkins
M H Marx
G Prothero
C J Barwick
M S Weiner
V M Mitchell
M S Soames
S C Bates
N H Thomlinson (Appointed 3rd January 2012)

Brief biographical details are shown on page 45.

Following nine years of service on the Board of the Company, M S Soames and V M Mitchell will be stepping down as Directors from the date of the Annual General Meeting.

As required by the Company's Articles of Association, N H Thomlinson will offer himself for election having been appointed to the Board since the last Annual General Meeting. All other Directors will be retiring at the 2012 Annual General Meeting and, being eligible, will offer themselves for re-election. The Directors are voluntarily offering themselves for re-election as a matter of best practice in accordance with the UK Corporate Governance Code. Following the performance evaluation of the Board, all Directors were judged to have made a significant contribution to the Board's deliberations, reflecting their commitment to the role. The rules that the Company has governing the appointment and replacement of Directors are contained in its Articles of Association.

Under the Companies Act 2006, a Director must avoid a situation where he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. No conflicts of this sort have arisen during the period under review.

Directors' service contracts and interests in the Company's shares

The details of Directors' service contracts and the interests in the shares of the Company of the Directors who were in office as at 29th February 2012 are disclosed in the Remuneration Report on pages 57 to 64.

None of the Directors had any material interest in any contract that was significant in relation to the Group's business at any time during the period, other than a service contract, and as disclosed in the Remuneration Report.

Directors' and officers' liability insurance

Article 155 of the Company's Articles of Association provides, among other things, that, insofar as permitted by law, every Director shall be indemnified by the Company against all costs, charges, expenses, losses or liabilities incurred in the execution and discharge of the Directors' duties, power or office. The Company maintains Directors' and officers' liability insurance, at an adequate level which is reviewed annually.

The third party indemnity insurance was in force during the financial period and also at the date of approval of the financial statements.

Articles of Association

The Articles of Association may be amended by a special resolution of the shareholders.

Annual General Meeting

The Annual General Meeting will be held on 28th August 2012 at 12.00 noon on the 14th Floor, Portland House, Bressenden Place, London SW1E 5DS.

At the Annual General Meeting, the following resolutions will be proposed:

Ordinary Resolution 1 – Report and Accounts

The Directors will present the Report of the Directors and financial statements for the financial period ended 29th February 2012.

Ordinary Resolution 2 – Directors' Remuneration Report

Shareholders are given the opportunity by law to vote on whether or not they approve the Remuneration report and this vote will be in respect of the content of the Remuneration report and not specific to any Director's level or terms of remuneration. You can find the Directors' Remuneration Report on pages 57 to 64 of the Directors' Report and financial statements.

Ordinary Resolutions 3 to 9 – Election and Re-election of directors

N H Thomlinson has been appointed as a Director since last year's Annual General Meeting. In accordance with the recommendations of the UK Corporate Governance Code, N H Thomlinson will retire at this year's Annual General Meeting and Resolution 9 proposes his election.

The Directors seek to maintain the highest standards of corporate governance and in accordance with the recommendations of the UK Corporate Governance Code, each of the other Directors will voluntarily retire and those wishing to serve again shall submit themselves for re-election by the shareholders at the Annual General Meeting. The Chairman is satisfied that, following individual formal performance evaluations, the performance of the Directors standing for re-election continues to be effective and demonstrates commitment to the role. Biographical details of all the Directors appear on page 45 of the Directors' Report and financial statements.

Ordinary Resolution 10 – Declaration of a dividend

A final dividend can only be paid after the shareholders at a general meeting have approved it. A final dividend of 3.2 pence per Ordinary share is recommended by the Directors for payment to shareholders who are on the register at the close of business on 28th September 2012.

Ordinary Resolutions 11 and 12 – Re-appointment and remuneration of auditor

Resolutions 11 and 12 propose the re-appointment of PricewaterhouseCoopers LLP as Auditor of the Company and authorise the Directors to set their remuneration.

Special Resolution 13 – Authority to purchase own shares

The Company is seeking authority to purchase up to 10.0 per cent of the Company's issued ordinary share capital at, or between, the minimum and maximum prices specified in this resolution. The Directors have no present intention of making any market purchases of the Company's shares, but if they believed such action would enhance net assets or earnings per share, they would consider exercising their authority. As at the date of this report, the Company has an unexpired authority to repurchase 12,235,250 Ordinary shares.

Under the Companies Act 2006, the Company is allowed to hold its own shares in treasury following a buyback, instead of cancelling them. Such shares may be resold for cash or used for the purpose of employee share schemes but all rights attaching to them, including voting rights and any right to receive dividends, are suspended whilst they are held in treasury. Accordingly, if the Directors exercise the authority conferred by Resolution 13, the Company will have the option of holding these shares in treasury, rather than cancelling them. The authority sought at the Annual General Meeting will expire at the conclusion of the next Annual General Meeting of the Company or on 1st September 2013 (being the latest date by which the Company must hold an Annual General Meeting in 2013).

Ordinary Resolution 14 – Allotment of shares

The Directors may only allot Ordinary shares or grant rights over Ordinary shares if authorised to do so by shareholders. The Directors will be seeking new authority under section 551 of the Companies Act 2006 to allot Ordinary shares or grant rights to subscribe for, or to convert any security into Ordinary shares which will expire at the conclusion of the next Annual General Meeting of the Company or on 1st September 2013 (being the latest date by which the Company must hold an Annual General Meeting in 2013).

If passed, paragraph (i) of Resolution 14 would give the Directors authority to allot Ordinary shares or grant rights to subscribe for, or convert any security into, Ordinary shares up to an aggregate nominal amount of £20,392,084 representing approximately one third (33.33 per cent) of the Company's issued ordinary share capital and calculated as at 30th April 2012 (being the last practicable date prior to publication of the notice). In accordance with the latest institutional guidelines issued by the Association of British Insurers (ABI), paragraph (ii) of Resolution 14, if passed, would give the Directors authority to allot further Ordinary shares in connection with a pre-emptive offer by way of a rights issue to shareholders up to an aggregate nominal amount of £20,392,084, representing approximately one third (33.33 per cent) of the Company's issued ordinary share capital and calculated as at 30th April 2012 (being the last practicable date prior to publication of the notice). As at 30th April 2012 (being the last practicable date prior to publication of the notice,) the Company held no shares in treasury.

The Directors have no present intention of exercising this authority. However, the Directors consider it desirable to have the maximum flexibility permitted by corporate governance guidelines to respond to market developments and to enable allotments to take place to finance business opportunities as they arise.

Special Resolution 15 – Disapplication of pre-emption rights

Under section 561(1) of the Companies Act 2006, if the Directors wish to allot any shares and other relevant securities, or sell treasury shares for cash (other than in connection with an employee share scheme), they must in the first instance offer them to existing shareholders in proportion to their holdings. The Directors seek authority to renew the disapplication of shareholders' pre-emptive rights. The purpose of paragraph (i) of Resolution 15 is to authorise the Directors to allot any shares pursuant to the authority given by paragraph (i) of Resolution 14 for cash either (a) in connection with a pre-emptive offer or rights issue or (b) otherwise up to a nominal value of £3,058,812 (being equivalent to 5.0 per cent of the total issued ordinary share capital of the Company as at 30th April 2012 (being the latest practicable date prior to publication of the notice)), in each case without the shares first being offered to existing members in proportion to their existing holdings.

The purpose of paragraph (ii) of Resolution 15 is to authorise the Directors to allot any shares pursuant to the authority given by paragraph (ii) of Resolution 14 for cash in connection with a rights issue without the shares first being offered to existing members in proportion to their existing holdings. This is in line with corporate governance guidelines issued by the Pre-emption Group. The Board considers the authority sought to be appropriate in order to allow the Company flexibility to finance business opportunities or to conduct a pre-emptive offer or rights issue without the need to comply with the strict requirements of the statutory pre-emption provisions. The Board intends to adhere to the provisions in the Pre-emption Group's Statement of Principles not to allot shares on a non pre-emptive basis (other than pursuant to a rights issue or pre-emptive offer) in excess of an amount equal to 7.5 per cent of the total issued ordinary share capital of the Company within a rolling three year period without prior consultation with shareholders.

Special Resolution 16 – Notice period for general meetings

The Companies (Shareholders' Rights) Regulations 2009 increased the notice period for general meetings of a company to 21 clear days unless shareholders approve a shorter period, which cannot be less than 14 clear days.

At the Annual General Meeting of the Company held on 27th May 2011, shareholders authorised the calling of general meetings, other than an annual general meeting, on not less than 14 clear days' notice. Resolution 16 seeks the approval of shareholders to renew the authority to be able to call general meetings (other than an annual general meeting) on 14 clear days' notice.

The shorter notice period would not be used as a matter of routine for general meetings, but only where the flexibility is merited by the business of the meeting and is thought to be to the advantage of shareholders as a whole. If the proposals at a given meeting are not time sensitive, the Company will not normally use the shorter notice period. The approval will be effective until the Company's next annual general meeting, when it is expected that a similar resolution will be proposed. It should also be noted that the changes to the Companies Act 2006 mean that, in order to be able to call a general meeting on less than 21 clear days' notice, the Company must make a means of electronic voting available to all shareholders for that meeting.

Ordinary Resolution 17 – Political donations

Part 14 of the Companies Act 2006, amongst other things, prohibits the Company and its subsidiaries from making political donations or from incurring political expenditure in respect of a political party or other political organisation or an independent election candidate unless authorised by the Company's shareholders. Aggregate donations made by the Group of £5,000 or less in any twelve month period will be disregarded.

Neither the Company nor any of its subsidiaries has any intention of making any political donation or incurring any political expenditure. However, the Companies Act 2006 defines "political organisation", "political party", "political donation" and "political expenditure" widely. Accordingly, the Company wishes to ensure that neither it nor its subsidiaries inadvertently commits any breaches of the Companies Act 2006 through the undertaking of routine activities, which would not normally be considered to result in the making of political donations and political expenditure being incurred.

The Resolution authorises the Company and its subsidiaries to:

- make political donations to political parties or independent election candidates not exceeding £10,000 in total;
- make political donations to political organisations, other than political parties not exceeding £10,000 in total; and
- incur political expenditure, not exceeding £10,000 in total,

provided that the aggregate amount of any such donations and expenditure shall not exceed £10,000 during the period beginning with the date of the passing of the Resolution and ending on the date of the Company's next Annual General Meeting.

Full details of all the resolutions can be found in the enclosed Notice of Annual General Meeting, which is also displayed on the Company's website at www.developmentsecurities.com

The Directors believe that all the proposals to be considered at the Annual General Meeting are in the best interests of both the Company and its shareholders. The Directors unanimously recommend that you vote in favour of the proposed resolutions as they intend to do in respect of their own holdings.

Financial risk management

Disclosures in respect of financial risk management objectives and exposures are set out in note 18c on pages 95 to 97.

Charitable donations

Charitable donations during the period were £50,915 (31st December 2010: £112,124). The Group supported a number of charities serving the community in which the Group operates. This included national and local charitable organisations and covered a wide range of causes including education, public services, community support schemes and events organised on behalf of major charities.

The Group made no political donations in the period (31st December 2010: £nil).

Other substantial interests

At the date of this report, the Directors have been notified of the interests in 3.0 per cent or more of the Company's issued share capital shown in the following table. These interests were notified to the Company pursuant to Disclosure and Transparency Rule 5.

	Shares	%
BlackRock, Inc.	21,919,903	17.92
Prudential plc	10,910,307	8.92
F&C Asset Management plc	7,145,046	5.84
FIL Limited	6,223,537	5.09
Ameriprise Financial, Inc.	6,174,376	5.05
Aberdeen Asset Management PLC	6,137,352	5.02
Legal & General Group plc	4,808,521	3.93

Employees

The Group is committed to the principle of equal opportunity in employment. Current and potential employees are offered the same opportunities regardless of gender, race, colour, religion, nationality, ethnic origin, age, sexual orientation, marital status or disability. It is the Group's policy to apply best practice in the employment of the disabled, including, wherever possible, the retraining and retention of staff who become disabled during their employment.

Payment policy

Amounts due to suppliers are settled promptly within their terms of payment, except in cases of dispute. The number of creditor days outstanding for the Company at 29th February 2012 was 10.0 days (31st December 2010: 7.2 days).

Auditors

Our auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the forthcoming Annual General Meeting. The Board, on the advice of the Audit Committee, recommends their re-appointment.

Post balance sheet events

Details of events which have occurred since 29th February 2012 and up to the date of this report are disclosed in note 28 to the financial statements on page 105.

Disclosure of information to auditors

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

1. So far as he/she is aware, there is no relevant audit information of which the Group's auditors are unaware; and
2. He/she has taken all the steps that he/she ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Approved by the Board of Directors
Signed on behalf of the Board

H M Ratsey
Company Secretary
1st May 2012

Development Securities PLC Ordinary shares are listed on the Official List of the UK Listing Authority and, as such, the Company is required to state whether it has complied with the provisions for corporate governance contained within the UK Corporate Governance Code.

The Board confirms that the Company has applied the main provisions and has complied with all of the provisions set out in the UK Corporate Governance Code (the Code) during the financial period under review. The full Code can be found at www.frc.org.uk.

The Board is committed to maintaining high standards and levels of integrity within a corporate governance framework which underpins the ethos of the Company. Constructive dialogue has continued to be built up over the period between stakeholders and has strengthened investor confidence. The Company's governance principles have been, and will continue to be, kept under review as the Directors believe that a sound corporate governance framework is key to achieving the Company's objectives and discharging its legal and regulatory responsibilities.

The Company's going concern statement can be found in the Financial Review on pages 36 to 44 and is incorporated here by reference.

The Board

The Board is collectively responsible for the success of the Company and in this capacity has, over the financial period under review, dispensed independent judgement in relation to, but not limited to, strategy, executive performance and retention, remuneration and succession, financial performance, the issue of any securities, significant borrowing facilities, development opportunities, investment portfolio acquisitions and disposals, corporate reputation and communication, internal control and risk management and the Board's own effectiveness. In carrying out its responsibilities, the Board takes into account the size and complexity of the Group, and internal control measures employed, to determine those formal matters reserved to the Board and those delegated to its various Committees or the Executive Directors.

The Board met formally eight times during the period and held one meeting solely to consider the Group's strategy. The Board also met on an ad hoc basis as required by the on-going business of the Company. The Chairman and the Non-executive Directors met on one occasion during the period with no Executive Directors in attendance.

During the financial period under review, the Board consisted of four Executive Directors, a Non-executive Chairman and three Non-executive Directors, rising to four Non-executive Directors following the appointment of N H Thomlinson on 3rd January 2012. The independence of each Non-executive Director has been assessed during the period, in line with the independence criteria contained within provision B.1.1 of the Code. The Company considers all the Non-executive Directors to be independent. The Chairman was considered independent on appointment. The current ratio of Executive and independent Non-executive Directors is permissible for a smaller company under Code provision B.1.2.

V M Mitchell remained as Senior Independent Director for the whole period and is available as a point of contact for shareholders where normal channels of communication have failed, or are not appropriate. After V M Mitchell steps down at the Annual General Meeting on 28th August 2012, S C Bates will then take over the role.

The Non-executive Directors provide a valued role by contributing to the decisions and challenging aspects of executive decisions to produce a considered and independent outcome to Board deliberations. There is a clear division of responsibilities between the Chairman, who is responsible for the running of the Board and ensuring its effectiveness and the Chief Executive, who is responsible for the running of the Company's business. The roles and remit of the Chairman and the Chief Executive are set out in writing and agreed by the Board.

Biographical information for the Directors in office at the date of this Report is on page 45.

As in previous years, the Board has undertaken a formal performance evaluation of the Board as a whole and its Committees, to ensure they continue to be effective, and that individual Directors demonstrate commitment to his or her respective role and has sufficient time to meet his or her commitment to the

Company. V M Mitchell chaired a meeting of the Non-executive Directors without the Chairman or Executive Directors present, at which, inter alia, the performance of the Chairman was reviewed on behalf of the Board. The outcome, which was completely satisfactory, was then discussed between the Chairman and Senior Independent Director. The evaluation was conducted by means of a questionnaire which was co-ordinated and collated by the Company Secretary. The responses were considered by the Board and suggestions for improvements were discussed and where considered relevant, have been implemented.

All Directors have access to the services of the Company Secretary and may seek independent professional advice as necessary, at the Company's expense, and subject to the consent of the Chairman. Upon election, or re-election, Non-executives are invited to serve for three-year fixed terms, subject to annual re-election by shareholders. All Non-executive Directors have confirmed that they have sufficient time to dedicate to their role. Their terms of appointment are available from the Company Secretary and details of the Non-executive Directors' letters of appointment are detailed in section 1k of the Remuneration Report on page 62. Directors undergo a formal induction process on joining the Company and receive appropriate training whilst in office.

The Board delegates responsibility for certain matters to Standing Committees, which report back to the Board. These Committees operate within defined terms of reference, as determined by the Board. Details are available upon request from the Company Secretary and are also published on the Company's website, www.developmentsecurities.com. The Company Secretary acts as secretary to each of the Committees.

Audit Committee

The Audit Committee comprises S C Bates as Chair, V M Mitchell and D S Jenkins. As from 28th August 2012 N H Thomlinson will become a member in place of V M Mitchell.

The Company's Chief Executive, Finance Director and Financial Controller, attend the Audit Committee meetings by invitation. The Committee also met without Executive Directors present and S C Bates, as Chairman of the Committee, met separately with the auditors and internal auditors.

The Committee met four times during the period. A meeting was held to agree the terms of engagement, proposed approach and the fees of the annual audit. As is standard each year, two of the meetings take place prior to the issue of the preliminary full-year and interim results in order to consider any significant issues arising from the audit and review processes. The Board has determined that D S Jenkins as a qualified accountant with considerable experience has significant 'recent and relevant financial experience' for the purposes of the Code.

It is within the Committee's remit to recommend the appointment of the external auditors, advise on the Group's accounting policies and monitor the treatment of areas of major judgement in the Group's financial statements. Furthermore, it acts as a conduit between the Board and the external auditors and internal auditors.

Apart from conducting the annual audit, PricewaterhouseCoopers LLP was also engaged during the period to conduct a review of the interim results to 30th June 2011 and provided tax advisory and planning services at a total cost of £298,000.

An analysis of the non-audit fees can be found in note 4 to the financial statements. The non-audit services policy as adopted by the Committee during the last financial year was adhered to throughout the period providing added control measures around the instruction of the auditors to undertake non-audit work. The policy requires that all non-audit fee work be reported to the Audit Committee, with certain categories and amounts to be approved by the Audit Committee Chairman in advance of any work being undertaken. In addition the policy prohibits the Auditors from being considered for providing the following services: Internal Audit; Bookkeeping services; and Design and implementation of financial information systems. Given the clear efficiencies and value-added benefits to the Company of combining the audit and certain consultancy roles, additional scrutiny was placed on the independence and objectivity of PricewaterhouseCoopers LLP. The Audit Committee was satisfied as to their independence and accordingly recommended their re-appointment as auditors. This was subsequently ratified by the Board and accordingly the re-appointment of PricewaterhouseCoopers LLP as auditors will be proposed at the forthcoming Annual General Meeting. PricewaterhouseCoopers LLP has been the independent auditor of Development Securities PLC since 2008.

Nomination Committee

The Nomination Committee comprises D S Jenkins as Chairman, V M Mitchell and M H Marx. As from 28th August 2012, S C Bates will become a member in place of V M Mitchell. The Nomination Committee has reviewed the size, structure and composition of the Board and concluded that this is appropriate. The Committee devises and implements succession plans for

appointments to the Board, which are fulfilled through an effective search, interview and evaluation process based upon objective criteria.

The Nomination Committee meets as necessary. In the period under review it met three times; the first meeting discussed succession planning in respect of the two Non-executive Directors who will be stepping down after nine years of service on the Board. The second meeting was held to recommend to the Board the appointment of N H Thomlinson, which followed a formal, rigorous and transparent procedure conducted via an external search consultant. In recommending N H Thomlinson to the Board the Committee had given due consideration to the balance of skills and experience on the Board with proper regard to independence and diversity. The Committee, in conjunction with the Chairman of the Remuneration Committee, also recommended N H Thomlinson's appointment to the Remuneration Committee.

The Committee also met to discuss the re-election of Directors and recommend to the Board that, following shareholders' approval at the 2011 Annual General Meeting to allow changes to the Company's Articles of Association to permit annual re-election of Directors, each Director, being eligible, should opt for annual election. The Board approved this recommendation and each Director, with the exception of V M Mitchell and M S Soames who will be stepping down and N H Thomlinson who will be seeking election, shall retire and seek re-election at the forthcoming Annual General Meeting in line with provision B.7.1 of the UK Corporate Governance Code.

Remuneration Committee

The Remuneration Committee comprises M S Soames as Chairman, V M Mitchell and D S Jenkins. N H Thomlinson was appointed as an additional member with effect from 19th January 2012 and will become Chairman from the Annual General Meeting on 28th August 2012 when M S Soames steps down. As from 28th August 2012, S C Bates will become a member in place of V M Mitchell.

The Committee is authorised to determine remuneration policy, details of which can be found in the Remuneration Report on pages 57 to 64.

The policy includes the setting of Executive Directors base salaries, the exercise of powers to grant options under the Group's option schemes to the Executive Directors and senior managers and awards under the Performance Share Plan. In addition the policy specifies the framework for determining the annual bonus, awards under the Development Profit Plan, Joint Venture Profit Plan, Strategic Profit Plan, the Investment Growth Plan and ad hoc bonuses for exceptional contributions.

Approvals Committee

The Approvals Committee comprises two Executive Directors and a minimum of two Non-executive Directors. Its remit is to permit the approval of transactions between £2.0 million and £5.0 million, which are then reported to the Board. Transactions below £2.0 million are delegated to the relevant Executive Directors responsible and those above £5.0 million are under the remit of the Board.

The following table sets out the attendance of the Directors at the meetings of the Board, and the Audit, Nomination and Remuneration Committees held during the period under review.

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Number of meetings	8	4	3	5
D S Jenkins	8	4	3	3
M H Marx	8	—	3	—
G Prothero	8	—	—	—
C J Barwick	8	—	—	—
M S Weiner	8	—	—	—
S C Bates	8	4	—	—
V M Mitchell	7	3	3	5
M S Soames	8	—	—	5
N H Thomlinson	1 [1]	—	—	0 [1]

The numbers in brackets represent the maximum number of meetings that a Director could attend during the period 1st January 2011 to 29th February 2012.

Relations with shareholders

Communication with shareholders is a high priority for the Board. The Executive Directors have regular dialogue with institutional shareholders. The Chairman, Senior Independent Director and Non-executive Directors are available at any time to meet with them. No shareholders asked to meet with V M Mitchell, the Senior Independent Director during the period. The Company's Annual General Meeting provides an opportunity to respond to shareholders' appropriate questions, and the information necessary for informed participation is made available with as much notice as possible. Directors are introduced to shareholders at the Annual General Meeting, including the identification of Non-executives and Committee Chairperson. The Company's website www.developmentsecurities.com is updated at the same time as the Regulated Information Service, to provide additional information dissemination for shareholders. Shareholders are also invited to free subscription of the Company's e-mail news alert service on the Company's website.

Internal control

The Directors acknowledge their responsibility for reviewing the effectiveness of the Group's system of internal control to safeguard shareholders' investments and protect the Company's assets. The Directors acknowledge that they are responsible for determining the nature and extent of the significant risks the Company is willing to take in achieving its strategic objectives. The operational, financial and compliance risk controls are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has conducted a thorough risk assessment of the business, identifying risks, their potential impact, likelihood of occurrence, controls and mitigating actions, together with early warning systems and further actions which need to be implemented.

Detailed below is a description of the Group's internal control and risk management used in the process of preparing the Consolidated financial statements.

The regular process of identifying, evaluating and managing significant corporate risks has been delegated by the Board to a Risk Committee, consisting of M H Marx as Chairman, C J Barwick, M S Weiner, G Prothero and two senior managers, R C McCubbine and D A K Trench. During the period there has been at least one Non-executive Director in attendance at meetings of the Risk Committee.

The Committee meets quarterly during the year to ensure that the Group's risk management procedures are comprehensive and appropriate for the current economic climate, regulatory requirements and business operations. The Committee's remit includes all of the Group's subsidiaries and those joint ventures and associates which are administered by the Company. Risks arising from externally managed joint ventures are managed at the boards of the joint venture companies. In view of the increased number and complexity of these joint ventures the Risk Committee is in the process of deliberating the best strategy to identify, monitor and mitigate the risks arising out of these joint ventures in respect of the Group's exposure. The minutes of the Committee's deliberations are reviewed by the Board. In addition to the activities of the Risk Committee, a risk evaluation on each significant prospective development, investment or joint venture opportunity is evaluated by the Board, and for development opportunities, the risks are evaluated by an internal independent Project Review Committee. The Executive Directors regularly evaluate the Group's risk-weighted development exposure, which is then considered by the Board. All necessary actions have been or are being taken to remedy any weaknesses acknowledged from the quarterly reviews. No significant failings were identified over the period.

A 'whistleblowing policy' has been prepared and issued to all staff in the Group, outlining arrangements by which they may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other issues.

HW Fisher & Company were appointed as the Company's internal auditors in 2010. In this capacity HW Fisher & Company report to the Audit Committee. They attend meetings of the Risk Committee, and from these meetings, and discussions with management, they identify areas of potential weakness or improvement in the Group's financial controls. They propose an agenda of work to the Audit Committee, at least annually, and devise and implement appropriate work programmes, independently of management.

The Board has conducted a review of the effectiveness of the system of internal control for the period ended 29th February 2012 and to the date of this report, and considers that there is a sound system of internal control which accords with the Turnbull Report, Internal Control: Guidance for Directors on the Combined Code. The Board is satisfied that there is an ongoing process for identifying, evaluating and managing the Group's significant risks including financial, operational and compliance controls and that it is regularly reviewed.

Takeover Directive

Details of the required disclosure under the Takeover Directive can be found in the Directors' Report on pages 46 to 51 and the Remuneration Report on pages 57 to 64 and are incorporated herein by cross reference.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the 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. Under this law, the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the

Group and the Company and of the profit or loss of the Group for the period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs, as adopted by the European Union and applicable UK Accounting Standards, have been followed, subject to any material departures disclosed and explained in the Group and Parent company financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group 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 Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed in the Remuneration Report confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and
- the Report of the Directors incorporating the Summary page, the Chairman's Statement, Chief Executive's Statement, the Business Model, Operating Review, Financial Review, Summary of Principal Risks, Corporate Responsibility and Board of Directors includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board
H M Ratsey
Company Secretary
1st May 2012

Dear Shareholder

I am pleased to introduce the Remuneration Report for the financial period ended 29th February 2012.

The Remuneration Report has been divided into three parts:

- **Overview** – summary of the total remuneration policy;
- **Remuneration explained** – disclosures on Executive Directors' and senior managers' pay, outlining the incentive plans; and
- **Remuneration in detail** – detailed audited disclosures which are required by the Directors' Remuneration Regulations.

The Remuneration Committee (the Committee) is responsible for determining the remuneration policy for the Company's Executive Directors and for ensuring that the remuneration of senior managers and other employees is consistent with the Company's remuneration philosophy. The Committee has considered the performance of the Company over the period, the impact of the strategy set previously and the strategy for future years. The Committee, in light of the economic environment and current property market, has sought to reinforce the Company's objectives through the implementation of the remuneration policy approved by shareholders in 2010, together with the amendments to the existing policies made during the period. The Company has complied throughout the period with the requirements of the UK Corporate Governance Code in relation to Directors' remuneration.

The Committee has taken into account that, whilst the result for the year is a loss, the strategy of investing the monies received in the two equity raises is now largely complete and the execution of the individual business plans for each of the properties is well advanced and is on track to deliver the predicted profits. In considering the performance of the Company's senior management team the Committee was of the view that this is not the year for higher level performance packages when the full implementation of the strategy has yet to deliver profits for the Company and its shareholders.

In this time of heightened scrutiny of executive remuneration, as the Committee Chairman, I have been in regular contact with the Company's largest shareholders to discuss the current policy and ensure that their views are appropriately reflected in any changes. The Committee continues to believe that the current policy, together with the recent changes, supports the needs of the business and its shareholders.

The changes are described in greater detail later in the report but can be summarised as follows:

- in future years 100.0 per cent of any annual bonus awarded in excess of Target will be in the form of shares which will be held for a minimum of two years;
- the performance condition for the Performance Share Plan is to be widened to take into account not only Total Shareholder Return (TSR) performance but also growth in Net Asset Value per share (NAVps); and
- a further shareholding requirement will apply where a Director's shareholding is less than two times salary. In the event that payments under the focused profit plans, in aggregate, exceed £1.0 million in one financial year, two thirds of the payment above £1.0 million will be made in shares which must be retained for two years.

The salaries for the Executive Directors have been kept at the 2010 levels, with the exception of M S Weiner who was awarded a 4.6 per cent increase to reflect his increased role within the business.

During 2009 the Committee undertook a substantive review of its executive remuneration arrangements, to take account of the changing economic climate and to provide a framework of remuneration for the future property cycle. This was to ensure that arrangements would support the Company's strategy as it moved forward into the next stage of its development at the start of the next UK commercial property cycle.

The Committee monitors the remuneration policy on an on-going basis to ensure that it supports the business strategy and takes into account the views of shareholders and the evolving executive pay governance environment.

The focused profit plans relating to the principal activities of the Company (development, investment and joint ventures) continue to be a key part of our performance based pay arrangements, alongside the annual bonus and the Performance Share Plan, which are considered to be sufficiently stretching for Executive Directors and senior management and to promote the long-term success of the Company.

The Development Profit Plan (section c) has resulted in bonuses being paid to C J Barwick and a senior manager for the successful completion of the hotel development at Southampton. New Development Profit Plan awards have been made to two Directors and senior managers.

New Joint Venture Profit Plan awards have been made during the period. The Committee has also reviewed the awards for the Strategic Profit Plan for the financial period (sections d and f).

The Investment Growth Plan (section e) resulted in a nil vesting as performance conditions were not satisfied for the 2012 Initial Bonus. The performance condition in respect of the 2009 deferred award was satisfied, resulting in payments to M S Weiner and two senior managers.

Awards under the Performance Share Plan were made on 22nd March 2011 to the Executive Directors and staff. An assessment of the performance condition for the award made under the Plan on 8th May 2009 resulted in a nil vesting.

A resolution will be proposed to the shareholders at the Annual General Meeting seeking their approval of this report.

This is my last year as Chairman of the Committee as I will be stepping down at the 2012 Annual General Meeting. N H Thomlinson, who joined the Board in January 2012, will be succeeding me in this role. It remains for me to thank my fellow Committee members and shareholders for their valued contributions during my time as Chairman of the Remuneration Committee. I am certain the Remuneration Committee is well placed to support the Company in the future.

Michael Soames
Chairman, Remuneration Committee
1st May 2012

Overview and remuneration explained

The following is a summary of the elements of total remuneration:

Fixed elements	Variable elements	
	Short-term	Medium- and long-term
Base salary Pensions Benefits in kind – motor vehicles, cash in lieu of motor vehicle, fuel and medical insurance	Annual bonus	Development Profit Plan Joint Venture Profit Plan Investment Growth Plan Strategic Profit Plan Performance Share Plan Savings Related Option Scheme
Minimum shareholding requirement		

Overview

The key objectives of the Company's Remuneration Policy are as follows:

- to ensure that Executive Directors and senior managers are rewarded in a way that attracts, retains, motivates and rewards management of the highest quality;
- to operate focused profit plans and share schemes designed to encourage Executive Directors and senior managers to align their long-term career aspirations with the long-term interests of the Company and shareholders' expectations;
- to promote the attainment of both individual and corporate achievements, measured against performance criteria required to deliver long-term growth and sustainability of the business; and
- to encourage sustained performance over the medium- and long-term.

The total pay framework is based on a mixture of fixed and variable elements considered on a meritocratic basis at individual and Group level, taking into account the remuneration awarded to employees in the Group.

The balance between fixed and variable pay is considered appropriate, given that the various incentive plans/schemes ensure a significant proportion of a key individual's remuneration package is performance related, thereby correlating with the strategic aims of the business and the performance of the Company.

Role and constitution of the Committee

The Committee's full terms of reference are set out on the Company's website www.developmentsecurities.com. Its principal role is to determine the total remuneration of the Executive Directors and to ensure that senior management remuneration is consistent with corporate policy. In addition to the support of the Chief Executive and the Company Secretary, the Committee sought professional advice from external remuneration consultants Deloitte LLP and legal support from Linklaters LLP. Representatives of Deloitte LLP attended two meetings of the Committee by invitation. Deloitte LLP currently undertakes the audit of the Development Securities Retirement Benefit Scheme of which the Company is Trustee, but otherwise undertakes no other work for the Company. Linklaters LLP are also the Group's principal legal advisor.

The Remuneration Committee as constituted by the Board

The Committee met five times in the financial period under review.

Committee members	Considered independent Non-executive Director	Meetings attended
M S Soames (Chairman)	Yes	5
V M Mitchell	Yes	5
D S Jenkins*	Yes	3
N H Thomlinson**	Yes	0[1]

*Non-executive Chairman.
** N H Thomlinson was appointed to the Committee on 19th January 2012.
The numbers in brackets represent the maximum number of meetings that a Director could attend during the period 1st January 2011 to 29th February 2012.

Following the Board evaluation process the effectiveness of the Committee was reviewed and the Committee was considered to be operating effectively. No member has any personal financial interest in the matters to be decided.

Remuneration explained

a) Salary

The salaries of the Executive Directors are reviewed each year and are determined by reference to individual performance and in relation to comparable companies in the same business sector. The Committee carefully considered the level of the base salaries payable to the Executive Directors and has determined that the base salaries for Executive Directors should remain at last year's levels and the year prior to that, with the exception of M S Weiner, who was awarded a salary increase to £340,000 per annum with effect from 1st January 2012. This recognises his increased role within the business.

The Committee considers the salary increases of Executive Directors at the same time as increases proposed for all employees within the Company. It applies the same criteria to Executive Directors as are applied to all employees, taking account of any changes to roles as well as relevant market movements. For the financial period ending 29th February 2012 the zero increase that was applied for the Executive Directors, excluding M S Weiner, was substantially below the average increases awarded to employees across the Company.

Directors' base salary per annum	**29th February 2012 £'000**	31st December 2010 £'000	2010/2012 Increase %
M H Marx	**400**	400	0.0
C J Barwick	**325**	325	0.0
M S Weiner	**340**	325	4.6
G Prothero	**325**	325	0.0

b) Annual bonus

The non-pensionable annual bonus is based on the performance of the Company during the period, team achievements and the specific contribution of the individuals concerned. With the exception of M H Marx, Executive Directors are set a target bonus of 37.5 per cent of salary and an above target maximum of 75.0 per cent. As M H Marx does not normally qualify for awards under the Development Profit Plan, Joint Venture Profit Plan and Investment Growth Plan described below, his target bonus is 75.0 per cent of salary, with a maximum of 150.0 per cent.

The Committee has always taken a somewhat different approach to the annual bonus compared to our competitors, in that the annual bonus has never been formulaically driven by the annual financial results but reflects a true measure of annual performance in the context of the length of the property cycle. The annual bonus in respect of the Executive Directors is determined principally by the four main drivers for the creation of shareholder value in our business: namely, accurate reading of the economic and market cycles in which we operate, the pipeline of future development projects, active management of the investment portfolio and the maintenance of the standards of excellence that are embedded within the Company's corporate culture.

The Committee considered that although management had delivered an exceptional period in laying the ground work for future success, the performance of the Company in the financial period did not warrant bonus awards at Target. The following bonus awards were made in respect of the financial period ended 29th February 2012.

	29th February 2012 £'000	31st December 2010 £'000	**29th February 2012 % of maximum**	31st December 2010 % of maximum
M H Marx	**150.0**	378	**21**	63
C J Barwick	**60.9**	170	**21**	70
M S Weiner	**60.9**	170	**21**	70
G Prothero	**60.9**	170	**21**	70

From 1st March 2012, 100.0 per cent of any annual bonus awarded which is above Target will be paid in shares which the recipient must hold for at least two years.

c) Development Profit Plan

The Development Profit Plan seeks to reward and incentivise those Directors and senior managers that have brought successful development opportunities to the Company.

Not all developments are eligible for an award; the following criteria must be met before an award can be made:

1) The development must be unconditional; and
2) (i) The development must be expected to exceed £2.0 million profit; or is
   (ii) A multi-phased development where the first phase is expected to exceed £2.0 million profit.

Awards are based on a percentage of the bonus pool which becomes payable only once the development has achieved realised profits. The maximum bonus pool available for distribution is 10.0 per cent of the realised profit for each development. This is calculated once a notional cost of equity of 12.5 per cent is deducted, so that the pool generated only relates to profits over and above a threshold equity return.

The Committee reserves the right to award 80.0 per cent of the prospective bonus pool prior to completion, subject to profit realisation. When the development completes and the profit has been realised, the remaining unallocated 20.0 per cent of the bonus pool is assessed to take into consideration any additional Directors and senior managers who were instrumental during the life of the development. If no other participants are identified then the 20.0 per cent is allocated pro-rata to those participants already in receipt of an award.

In awarding annual bonuses and awards under the Development Profit Plan, there is no 'double-counting'. The contribution of any team and individual performance, which leads to awards under the Development Profit Plan, are disregarded in assessing the annual bonus.

The principal awards, that are outstanding for Executive Directors are as follows:

Project	M H Marx % award	C J Barwick % award	M S Weiner % award
Awards granted in previous years			
PaddingtonCentral Phase III (Two Kingdom Street)	—	7.00	—
399 Edgware Road, London	—	4.00	4.00
St Bride Street, London	—	6.00	—
10 Hammersmith Grove, London	—	3.50	—
Hale Barns, Manchester	—	—	6.50
Westminster Palace Gardens, London	—	—	5.50
Shepherds Bush Market, London	—	1.00	5.50
Wick Site, Littlehampton	—	—	5.25
The Movement MVMT, Greenwich, London	—	—	7.00
Airport House, Croydon	—	—	6.50
Awards granted during the period and to date			
Manchester Arena Complex	—	—	6.00
Rock portfolio	—	—	5.00
Sandbanks, Dorset	—	—	6.00
The Old Vinyl Factory (Hayes)	—	—	6.00
Abbey Wood, London	—	—	4.50
Kensington Church Street, London	—	—	6.00
Wick Lane, London	—	—	6.00
Chorlton Cross Shopping Centre, Manchester	—	—	6.00

The above excludes awards made in respect of more minor projects or those where current forecasts show a nil profit.

Additional awards under the Development Profit Plan have been made to senior managers.

Following practical completion of the hotel development at Southampton, C J Barwick received £50,634 from maturity of his Development Profit Plan award.

During the period M H Marx waived his entitlements to receive awards under the Development Profit Plan and reaffirmed his intention of not participating in any future awards under the Plan.

In addition to making awards under the Development Profit Plan for securing development opportunities, the Remuneration Committee retains the discretion to award bonuses to Executive Directors and other senior managers at any time for making an exceptional contribution towards the Company. Such awards will not be applied in securing any corporate acquisitions.

d) Joint Venture Profit Plan

The Committee reserves the right to make awards under the Joint Venture Profit Plan to Executive Directors and other senior managers who have been instrumental in securing profits generated from joint ventures.

Awards are made when joint ventures are likely to produce a total profit in any one year of more than £2.0 million. No more than 10.0 per cent of this profit is awarded in total. This is calculated once a notional cost of equity of 12.5 per cent is deducted, so that the pool generated only relates to profits over and above a threshold equity return. In any given year, the Committee determines which individuals should receive awards and the amount of the award for each of the joint ventures for the following year.

In assessing the profit from each joint venture, all profits remitted during the period on successful projects are cumulated and all projects which have either crystallised or are forecast to make a loss are deducted. Any actual profits/losses realised in subsequent years will be rationalised against forecast losses already taken into account.

In awarding annual bonuses, there is no 'double-counting'. The contribution of any team and individual performance which leads to awards under the Joint Venture Profit Plan is disregarded in assessing the annual bonus.

No bonus payments have been made to Executive Directors during the period in respect of previous awards. Awards for joint ventures have been made to an Executive Director and a senior manager for the next financial year.

e) Investment Growth Plan

The Committee reserves the right to award bonuses under the Investment Growth Plan. The performance condition under the award is that the total investment portfolio return must exceed 120.0 per cent of the All-Fund Universe Index return as published by the Investment Property Databank, if the Index return is greater than zero, or at least 0.1 per cent, if the Index is less than or equal to zero and, in addition, represents at least one percentage point above the total return under the index. The total investment portfolio return represents the sum of income return, net of irrecoverable property expenses, together with capital growth.

The Initial Bonus represents a bonus pool of 5.0 per cent of the value determined by the excess of the total investment portfolio return over the benchmark index, up to a cap of £1.0 million, unless otherwise determined.

The award is remitted following the end of the financial year when the award is determined, with an equivalent amount representing a Deferred Bonus assessed two years thereafter, provided that during the intervening period the total investment portfolio return exceeds a specified proportion of the Index.

The performance condition in respect of the financial period has not been satisfied, and therefore does not give rise to an Initial Bonus. The Deferred Bonus from the 2009 financial year has satisfied the additional condition, resulting in a remittance of £249,074 to M S Weiner.

f) Strategic Profit Plan

The Strategic Profit Plan was approved by shareholders in 2010. The Plan is an incentive scheme designed to incentivise all Executive Directors and senior management in all the principal activities of the Group, namely development, joint ventures and the investment portfolio. The Plan introduces a Group-wide collegiate aspect to rewarding success, and supporting co-operation as our executives deliver on the significant opportunities that exist in our portfolio and across our market.

The bonus pool available for distribution represents an additional 4.0 per cent of the profits achieved (as adjusted) which count towards the maximum amount under both the Development Profit Plan and Joint Venture Profit Plan for that financial year and 2.0 per cent of each of the Initial Bonus and Deferred Bonus pools achieved under the Investment Growth Plan. Awards are made to individuals at the discretion of the Committee. In doing so, the Committee takes into account whether individuals are already eligible for awards under the Development Profit Plan, Joint Venture Profit Plan and Investment Growth Plan. As a guideline, 75.0 per cent of the bonus pool would be allocated to the Executive Directors and 25.0 per cent to senior management.

Awards will be subject to a risk underpin such that the Committee must be satisfied that performance has not been achieved as a result of inappropriate financial risk (e.g. very high levels of gearing), and that the level of financial and business risk is in line with the Company's stated strategy. In making awards to individuals, the Committee will also take into account the overall performance of the Company.

No awards have been approved under the Strategic Profit Plan in respect of the period ended 29th February 2012.

g) Performance Share Plan

Awards under the Performance Share Plan are made on the basis that shares will be acquired subject to the satisfaction of performance conditions over a three year period, with no retesting. For awards made prior to 29th February 2012 performance is measured by comparing the Total Shareholder Return (TSR) achieved by the Company with the individual constituent members of the FTSE Real Estate Investment Trust Index and the FTSE Real Estate Investment Services Index. There is a sliding scale of vesting as follows:

(i) 25.0 per cent of the award will vest if the Company's TSR equals the median TSR of the comparator group;
(ii) 100.0 per cent of the award will vest if the Company's TSR equals or exceeds the 85th percentile TSR of the comparator group; and
(iii) pro-rata vesting will apply in between the above points.

In addition, the Committee must be satisfied that there has been a sustained improvement in the Company's underlying financial performance over the performance period (typically by considering the change in net asset value). For awards from 2010, a risk underpin (as previously described) will also apply.

On 22nd March 2011, awards were made under the Performance Share Plan to M H Marx of 130,862 shares in the Company, representing 75.0 per cent of salary, and to C J Barwick, M S Weiner and G Prothero of 70,883 shares, each representing 50.0 per cent of salary. In total, 624,508 shares were, at the discretion of the Committee, awarded to 33 employees and the four Executive Directors.

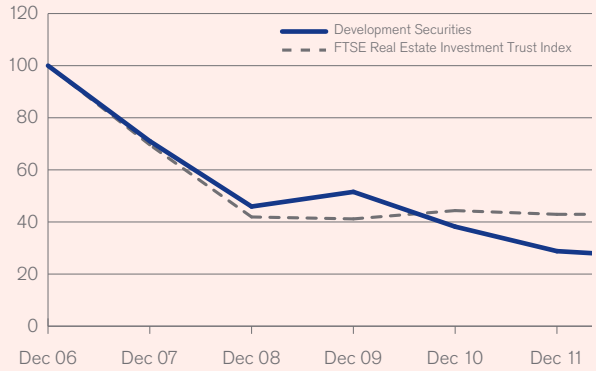
Following feedback from shareholders the Committee determined that for the 2012 award a wider range of performance measures should be used. The performance condition for the 2012 award will be as follows:

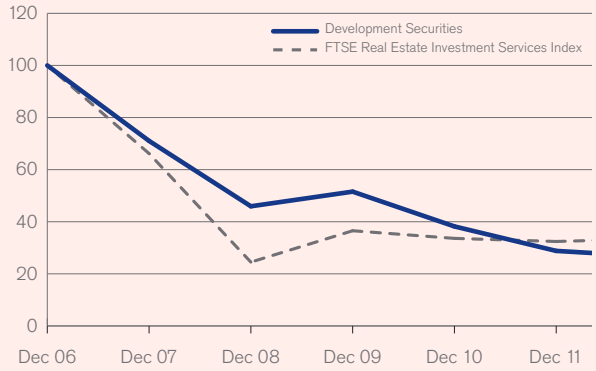
Performance measure	Proportion of the award (%)	Threshold vesting (25%)	Maximum vesting (100%)
Relative TSR against the constituents of the FTSE Real Estate Investment Trust Index and the FTSE Real Estate Investment Services Index	50%	Median	85th Percentile
NAV per share growth	50%	RPI+3% per annum	RPI+10% per annum

Pro-rating vesting will apply between points. The underpins described above will also apply.

The performance condition under the award made on 8th May 2009 has now been assessed and the award did not vest.

Historical Total Shareholder Return Performance





The graphs demonstrate the Company's TSR performance over five financial periods as represented by share price growth plus reinvested dividends, against both the FTSE Real Estate Investment Trust Index and the FTSE Real Estate Investment Services Index. The FTSE All Share Real Estate Index used in previous years has ceased to be published and, having reviewed the constituents of the previous index, it is considered that the constituents of these two indices are the most appropriate for comparison of the Company's business performance against that of its competitors. The Company is a constituent of the FTSE Real Estate Investment Services Index, but a number of constituents of the FTSE Real Estate Investment Trust Index are also considered as within the Company's peer group.

h) Option Scheme 1993

The Option Scheme 1993 is a share based bonus scheme approved by shareholders in that year. It allows individuals to benefit from movements in the price of the Company's shares over the period between the third and tenth year following grant. The Directors may at the date of grant limit the aggregate notional bonus which may become payable.

No new grants have been made during the period and none are currently outstanding.

i) Share option schemes

The Executive Share Option Scheme 1995 was approved by shareholders in that year. This was replaced by the Executive Share Option Plan 2005 which was approved by the shareholders at the 2005 Annual General Meeting on 12th May 2005. The options under both schemes were granted on the basis that they may only be exercised if a performance condition is satisfied. No share options were granted during the period.

The performance condition for those options outstanding is to measure the average net asset growth of the Company over three consecutive financial years against the growth in the Investment Property Databank Index (All Property). The options will vest on a sliding scale with 50.0 per cent if average net asset growth is at least equal to that of the Index, 100.0 per cent if in excess of the Index by 4.0 per cent per annum and pro-rata vesting in between. The performance condition will not be retested after the end of the performance period. The performance condition is considered appropriate as the Index measures against the Company's added value.

It is the intention of the Committee that no further grants be made to Executive Directors unless in exceptional circumstances, for example, a new appointment or an acute retention requirement. Grants to senior managers may continue in the future as appropriate.

Following the declaration of a 28.5 pence special dividend on 19th February 2003, the Committee resolved that option holders may receive, upon exercise of those options then outstanding, a cash bonus equivalent to the special dividend as equitable compensation.

j) Savings Related Option Scheme

The Save As You Earn Option Plan 2005 was approved by shareholders at the 2005 Annual General Meeting. The fourth grant under the plan was made on 24th October 2011 for a total of 193,205 options over shares at 152.0 pence per share to 45 employees, including M H Marx, G Prothero and M S Weiner for options over 5,921 shares each. The Option Plan was open to all employees who had been employed by the Group in excess of one month. The options may be exercised after three years at a price not less than 80.0 per cent of the market value of the shares at the time of invitation.

k) Directors' contracts

Executive Directors	Date of contract
M H Marx	24th June 1994
C J Barwick	12th May 1998
M S Weiner	17th March 2004
G Prothero	11th June 2008

- The contracts do not specify an expiry date. All contracts may be terminated upon 12 months' notice by either party.
- Severance payments are based upon the service contract terms, whilst bearing in mind a duty to mitigate, where appropriate.
- In the event of early termination, the contractual entitlement includes salary, pension, benefits in kind and any awards outstanding under the sections described above, subject to the rules of the individual schemes and plans.

Non-executive Directors	Notice period in letter of appointment, terminable by either party (months)
D S Jenkins (Chairman)	12
V M Mitchell	6
M S Soames	6
S C Bates	6
N H Thomlinson	6

With the exception of M S Soames and V M Mitchell, who will be resigning from the Board, and N H Thomlinson who will be seeking election, all of the Directors will stand for annual re-election at the forthcoming Annual General Meeting.

The fees of the Non-executive Directors are determined by the Board within the aggregate limit set by the Articles of Association. No Director participates in any discussion about their own remuneration. The fees of the Non-executive Directors were reviewed by the Board with effect from 1st October 2010 based on advice received from the Company's remuneration consultants, Deloitte LLP. There has been no change in the fees of the Non-executive Directors. Non-executive Directors do not participate in the Company's share option schemes, Performance Share Plan or pension scheme.

Non-executive Directors' fees per annum	**29th February 2012 £'000**	31st December 2010 £'000
Chairman	**90.0**	90.0
Basic Non-executive fee	**40.0**	40.0
Chairmanship of either Audit or Remuneration Committee	**7.5**	7.5
Membership of either Audit or Remuneration Committee	**2.5**	2.5
Senior Independent Director fee	**5.0**	5.0

Executive Directors may accept appointment to an external non-executive directorship to gain experience, provided this does not create any conflict of interest and for which they may retain any attributable fees. The only Executive Directors to have received any external non-executive directorship fees during the year were M H Marx, who received £35,000 per annum from Nationwide Accident Repair Services PLC and C J Barwick, who received £45,000 per annum from London & Continental Railways Limited.

l) Retirement benefits

Qualifying members of staff are invited to join the Development Securities Retirement Benefits Scheme, which is a contracted-in money purchase scheme, including appropriate life assurance. Since the Company's policy is to render pension payments on a defined contribution basis, this avoids the uncertainty of pension liabilities to the Company, which would be the case had a defined benefit scheme been adopted. M H Marx and G Prothero have separate personal pension arrangements, whilst C J Barwick and M S Weiner are members of the Company scheme. The maximum contributions by the Company towards the approved Company scheme and any alternative arrangements may not exceed a total of 17.5 per cent of salary.

m) Executive Directors' shareholding requirement

Executive Directors are subject to a shareholding requirement of one half of basic salary within two years of appointment, rising to an amount equivalent to one times basic salary after four years. M H Marx, C J Barwick and M S Weiner have all met the amount equivalent to basic salary, with G Prothero yet to reach this level.

From 1st March 2012, the Company will operate an additional shareholding requirement, which will operate where significant success is achieved and rewarded via the Company's focused profit plans. Where payments under the Development Profit Plan, Joint Venture Profit Plan, Investment Growth Plan and Strategic Profit Plan, in aggregate, exceed £1.0 million in one financial year, two thirds of the payment above £1.0 million will be made in shares. This will apply if the Director's shareholdings are less than two times salary. The amount paid in shares will be subject to a two year retention period.

The interests of the Directors, all of which were beneficial, in the share capital of the Company, were:

Ordinary shares	**29th February 2012 Number**	31st December 2010 Number
D S Jenkins	**34,325**	34,325
M H Marx	**529,525**	529,525
C J Barwick	**272,399**	272,399
M S Weiner	**145,473**	138,937
G Prothero	**86,734**	61,396
V M Mitchell	**3,544**	3,544
M S Soames	**84,900**	58,900
S C Bates	**30,000**	—
N H Thomlinson	**—**	—
	1,186,900	1,099,026

Remuneration in detail – Directors' emoluments (audited)

The total Directors' remuneration was as follows:

	29th February 2012 £'000 (14 months)	31st December 2010 £'000 (12 months)
Emoluments	**2,601**	2,609
Company contributions to money purchase pension schemes	**268**	233
	2,869	2,842

The remuneration of the individual Directors who held office for the 14-month period to 29th February 2012 is set out below:

	Salaries and fees £'000	Total bonus £'000	Benefits in kind* £'000	**Total** 29th February 2012 £'000**	Total 31st December 2010 £'000	**Pension contributions*** 29th February 2012 £'000**	Pension contributions 31st December 2010 £'000
Chairman							
D S Jenkins	105	—	—	**105**	67	**—**	—
Executive Directors							
M H Marx	466	150	28	**644**	800	**70**	65
C J Barwick	379	111	19	**509**	521	**66**	56
M S Weiner (highest paid Director)	381	310	19	**710**	586	**66**	56
G Prothero	379	60	20	**459**	512	**66**	56
Non-executive Directors							
V M Mitchell	58	—	—	**58**	39	**—**	—
M S Soames	55	—	—	**55**	40	**—**	—
S C Bates	55	—	—	**55**	44	**—**	—
N H Thomlinson (from 3rd January 2012)	6	—	—	**6**	—	**—**	—
	1,884	631	86	**2,601**	2,609	**268**	233

* Benefits in kind received during the year comprise motor vehicles, cash in lieu of a motor vehicle, fuel and medical insurance.
** As a result of the change in the Company's year end, amounts shown for 29th February 2012 are in respect of 14-months whereas amounts for 31st December 2010 are in respect of 12 months.
*** Pension contributions received during the period include contributions to Company's approved scheme or cash supplements.

Directors' share schemes (audited)
Options

	1st January 2011 Number	Granted	Lapsed	Exercised	29th February 2012 Number	Exercise price Pence	Market price at exercise Pence	Gain on exercise £'000	Date from which exercisable	Expiry date
M H Marx										
Savings related scheme	3,501	—	3,501	—	—	274.16	—	—	01.12.11	31.05.12
Savings related scheme	—	5,921	—	—	5,921	152.00	—	—	01.12.14	31.05.15
C J Barwick										
Savings related scheme	3,501	—	3,501	—	—	274.16	—	—	01.12.11	31.05.12
M S Weiner										
Executive option scheme 1995	29,861	—	29,861	—	—	326.25	—	—	27.03.04	26.03.11
Executive option scheme 1995	69,382	—	—	—	69,382	347.50	—	—	19.04.07	18.04.14
Executive option scheme 2005	41,435	—	—	—	41,435	430.25	—	—	27.10.08	26.10.15
Executive option scheme 2005	41,435	—	—	—	41,435	559.75	—	—	28.04.09	27.04.16
Savings related scheme	3,501	—	3,501	—	—	274.16	—	—	01.12.11	31.05.12
Savings related scheme	—	5,921	—	—	5,921	152.00	—	—	01.12.14	31.05.15
G Prothero										
Savings related scheme	—	5,921	—	—	5,921	152.00	—	—	01.12.14	31.05.15

Performance Share Plan

	Date of grant	Market price at date of grant Pence	1st January 2011 Number	Granted	Lapsed	Exercised	29th February 2012 Number	Final vesting date
M H Marx	13.05.08	408.75	129,100	—	129,100	—	—	31.12.10
	08.05.09	310.00	168,776	—	168,776	—	—	31.12.11
	23.04.10	264.00	112,676	—	—	—	112,676	31.12.12
	22.03.11	228.00	—	130,862	—	—	130,862	31.12.13
C J Barwick	13.05.08	408.75	77,460	—	77,460	—	—	31.12.10
	08.05.09	310.00	101,266	—	101,266	—	—	31.12.11
	23.04.10	264.00	61,033	—	—	—	61,033	31.12.12
	22.03.11	228.00	—	70,883	—	—	70,883	31.12.13
M S Weiner	13.05.08	408.75	77,460	—	77,460	—	—	31.12.10
	08.05.09	310.00	101,266	—	101,266	—	—	31.12.11
	23.04.10	264.00	61,033	—	—	—	61,033	31.12.12
	22.03.11	228.00	—	70,883	—	—	70,883	31.12.13
G Prothero	08.05.09	310.00	101,266	—	101,266	—	—	31.12.11
	23.04.10	264.00	61,033	—	—	—	61,033	31.12.12
	22.03.11	228.00	—	70,883	—	—	70,883	31.12.13

- None of the Directors had a beneficial interest in the shares of any subsidiary company.
- The mid-market price of the shares at the close of business on 29th February 2012 was 168.25 pence and the range during the financial period was 134.75 pence to 236.50 pence.
- No options lapsed or were exercised during the period, except as disclosed above.
- There were no further transactions between 29th February 2012 and the date of this report.

Approved by the Board and signed on its behalf by:

M S Soames
Chairman of the Remuneration Committee
1st May 2012

Group Independent Auditors' Report

Independent auditors' report to the members of Development Securities PLC

We have audited the Group financial statements of Development Securities PLC for the 14-month period ended 29th February 2012 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 55 and 56, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 29th February 2012 and of its loss and cash flows for the 14-month period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the 14-month financial period for which the Group financial statements are prepared is consistent with the Group financial statements; and
- the information given in the Corporate Governance Statement set out on pages 52 to 56 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Parent company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 40, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code (2010) specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Other matter

We have reported separately on the Parent company financial statements of Development Securities PLC for the period ended 29th February 2012 and on the information in the Directors' Remuneration Report that is described as having been audited.

Andrew Paynter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
1st May 2012

Consolidated Statement of Comprehensive Income

For the 14-month period ended 29th February 2012

	Notes	14-month period ended 29th February 2012 £'000	Year ended 31st December 2010 £'000
Revenue	2	**80,028**	44,432
Direct costs	2	**(59,653)**	(31,058)
Gross profit	2	**20,375**	13,374
Operating costs	2	**(14,791)**	(12,907)
Gain on disposal of investment properties	2	**211**	313
(Loss)/gain on revaluation of property portfolio	10/11	**(4,772)**	8,769
Operating profit	4	**1,023**	9,549
Other income		**750**	186
Exceptional impairment and provision for serviced office segment	2	**(2,845)**	—
Share of post-tax profits of joint ventures and associates	14(b)	**1,577**	2,914
Loss on sale of other fixed assets		**(28)**	(32)
Profit before interest and income tax		**477**	12,617
Finance income	6(a)	**2,571**	1,542
Finance costs	6(b)	**(13,215)**	(11,510)
(Loss)/profit before income tax		**(10,167)**	2,649
Income tax	7	**(1,879)**	(971)
(Loss)/profit after income tax		**(12,046)**	1,678
(Loss)/profit attributable to:			
Owners of the Parent		**(12,592)**	1,678
Non-controlling interest		**546**	—
		(12,046)	1,678
Other comprehensive income			
(Loss)/profit for the period		**(12,046)**	1,678
Loss on revaluation of operating property	11	**(127)**	(310)
Loss on valuation of cross-currency interest rate swap	18(d)	**(4,268)**	(2,819)
Deferred income tax credit	7	**1,067**	761
Total comprehensive income for the period		**(15,374)**	(690)
Attributable to:			
Owners of the Parent		**(15,920)**	(690)
Non-controlling interest		**546**	—
		(15,374)	(690)
Basic (loss)/earnings per share attributable to the Parent*	9	**(10.3)p**	1.7p
Diluted (loss)/earnings per share attributable to the Parent*	9	**(10.3)p**	1.7p

*Adjusted earnings per share from continuing activities is given in note 9.

The notes on pages 70 to 105 are an integral part of these Consolidated financial statements.

Consolidated Balance Sheet

As at 29th February 2012

	Notes	£'000	29th February 2012 £'000	£'000	31st December 2010 £'000
Non-current assets					
Direct real estate interests					
Investment properties	10	**237,899**		199,237	
Operating property	11	**900**		1,190	
Trade and other receivables	16(a)	**4,265**		2,861	
			243,064		203,288
Indirect real estate interests					
Investments in associates	14(a)	**4,276**		1,944	
Investments in joint ventures	14(b)	**26,568**		9,718	
Intangible assets – goodwill	12	**1,268**		1,268	
Development participation rights	18(a)	**5,000**		5,000	
Loans to joint operations	18(a)	**20,921**		13,726	
Loans to other real estate businesses	18(a)	**8,614**		8,514	
			66,647		40,170
Other non-current assets					
Other plant and equipment	13	**3,446**		4,838	
Deferred income tax assets	19	**3,241**		5,507	
Derivative financial instruments	18(d)	**—**		3,308	
			6,687		13,653
Total non-current assets			**316,398**		257,111
Current assets					
Inventory – development and trading properties	15	**155,193**		157,683	
Other financial assets	18(a)	**1,700**		467	
Trade and other receivables	16(b)	**28,824**		25,780	
Monies held in restricted accounts and deposits		**14,595**		26,996	
Cash and cash equivalents		**35,585**		77,114	
			235,897		288,040
Total assets			**552,295**		545,151
Current liabilities					
Trade and other payables	17(a)	**(26,460)**		(24,327)	
Current income tax liabilities		**(1,143)**		(660)	
Borrowings	18(b)	**(9,879)**		(523)	
Provisions for other liabilities and charges	17(b)	**—**		(3,624)	
			(37,482)		(29,134)
Non-current liabilities					
Borrowings	18(b)	**(193,177)**		(174,976)	
Derivative financial instruments	18(d)	**(2,469)**		—	
Deferred income tax liabilities	19	**(3,241)**		(5,507)	
Provisions for other liabilities and charges	17(b)	**(2,684)**		(2,427)	
			(201,571)		(182,910)
Total liabilities			**(239,053)**		(212,044)
Net assets			**313,242**		333,107
Equity					
Share capital	20	**61,176**		61,176	
Share premium	21	**103,961**		103,961	
Other reserves	21	**40,063**		43,391	
Retained earnings	21	**106,134**		124,579	
Equity attributable to the owners of the parent			**311,334**		333,107
Non-controlling interests			**1,908**		—
Total equity			**313,242**		333,107
Basic/diluted net assets per share attributable to the owners of the Parent	9		**254p/254p**		272p/272p
Basic net assets per share based on total net assets	9		**256p**		272p

The notes on pages 70 to 105 are an integral part of these Consolidated financial statements.
Approved and authorised for issue by the Board of Directors on 1st May 2012 and signed on its behalf by
M H Marx
Director

Consolidated Statement of Changes in Equity

For the 14-month period ended 29th February 2012

	Notes	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total £'000	Non-controlling interest £'000	Total £'000
At 1st January 2010		41,128	103,961	45,759	53,171	244,019	—	244,019
Profit for the year ended 31st December 2010		—	—	—	1,678	1,678	—	1,678
Other comprehensive income:								
— Loss on revaluation of operating properties	11	—	—	(310)	—	(310)	—	(310)
— Loss on valuation of cross-currency interest rate swap	18(d)	—	—	(4,171)	—	(4,171)	—	(4,171)
— Exchange gain on valuation of cross-currency interest rate swap	18(d)	—	—	1,352	—	1,352	—	1,352
— Deferred income tax credited directly to equity	19	—	—	761	—	761	—	761
Total comprehensive income for the year ended 31st December 2010		—	—	(2,368)	1,678	(690)	—	(690)
Net proceeds of issue of new shares	21	20,048	—	—	73,678	93,726	—	93,726
Final dividend relating to 2009	8	—	—	—	(1,974)	(1,974)	—	(1,974)
Interim dividend relating to 2010	8	—	—	—	(1,974)	(1,974)	—	(1,974)
Total contributions by and distributions to owners of the Company		20,048	—	—	69,730	89,778	—	89,778
Balance at 31st December 2010		61,176	103,961	43,391	124,579	333,107	—	333,107
(Loss)/profit for the 14-month period ended 29th February 2012		—	—	—	(12,592)	(12,592)	546	(12,046)
Other comprehensive income:								
— Loss on revaluation of operating properties	11	—	—	(127)	—	(127)	—	(127)
— Loss on valuation of cross-currency interest rate swap	18(d)	—	—	(5,227)	—	(5,227)	—	(5,227)
— Exchange gain on valuation of cross-currency interest rate swap	18(d)	—	—	959	—	959	—	959
— Deferred income tax credited directly to equity	19	—	—	1,067	—	1,067	—	1,067
Total comprehensive income for the 14-month period ended 29th February 2012		—	—	(3,328)	(12,592)	(15,920)	546	(15,374)
Share based payments		—	—	—	21	21	—	21
Final dividend relating to 2010	8	—	—	—	(2,937)	(2,937)	—	(2,937)
Interim dividend relating to 2012	8	—	—	—	(2,937)	(2,937)	—	(2,937)
Total contributions by and distributions to owners of the Company		—	—	—	(5,853)	(5,853)	—	(5,853)
Transactions with non-controlling interest		—	—	—	—	—	1,362	1,362
Balance at 29th February 2012		**61,176**	**103,961**	**40,063**	**106,134**	**311,334**	**1,908**	**313,242**

The notes on pages 70 to 105 are an integral part of these Consolidated financial statements.

Consolidated Cash Flow Statement

For the 14-month period ended 29th February 2012

	Notes	29th February 2012 £'000	31st December 2010 £'000
Cash flows from operating activities	22	**(18,852)**	(69,805)
Cash used in operations			
Interest paid		**(12,341)**	(13,831)
Income tax paid		**(329)**	(867)
Net cash used in operating activities		**(31,522)**	(84,503)
Cash flows from investing activities			
Interest received		**978**	1,065
Proceeds on disposal of plant and equipment		**33**	200
Proceeds on disposal of investment properties		**262**	25,005
Purchase of plant and equipment		**(1,177)**	(1,479)
Purchase of investment properties		**(22,244)**	(34,124)
Cash outflow to joint ventures and associates		**(16,855)**	(7,062)
Purchase of subsidiary, net of cash acquired		**—**	(1,574)
Investment in financial assets		**(8,669)**	(11,770)
Cash inflow from financial assets		**2,278**	—
Net cash used in investing activities		**(45,394)**	(29,739)
Cash flows from financing activities			
Dividends paid		**(5,874)**	(3,948)
Issue of new shares (net of transaction costs)		**—**	93,726
Repayments of borrowings		**(18,658)**	(48,289)
New bank loans raised (net of transaction costs)		**46,273**	95,661
Equity investment from non-controlling interests		**1,000**	—
Decrease/(increase) in monies held in restricted accounts and deposits		**12,401**	(9,620)
Net cash from financing activities		**35,142**	127,530
Net (decrease)/increase in cash and cash equivalents		**(41,774)**	13,288
Cash and cash equivalents at the beginning of the period		**76,283**	63,188
Net foreign currency differences arising on retranslation of cash and cash equivalents		**(108)**	(193)
Cash and cash equivalents at the end of the period		**34,401**	76,283
Cash and cash equivalents comprise:			
Cash at bank and in hand		**35,585**	77,114
Bank overdrafts	18(b)	**(1,184)**	(831)
Cash and cash equivalents at the end of the period		**34,401**	76,283

		29th February 2012 £'000	31st December 2010 £'000
Net debt comprises:			
Cash and short-term deposits		**35,585**	77,114
Monies held in restricted accounts and deposits		**14,595**	26,996
Financial liabilities:			
— Current borrowings	18(b)	**(9,879)**	(523)
— Non-current borrowings	18(b)	**(193,177)**	(174,976)
Net debt		**(152,876)**	(71,389)

The notes on pages 70 to 105 are an integral part of these Consolidated financial statements.

Notes to the Consolidated Financial Statements

For the 14-month period ended 29th February 2012

1 Basis of preparation and accounting policies

a)

(i) General information

The Consolidated financial statements of the Group for the 14-month period ended 29th February 2012 comprise the results of the Company and its subsidiaries and were authorised by the Board for issue on 1st May 2012.

The Company is a public limited company which is listed on the London Stock Exchange and is incorporated and domiciled in the UK.

(ii) Going concern

The Group adopts the going concern basis in preparing its Consolidated financial statements as discussed in the Financial Review on pages 36 to 44.

b) Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the European Union as they apply to the financial statements of the Group for the 14-month period ended 29th February 2012 and applied in accordance with the Companies Act 2006 as applicable to companies reporting under IFRS. The accounting policies which follow set out those policies which apply in preparing the financial statements for the periods ended 29th February 2012 and 31st December 2010.

The Consolidated financial statements have been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of investment property, operating property, available-for-sale financial assets and derivative instruments at fair value.

c) Critical accounting judgements and estimates

The preparation of financial statements requires management to make judgements, assumptions and estimates that affect the application of accounting policies and amounts reported in the Statement of Comprehensive Income and the Balance Sheet. Such decisions are made at the time the financial statements are prepared and adopted based on the best information available at the time. Actual outcomes may be different from initial estimates and are reflected in the financial statements as soon as they become apparent.

Judgements other than estimates

1.1 Classification of directly owned property assets

The Group earns revenue from property development, trading and investment, and from operating serviced offices.

Property development includes the entire development process from identification of an opportunity through to construction, letting and sale of a completed scheme. This activity is undertaken both on the Group's own Balance Sheet and in partnership with institutional investors, usually via a pre-sale of the completed development.

Property trading refers to participation in the development process, where the Group acquires an interest in land and enhances the potential development, for instance by procuring or changing planning permission, before selling on to a third party to complete the development.

Property investment represents the acquisition of income-generating real estate which is held for the purposes of income and capital gain, through active asset management.

In most cases the property interest is held directly by the Group and is classified either as investment property (see note 10) or as inventory for development and trading properties (see note 15).

The varied nature of the Group's properties is such that a number exhibit characteristics consistent with more than one classification; also the Directors' strategy for an asset may change during its ownership. The Directors determine the status of each asset according to their intention on acquisition. A change in classification is made only in exceptional circumstances, where the strategy has demonstrably changed for a period of over one year. An example has arisen in the current period, in the transfer of the Weeke Local Centre, Winchester, from our development and trading portfolio to our investment portfolio, as explained in note 10.

1.2 Classification of projects in partnership

In addition to its directly owned and managed activities, the Group participates in similar activities in partnership with others, typically to access expertise in different locations or market sectors. The Group's financial participation may be by way of equity investment or loan. In each case a judgement is required as to the status of the Group's interest, as an associate, a joint venture or a financial asset, typically focusing on the extent of control exercised by the Group.

The Group's share of control is governed and achieved by a mixture of rights set out in agreements and participation in the management of each business. The exercise of control in practice does not always follow the legal structure. The Directors have considered the position in respect of each venture, taking account of the operation in practice, and have determined the status of each accordingly.

These investments are reported under the relevant balance sheet headings, with a summary in note 27.

The IASB has recently issued IFRS 10 'Consolidated Financial Statements' and IFRS 11 'Joint Arrangements', which (when adopted by the European Union) will amend and clarify the guidance in this area, and is likely to result in some changes to the current classification. The Directors are conducting a detailed review of the new standards and their application to the Group's arrangements. Any changes in accounting policies or classifications will be implemented according to the timetable for adoption, which has yet to be confirmed.

1.3 Acquisition of subsidiaries

The Group sometimes acquires properties through the purchase of entities which own real estate. At the time of acquisition the Group considers whether the transaction represents the acquisition of a business. In cases where the entity is capable of being operated as a business, or an integrated set of activities is acquired in addition to the property, the Group accounts for the acquisition as a business combination. When the acquisition does not represent a business, it is accounted for as the purchase of a group of assets and liabilities. In making this distinction, the Group considers the number of items of land and buildings owned by the entity, the extent of ancillary services provided by the entity, and whether the entity has its own

staff to manage the property (over and above the maintenance and security of the premises).

1.4 Accounting for pre-sold development assets
Where development is undertaken on the Group's Balance Sheet under a contract for a pre-sale, a judgement is required as to whether this represents a sale of property or a contract for construction as described in note 1(h)(vi). The refurbishment of the residential units at Westminster Palace Gardens and the hotel development at West Quay, Southampton are characterised as construction contracts (under IAS 11), whereby revenue is reported in line with construction progress. The amounts concerned are set out in note 3.

Estimates

1.5 Valuation of property assets
The key source of estimation uncertainty rests in the values of property assets, which affects several categories of asset in the Balance Sheet.

The investment property portfolio (and the operating property) are stated at fair value, which requires a number of judgements and estimates in assessing the qualities of the Group's assets relative to market transactions. The approach to this valuation and the amounts affected are set out in notes 1(i), 10 and 11. In determining fair value, the capitalisation of net income method and the discounting of future cash flows to their present value have been used, which are based upon assumptions including future rental income, anticipated maintenance costs and appropriate discount rate, and make reference to market evidence of transaction prices for similar properties.

The same uncertainties affect the determination of fair value of certain available-for-sale financial instruments, described in note 18, with the further complexity that the value of these assets requires estimates of future construction costs, tenant demand and market yields.

The Group's development and trading properties are carried at the lower of cost and net realisable value. The determination of net realisable value relies upon similar estimates, with the added challenge, in some cases, of judgements about uncertain planning outcomes. These amounts are disclosed in note 15.

1.6 Impairment reviews
The Group's Curzon Park Limited joint venture owns a development site in Birmingham known as Curzon Street. The current proposal for the High Speed Train Link between London and Birmingham (HS2) indicates that the planned route of HS2 passes through the site, including provision for part of the prospective station. In view of this, the ultimate value of the site is uncertain. The early indications are that the impact of HS2 may restrict future development on the 105-acre site by approximately two thirds of its original potential. The Group has (jointly) guaranteed the liabilities of the joint venture to the bank, and hence should the value of the site (together with any compensation received) be insufficient to repay the bank loan, the Group may incur further charges in respect of its obligations to the joint venture and the bank. The Directors believe that the site will recover at least its carrying value in the books of the joint venture, although the interim and ultimate uses of the site and timing of its development remain unclear. The site is discussed in the Financial Review on page 43, and in notes 14 and 24.

In view of operating losses at Executive Communication Centres (ECC), the Group's serviced office subsidiary, the Group has conducted an impairment review of its investment in the business. The review required significant judgements and estimates concerning future customer demand and competitor behaviour, as well as discount rates. The review determined that there is an impairment requiring a provision to be made, as described in note 2.

1.7 Derivative instruments
The Group is party to a number of interest rate swap and foreign currency agreements which are accounted for as derivatives and measured at fair value. The estimation of this figure is based upon market assumptions about future movements in interest and exchange rates. The assumptions used, the estimated fair values and the movements in the period are set out in note 18.

1.8 Income tax losses
The Group has significant carried forward income tax losses, arising mainly from valuation movements in the Group's investment and trading property portfolios. Recognition of these losses as a deferred income tax asset requires judgements and estimates about the amounts and timing of the Group's future taxable profits. The balances are disclosed in note 19.

d) New accounting standards

The following amendments to standards are effective for the first time for the financial year beginning 1st January 2011.

- Revised IAS 24, 'Related party disclosures', issued in November 2009
- Amendment to IAS 32, 'Classification of rights issues', issued in October 2009
- Amendment to IAS 1, 'Presentation of Financial Statements', the amendment provides an option to present an analysis of each component of other comprehensive income either in the Consolidated Statement of Changes in Equity (SOCIE) or in the notes to the financial statements. The Group provides the information in the Consolidated Statement of Changes in Equity.

Other standards, amendments and interpretations effective for the first time in 2011 and not relevant to the Group's operations:

- IFRIC 14, 'Payments of a minimum funding requirement'.

The following new standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1st January 2011 and have not been early adopted.

- IAS 1, 'Presentation of Financial Statements', effective for annual periods beginning on or after 1st July 2012. The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified.
- IAS 12, 'Income Taxes', effective for annual periods beginning on or after 1st January 2012. The amendment clarified the determination of deferred tax in investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in IAS 16 should always be measured on the sale basis of the asset. It is not anticipated that this will have any impact on the Group.

Notes to the Consolidated Financial Statements continued

For the 14-month period ended 29th February 2012

1 Basis of preparation and accounting policies continued

d) New accounting standards continued

- IFRS 9, 'Financial Instruments', effective for annual periods beginning on or after 1st January 2013. IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets; the impact on the classification and measurements of financial liabilities has yet to be assessed. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.
- IFRS 10, 'Consolidated Financial Statements', effective for annual periods beginning on or after 1st January 2013.
  IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities.
  IFRS 10 establishes a single control model that applies to all entities including 'special purpose entities'. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore are required to be consolidated by a parent.
- IFRS 11, 'Joint Arrangements', effective for annual periods beginning on or after 1st January 2013. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers.
  IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.
- IFRS 12, 'Disclosure of Interests in Other Entities' effective for annual periods beginning on or after 1st January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28 Investment in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.
- IFRS 13, 'Fair Value Measurement' effective for annual periods beginning on or after 1st January 2013. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance of how to measure fair value under IFRS when fair value is required or permitted.

e) Basis of consolidation

The Consolidated financial statements of the Group include the financial statements of Development Securities PLC ('Company') and its subsidiaries. Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying the shareholding of more than half of the voting rights. The Group deems control where it does not have more than 50 per cent of the voting power but is able to govern the financial and operating policies by virtue of de-facto control, taking account of how the entity operates in practice.

The results of subsidiaries acquired during the year are included from the effective date of acquisition, being the date on which the Group obtains control. They are deconsolidated on the date that control ceases.

Where property is acquired, via corporate acquisition or otherwise, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents the acquisition of a business. The basis of the judgement is set out in Note 1(c) 1.3.

Where such acquisitions are not judged to be an acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred taxation arises. Otherwise, acquisitions are accounted for as business combinations.

Business combinations are accounted for under the acquisition method. Any excess of the purchase price of the business combination over the fair value of the identifiable assets and liabilities acquired is recognised as goodwill. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. This fair value includes any contingent consideration. Acquisition-related costs are expensed as incurred.

The Group recognises any non-controlling interest on an acquisition-by-acquisition basis either at fair value or ar at the non-controlling interest's proportionate share of the identifiable net assets acquired.

Intra-group balances and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the Consolidated financial statements. Where necessary, adjustments have been made to the financial statements of subsidiaries, associates and joint ventures to bring the accounting policies used and accounting periods into line with those of the Group.

f) Associates and joint ventures

An associated company is defined as an undertaking other than a subsidiary or joint venture over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 and 50 per cent of the voting rights. Investments in associates are accounted using the equity method.

A joint venture is defined as an undertaking other than a subsidiary or associated undertaking where the Group has joint control with two or more venturers under a contractual arrangement. Joint ventures are accounted for using the equity method.

Under the equity method, the interest in associates or joint ventures is carried in the Consolidated Balance Sheet at cost plus post-acquisition changes in the Group's share of its net assets, less distributions received and less any impairment in value of individual investments. The Statement of Comprehensive Income reflects the Group's share of the associate's or joint venture's result after tax only after its share of the profits equals the share of losses not recognised. The Group does not recognise net losses unless it has incurred constructive or legal obligations or made payments on behalf of the associate or joint venture.

g) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in Intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.
Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. The allocation is made to those CGUs that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

(ii) Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets, other than goodwill, that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

h) Revenue recognition

(i) Rental income is recognised on a straight-line basis over the term of the lease. Incentives for lessees to enter into lease agreements are spread evenly over the lease term, even if payments are not made on such a basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at inception of the lease, the Directors are reasonably certain that the tenant will exercise that option. Lease incentives are usually in the form of rent-free periods or capital contributions. Assets held within both the investment and development and trading segments earn rental income.

(ii) Lease surrender payments from tenants are recognised in income when they are contractually agreed.

(iii) Sales of property (both those classified as Investment and Inventory) are recognised when the risks and rewards of ownership have been transferred to the purchaser.

(iv) Licence fee income from serviced offices is recognised on a straight-line basis over the term of the licence. Other income from serviced offices is recognised when the service is provided. The income is classified within the operating segment.

(v) Project management fee income is recognised over the contract term for which project management services are provided.

(vi) Development revenue and profits are recognised in accordance with IAS 11, 'Construction contracts' or IAS 18, 'Revenue' depending on whether all development risks, apart from the construction risk have passed to the purchaser under the terms of the development agreement. Where only the construction risk remains, the revenue and profit on the development is recognised under IAS 11, so as to match the proportion of development work completed on a percentage completion basis as determined by consultant monitoring surveyors or using a suitable method particular to the contract concerned. Profits are only recognised where the outcome can be determined with reasonable certainty. Full provision is made for losses as soon as such losses are foreseen.
Where revenue and profit is recognised under IAS 18, disposals are recognised where the risks and rewards of ownership are considered to have been transferred to the purchaser. Profits are recognised within the development and trading segment.

(vii) Finance income is recognised by reference to the principal outstanding using the effective interest method.

(viii) Dividend income from investments is recognised when the Group's right to receive income has been established.

i) Investment properties

(i) Investment properties are those properties, including land holdings, that are held either to earn rental income or for capital appreciation or both. Investment properties may be freehold or leasehold properties. For leasehold properties that are classified as investment properties, the associated leasehold obligations are accounted for as finance lease obligations if they qualify to be treated as such.

(ii) Investment properties are measured initially at cost, including directly attributable transaction costs, and thereafter are stated at fair value. Surpluses and deficits arising from changes in the fair value of investment properties are recognised in the Statement of Comprehensive Income in the period in which they arise.

(iii) Completed investment properties are valued, at each reporting date, by independent valuers on the basis of market value in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors. Fair value is assessed as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. A deduction is made to reflect purchaser's acquisition costs. In determining the fair value, the capitalisation of net income method and the discounting of future cash flows to their present value have been used, which are based upon assumptions including future rental income, anticipated maintenance costs and appropriate discount rate, and make reference to market evidence of transaction prices for similar properties.

(iv) Investment properties under construction are valued by the Directors, on the basis of the expected value of the property when complete, less deductions for the costs required to complete the project and appropriate adjustments for risk and finance costs. In preparing these valuations the Directors consult with agents and other advisors to derive appropriate assumptions specific to each asset.

(v) Profits and losses on disposal of investment properties are calculated by reference to book value and recognised when the risks and rewards of ownership are considered to have passed to the purchaser. Gains and losses are recognised within 'Gains or losses on disposal of investment properties' in the Statement of Comprehensive Income.

(vi) Investment properties held for sale are held at fair value and classified separately within current assets in the Balance Sheet.

Notes to the Consolidated Financial Statements continued

For the 14-month period ended 29th February 2012

1 Basis of preparation and accounting policies continued

j) Property, plant and equipment

(i) Operating properties – serviced offices

Operating properties are held for business purposes rather than for investment, generating revenue by way of licence fees and ancillary services. These properties are recognised initially at cost, which includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Thereafter the asset is carried at valuation less depreciation and impairment charged subsequent to the date of revaluation. A revaluation surplus is credited to Other comprehensive income and accumulated in equity under the heading of Property revaluation reserve, unless it reverses a revaluation decrease on the same asset previously recognised as an expense, where it is first credited to the Statement of Comprehensive Income to that extent.

Operating properties are valued at each reporting date by independent, professional valuers on the basis of Existing Use Value. Surpluses and deficits in the period are included in the Property revaluation reserve within equity, except where carrying value is below depreciated cost, in which case surpluses and deficits are included in the Statement of Comprehensive Income. Depreciation is provided so as to write off the value of the properties, excluding land, over their expected useful lives, usually 25 years.

(ii) Other plant and equipment

Other plant and equipment is stated at cost less accumulated depreciation and any provision for impairment. Cost includes expenditure that is directly attributable to the acquisition of the assets. Depreciation is provided so as to write off the cost less estimated residual value of the assets over their expected useful lives on a straight-line method. The principal annual rates used for this purpose are as follows:

Fixtures and fittings and computer equipment	– 10% to 33%
Motor vehicles	– 20%

The assets' residual values and useful lives are reviewed and adjusted if appropriate at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the net proceeds with the carrying amount and are recognised within Other gains and losses in the Statement of Comprehensive Income.

k) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rents payable under operating leases are charged in the Statement of Comprehensive Income on a straight-line basis over the term of the lease.

l) Inventory – development and trading properties

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and estimated net realisable value.

Cost includes directly attributable expenditure and interest. No element of overhead is included in cost, since it is not practical to identify overhead amounts in respect of particular assets. Where the Directors consider that the costs are not recoverable from the sale or development of the asset, the project or site is written down to its net realisable value, with the write-down taken to the Statement of Comprehensive Income.

Net realisable value is calculated as the estimated realisable value of the project or site, based upon our current plans, less all further costs to be incurred in making the sale.

m) Current and deferred income tax

Current tax is the expected tax payable on the taxable income for the period, based on the tax laws enacted or substantively enacted at the balance sheet date, together with any adjustment in respect of previous years.

Deferred income tax is provided using the liability method on all temporary differences arising at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, with the following exceptions:

- Where the temporary differences arise from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, joint ventures and associates where the timing of the reversal of the temporary difference can be controlled by the parent, venture or investor respectively, and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Income tax relating to items recognised directly in equity is recognised in equity and not in the Statement of Comprehensive Income.

n) Financial assets and financial liabilities

Financial assets and financial liabilities are recognised on the Group's Balance Sheet when the Group becomes a party to the contractual terms of the instrument.

(i) Financial assets

The Group determines the classification of its financial assets at initial recognition. The classification depends on the purpose for which the financial assets were acquired as follows:

- Loans and other receivables with fixed or determinable payments that are not quoted on an active market. The Group's loans and receivables are included within Trade and other receivables and Other financial assets in the Consolidated Balance Sheet.
- Financial assets at fair value through profit or loss. This represents interest and currency swaps which are categorised as held for trading unless they are designated as hedges.

- Available-for-sale financial assets are non-derivatives that are designated as such or are not classified in any other category. After initial recognition at cost, available-for-sale assets are measured at fair value, with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously represented in equity is included in the Statement of Comprehensive Income. Equity instrument financial assets are held at cost in the event that the fair value of the instruments is not reliably measurable.
- Trade receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote. Subsequent recoveries of amounts previously written off are credited against the appropriate cost line in the Statement of Comprehensive Income.
- Amounts due from customers for contract work are included in Trade and other receivables and represent revenue recognised in excess of payments on account received.
- Cash and bank balances comprise deposits held at call with banks and other short-term highly liquid investments with no significant risk of changes in value. Bank overdrafts that are repayable on demand and which form an integral part of the Group's cash management are included as a financial liability. For the purposes of the Consolidated Cash Flow Statement, cash and cash equivalents are stated net of outstanding bank overdrafts.

Financial assets are included within current assets except for assets maturing after one year, which will be classified as non-current.

Financial assets are assessed for impairment at each reporting date. Assets are impaired where there is evidence that as a result of events that occurred after initial recognition, the estimated future cash flows from the assets have been adversely affected.

(ii) Financial liabilities

Loans and borrowings are initially recognised at fair value, net of directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest method. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance income and finance costs.

Other financial liabilities, including trade and other payables, are initially recognised at fair value and subsequently at amortised cost and are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Amounts due to customers for contract work is included within Trade and other payables and represents payments received in advance from customers.

(iii) Derivatives

The Group enters into derivative financial instruments, including interest rate swaps, caps and collars and cross-currency swaps, to manage its exposure to interest rate and foreign exchange rate risk.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated as an effective hedging instrument, in which case the fair value is taken through Other Comprehensive Income.

(iv) Hedging

The fair value of hedging derivatives is classified as a non-current asset or a non-current liability if the remaining maturity of the hedge relationship is more than twelve months and as a current asset or a current liability if the remaining maturity of the hedge relationship is less than twelve months.

At the inception of the hedge relationship the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instruments that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of hedged items.

The Group has designated derivatives as cash flow hedges, in which case the effective portion of changes in the fair value of the hedging instrument is recognised in Other comprehensive income. The gain or loss relating to an ineffective portion is recognised immediately in the Statement of Comprehensive Income. Amounts taken to equity are recycled to the Statement of Comprehensive Income in the periods when the hedged item is recognised in profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship or the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

o) Borrowing costs

Gross borrowing costs relating to direct expenditure on investment properties and inventories under development are capitalised. The interest capitalised is calculated using the rate of interest on the loan to fund the expenditure, or the Group's weighted average cost of borrowings where appropriate, over the period from commencement of the development work until substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. The capitalisation of finance costs is suspended if there are prolonged periods when development activity is interrupted.

Capitalised interest is written off to direct costs on disposal of inventory or to operating profit on disposal of investment properties.

Fees paid on establishment of loan facilities are capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates. All other borrowing costs are recognised in the Statement of Comprehensive Income in the period in which they are incurred.

Notes to the Consolidated Financial Statements continued

For the 14-month period ended 29th February 2012

1 Basis of preparation and accounting policies continued

p) Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Onerous lease provisions are created for properties that are unoccupied, sublet at below the rent payable on the head lease or for operating sites where the projected future trading revenue is insufficient to cover the value in use.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The accretion in the discount is recognised as an interest expense.

q) Pension schemes

The Group operates a defined contribution scheme. The charge to the Statement of Comprehensive Income in the period represents the actual amount payable to the scheme in the period. Differences between contributions payable in the period and contributions paid are shown as either accruals or prepayments in the Balance Sheet.

r) Foreign currencies

The Consolidated financial statements of the Group are presented in UK Sterling, the Company's functional and presentation currency. Transactions denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Exchange movements are dealt with in the Statement of Comprehensive Income, with exchange differences on borrowings taken to finance income/costs, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

s) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board.

t) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new Ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

u) Share-based payments

The Group operates a number of share-based compensation plans, the majority of which are cash-settled, under which the entity receives services from employees as consideration for cash-settled instruments of the Group. The fair value of the employee services received in exchange for the grant of the option is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted.

The Group has used a Black-Scholes option valuation model to determine the fair value of share options granted. An equal probability model has been used to determine the fair value of share awards under the Performance Share Plan. The cost of cash-settled transactions with employees and Directors is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of cash-settled share-based instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the Statement of Comprehensive Income, with a corresponding entry in accruals.

v) Dividend distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

w) Definitions

- Operating profit: stated after gain on disposal of investment properties and the revaluation of the Investment property portfolio and before the results of associates, jointly controlled entities and finance income and costs.
- IPD Index and Total Portfolio Return: total return from the completed investment property portfolio, comprising net rental income or expenditure, capital gains or losses from disposals and revaluation surpluses or deficits, divided by the average capital employed during the financial period, as defined and measured by Investment Property Databank Limited, a company that produces independent benchmarks of property returns.
- Total Shareholder Return: movement in share price over the period plus dividends paid as a percentage of the opening share price.
- Gearing: expressed as a percentage, is measured as net debt divided by total shareholders' funds.
- Adjusted gearing: expressed as a percentage, is calculated by deducting from net debt the current fair value of the subordinated loan notes and adding back relevant restricted cash balances and transaction costs.
- Loan to value gearing: expressed as a percentage of net debt as a proportion of total property assets, including shares of properties and net debt in all projects in partnership.
- Net debt: total debt less cash and short-term deposits, including pledged cash.

2 Segmental analysis

The segmental information presented consistently follows the information provided to the Chief Operating Decision-Maker (CODM) and reflects the three sectors in which the Group operates. The CODM, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board. The three operating divisions are:

- Investment – management of the Group's investment property portfolio, generating rental income and valuation surpluses from property management;
- Development and trading – managing the Group's development and trading projects. Revenue is received from project management fees, development profits and the disposal of inventory; and
- Operating – serviced office operations. Revenue is principally received from short-term licence fee income.

Unallocated assets and liabilities comprise amounts that cannot be specifically allocated to operating segments; an analysis is provided below.

These divisions are the basis on which the Group reports its primary segmental information. All operations occur and all assets are located in the United Kingdom, except assets of £89,000, which are located in The Netherlands. In December 2010, assets of £642,000 were located in France and The Netherlands. All revenue arises from continuing operations.

	14-month period ended 29th February 2012			
	Investment £'000	Development and trading £'000	Operating £'000	Total £'000
Segment revenue	17,085	58,393	4,550	80,028
Direct costs	(3,710)	(49,941)	(6,002)	(59,653)
Segment result	13,375	8,452	(1,452)	20,375
Operating costs	(4,350)	(10,441)	—	(14,791)
Gain on disposal on investment properties	211	—	—	211
Loss on revaluation of property portfolio	(4,686)	—	(86)	(4,772)
Operating profit/(loss)	4,550	(1,989)	(1,538)	1,023
Other income	342	408	—	750
Exceptional impairment and provision for business segment	—	—	(2,845)	(2,845)
Share of post-tax profits of joint ventures and associates	1,454	123	—	1,577
Unallocated loss on sale of other fixed assets				(28)
Profit before interest and income tax				477
Finance income	1,382	1,189	—	2,571
Finance costs	(8,639)	(4,576)	—	(13,215)
Loss before income tax				(10,167)
Income tax				(1,879)
Loss after income tax				(12,046)
Assets and liabilities				
Segment assets	278,108	237,380	4,881	520,369
Unallocated assets				31,926
Total assets				552,295
Segment liabilities	(150,579)	(75,673)	(3,774)	(230,026)
Unallocated liabilities				(9,027)
Total liabilities				(239,053)

A summary of unallocated assets and liabilities is shown on page 79.

In view of continuing losses arising within the Group's serviced office business, the Directors have conducted an impairment review (as described in the Financial Review on page 41). The business operates seven centres, each of which is designated as a cash-generating unit. The review determined that the fixed assets of five of the seven centres are fully impaired, requiring a provision of £1,575,000. In addition, four of those centres are not expected to cover their committed rental costs in full, and a further provision of £1,270,000 has been made in this regard, aggregating to an exceptional provision of £2,845,000.

The net book amount of the remaining fixed assets associated with the business segment is £2,149,000. No reasonable change in underlying assumptions would give rise to a material impairment.

Notes to the Consolidated Financial Statements continued

For the 14-month period ended 29th February 2012

2 Segmental analysis continued

	14-month period ended 29th February 2012			
	Investment £'000	Development and trading £'000	Operating £'000	Total £'000
Other segment information				
Capital expenditure	23,370	352	565	24,287
Unallocated capital expenditure				260
Impairment of assets	—	—	(1,575)	(1,575)
Depreciation	—	(61)	(642)	(703)
Unallocated depreciation				(300)
Revenue				
Rental income	16,928	4,076	—	21,004
Serviced office income	—	—	4,550	4,550
Project management fees	—	381	—	381
Trading property sales	—	17,207	—	17,207
Other trading property income	—	2,528	—	2,528
Construction contract revenue	—	16,498	—	16,498
Development proceeds	—	17,703	—	17,703
Other	157	—	—	157
	17,085	58,393	4,550	80,028

In the 14-month period ended 29th February 2012, one transaction with turnover totalling £12,427,000 generated in excess of 10.0 per cent of total revenue and fell within the development and trading segment.

	Year ended 31st December 2010			
	Investment £'000	Development and trading £'000	Operating £'000	Total £'000
Segment revenue	12,865	27,744	3,823	44,432
Direct costs	(3,682)	(22,258)	(5,118)	(31,058)
Segment result	9,183	5,486	(1,295)	13,374
Operating costs	(3,588)	(9,319)	—	(12,907)
Gain on disposal on investment properties	313	—	—	313
Gain on revaluation of investment property portfolio	8,769	—	—	8,769
Operating profit/(loss)	14,677	(3,833)	(1,295)	9,549
Other income	159	27	—	186
Share of post-tax profits/(losses) of joint ventures and associates	3,416	(502)	—	2,914
Unallocated loss on sale of other fixed assets				(32)
Profit before interest and income tax				12,617
Finance income	826	716	—	1,542
Finance costs	(8,528)	(2,982)	—	(11,510)
Profit before income tax				2,649
Income tax				(971)
Profit after income tax				1,678
Assets and liabilities				
Segment assets	249,335	223,432	7,181	479,948
Unallocated assets				65,203
Total assets				545,151
Segment liabilities	(128,239)	(71,466)	(3,094)	(202,799)
Unallocated liabilities				(9,245)
Total liabilities				(212,044)

A summary of unallocated assets and liabilities is shown on page 79.

	Year ended 31st December 2010			
	Investment £'000	Development and trading £'000	Operating £'000	Total £'000
Other segment information				
Capital expenditure	34,124	155	543	34,822
Unallocated capital expenditure				781
Depreciation	—	(4)	(482)	(486)
Unallocated depreciation				(215)
Revenue				
Rental income	12,751	2,439	—	15,190
Serviced office income	—	—	3,823	3,823
Project management fees	—	170	—	170
Trading property sales	—	4,923	—	4,923
Other trading property income	—	5,561	—	5,561
Construction contract revenue	—	6,564	—	6,564
Development proceeds	—	8,087	—	8,087
Other	114	—	—	114
	12,865	27,744	3,823	44,432

In the year ended 31st December 2010, four transactions with a combined turnover, totalling £22,517,000, individually generated in excess of 10.0 per cent of total revenue and fell within the development and trading segment.

	29th February 2012 £'000	31st December 2010 £'000
Unallocated assets can be analysed as follows:		
Other plant and equipment	**863**	964
Deferred income tax asset	**3,241**	5,507
Derivative financial instruments	**—**	3,308
Trade and other receivables	**4,193**	5,250
Cash and cash equivalents	**23,629**	50,174
	31,926	65,203
Unallocated liabilities can be analysed as follows:		
Current borrowings	**(17)**	(17)
Trade and other payables	**(3,300)**	(3,721)
Deferred income tax liability	**(3,241)**	(5,507)
Derivative financial instruments	**(2,469)**	—
	(9,027)	(9,245)

3 Construction contract revenue

Revenue related to construction contracts amounted to £16,498,000 (31st December 2010: £6,564,000) and is included within development and trading segment revenue (refer note 2) and represented 20.6 per cent (31st December 2010: 14.8 per cent) of Group revenues.

The corresponding amount shown in Trade and other receivables in the Balance Sheet represents the aggregate amount of costs incurred plus recognised profits, less recognised losses, less progress billings.

	14-month period ended 29th February 2012 £'000	Year ended 31st December 2010 £'000
Construction contract assets	**10,594**	3,109
Construction contract liabilities	**(117)**	—
Construction contract net assets	**10,477**	3,109
This amount corresponds to:		
Aggregate costs incurred	**18,379**	5,744
Recognised profits	**4,683**	820
	23,062	6,564
Progress billings	**(12,585)**	(3,455)
Construction contract net assets	**10,477**	3,109

Notes to the Consolidated Financial Statements continued

For the 14-month period ended 29th February 2012

4 Operating profit

	14-month period ended 29th February 2012 £'000	Year ended 31st December 2010 £'000
Operating profit is stated after charging:		
Share-based payments expense	**6**	19
Cost of sales of development and trading properties recognised in direct costs	**17,682**	21,397
Write-down of development and trading properties to net realisable value	**1,776**	—
Depreciation: — Operating property	**77**	80
— Other plant and equipment	**926**	621
Impairment of trade receivables recognised in direct costs	**107**	51
Auditors' remuneration		
Fees payable to the Company's auditor for the audit of Company and Group financial statements	**241**	240
Fees payable for the audit of the Company's subsidiaries pursuant to legislation – 2012	**293**	—
Fees payable for the audit of the Company's subsidiaries pursuant to legislation – 2010	**143**	160
	677	400
Fees payable to the Group's auditors and its associates for other services:		
— Assurance services relating to Placing and Rights Issue	**—**	357
— Tax services	**298**	186
— All other services	**—**	151
	975	1,094

5 Staff costs

	14-month period ended 29th February 2012 £'000	Year ended 31st December 2010 £'000
Wages and salaries	**7,247**	6,051
Social security	**902**	823
Cost of employee share option schemes	**6**	19
Other pension costs	**663**	613
	8,818	7,506

Average monthly number of employees, including Directors, during the period:

	14-month period ended 29th February 2012 Number	Year ended 31st December 2010 Number
Property development and investment	**49**	48
Operating property activities	**33**	33
	82	81

The Directors are considered to be the only key management personnel. Their remuneration is shown in the Remuneration Report on pages 57 to 64.

6 Finance income and costs

a) Finance income	14-month period ended 29th February 2012 £'000	Year ended 31st December 2010 £'000
Interest receivable	**2,222**	1,389
Other finance income	**349**	147
Fair value gain on financial instruments – interest rate swaps, caps and collars	**—**	6
Total finance income	**2,571**	1,542

b) Finance costs	14-month period ended 29th February 2012 £'000	Year ended 31st December 2010 £'000
Interest on bank loans and other borrowings	**10,078**	8,740
Interest on debenture	**2,567**	2,200
Amortisation of transaction costs	**577**	377
Fair value loss on financial instruments – interest rate swaps, caps and collars	**550**	—
Net foreign currency differences arising on retranslation of cash and cash equivalents	**108**	193
	13,880	11,510
Capitalised interest on development and trading properties	**(665)**	—
Net finance cost	**13,215**	11,510

Interest was capitalised at an average rate of 5.57 per cent. No capitalised interest (31st December 2010: £nil) was written off in the period. The tax treatment of capitalised interest follows the accounting treatment.

7 Taxation

	14-month period ended 29th February 2012 £'000	Year ended 31st December 2010 £'000
Current tax	**812**	—
Adjustment in respect of prior years	**—**	210
Total current tax charge	**812**	210
Deferred tax charge	**1,067**	761
Total charge in the Statement of Comprehensive Income	**1,879**	971

	14-month period ended 29th February 2012 £'000	Year ended 31st December 2010 £'000
Tax on items credited to equity:		
Deferred tax credit on other revaluations	**(1,067)**	(761)
Total credit in the Statement of Comprehensive Income	**(1,067)**	(761)

The differences between the total tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows:

	14-month period ended 29th February 2012 £'000	Year ended 31st December 2010 £'000
(Loss)/profit before taxation	**(10,167)**	2,649
Tax on (loss)/profit on ordinary activities at 26.5% (31st December 2010: 28.0%)	**(2,694)**	742
Amounts not deductible for tax purposes	**1,841**	248
Notional gains recognised on property transactions in the period	**—**	2,178
Adjustment in respect of prior years	**(742)**	210
Indexation allowance	**(839)**	(1,535)
Impact on change in UK tax rate	**(159)**	—
Deferred tax credit not recognised/(brought forward losses utilised)	**4,472**	(872)
Total tax charge reported in the Statement of Comprehensive Income	**1,879**	971

Deferred tax is calculated in full on the temporary differences under the liability method using the tax rate of 25.0 per cent.

Notes to the Consolidated Financial Statements continued

For the 14-month period ended 29th February 2012

8 Dividends

	14-month period ended 29th February 2012 £'000	Year ended 31st December 2010 £'000
Declared and paid during the period		
Equity dividends on Ordinary shares:		
Final dividend for 2010: 2.40 pence per share (2009: 2.40 pence per share)	**2,937**	1,974
Interim dividend for 2012: 2.40 pence per share (2010: 2.40 pence per share)	**2,937**	1,974
	5,874	3,948
Proposed for approval by shareholders at the Annual General Meeting		
Final dividend for 2012: 3.20 pence per share (2010: 2.40 pence per share)	**3,915**	2,937

Subject to approval by shareholders, the final dividend was approved by the Board on 30th April 2012 and has not been included as a liability or deducted from retained profits as at 29th February 2012. The final dividend is payable on 26th October 2012 to ordinary shareholders on the register at the close of business on 28th September 2012 and will be recognised in the year ending 28th February 2013.

9 (Loss)/earnings per share and net assets per share

Basic (loss)/earnings per share amounts are calculated by dividing (loss)/profit for the period attributable to equity shareholders of the Parent by the weighted average number of Ordinary shares outstanding during the period.

Diluted (loss)/earnings per share amounts are calculated by dividing the (loss)/profit attributable to equity shareholders of the Parent by the weighted average number of Ordinary shares outstanding during the period plus the weighted average number of Ordinary shares that would be issued on the conversion of all the dilutive potential Ordinary shares into Ordinary shares.

Basic net assets per share amounts are calculated by dividing net assets by the number of Ordinary shares in issue at the period-end.

Diluted net assets per share amounts are calculated by dividing net assets by the number of Ordinary shares in issue at the period-end plus the number of Ordinary shares that would be issued on the conversion of all the dilutive potential Ordinary shares into Ordinary shares.

Management has chosen to disclose the European Public Real Estate (EPRA) adjusted net assets per share and earnings per share from continuing activities in order to provide an indication of the Group's underlying business performance and to assist comparison between European property companies.

EPRA loss is the (loss)/profit after taxation excluding investment property revaluations, (losses)/gains on disposals of investment and trading properties, impairment of development and trading properties and mark-to-market adjustments on interest rate swaps.

EPRA net assets are the Balance Sheet net assets excluding mark-to-market adjustments on financial instruments used for hedging purposes and deferred taxation on revaluations and is calculated on a fully diluted basis.

EPRA triple net assets is the EPRA NAV adjusted to reflect the fair value of debt and derivatives and to include deferred taxation on revaluations.

The calculation of basic and diluted (loss)/earnings per share and EPRA loss per share is based on the following data:

	14-month period ended 29th February 2012 £'000	Year ended 31st December 2010 £'000
(Loss)/profit		
(Loss)/profit for the purpose of basic and diluted (loss)/earnings per share	**(12,592)**	1,678
Revaluation deficit/(surplus) (including share of joint venture revaluation surplus)	**4,226**	(12,063)
Gain on disposal of investment properties	**(211)**	(313)
Gain on disposal of trading properties	**(3,835)**	(1,133)
Impairment of development and trading properties	**1,776**	—
Mark-to-market adjustment on interest rate swaps (including share of joint venture mark-to-market adjustment)	**624**	151
EPRA adjusted loss from continuing activities attributable to owners of the Company	**(10,012)**	(11,680)

	14-month period ended 29th February 2012 '000	Year ended 31st December 2010 '000
Number of shares		
Weighted average number of Ordinary shares for the purpose of (loss)/earnings per share	**122,352**	98,970
Effect of dilutive potential Ordinary shares:		
Share options	**42**	1
Weighted average number of Ordinary shares for the purpose of diluted (loss)/earnings per share	**122,394**	98,971
Basic (loss)/earnings per share (pence)	**(10.3)p**	1.7p
Diluted (loss)/earnings per share (pence)	**(10.3)p**	1.7p
EPRA adjusted loss per share (pence)	**(8.2)p**	(11.8)p
EPRA adjusted diluted loss per share (pence)	**(8.2)p**	(11.8)p

Net assets per share and diluted net assets per share have been calculated as follows:

	14-month period ended 29th February 2012			Year ended 31st December 2010		
	Net assets £'000	No. of shares '000	Net assets per share pence	Net assets £'000	No. of shares '000	Net assets per share pence
Basic net assets per share attributable to the owners	**311,334**	**122,352**	**254**	333,107	122,352	272
Cumulative mark-to-market adjustment on interest rate swaps	**9,196**			4,303		
EPRA adjusted net assets per share	**320,530**	**122,352**	**262**	337,410	122,352	276
Cumulative mark-to-market adjustment on interest rate swaps	**(9,196)**			(4,303)		
Fair value of debt	**6,495**			7,455		
EPRA adjusted triple net assets per share	**317,829**	**122,352**	**260**	340,562	122,352	278
Effect of dilutive potential Ordinary shares	**1,535**	**572**	**—**	1,518	448	—
Diluted net assets per share	**312,869**	**122,924**	**254**	334,625	122,800	272
EPRA diluted net assets per share	**322,065**	**122,924**	**262**	338,928	122,800	276
EPRA diluted triple net assets per share	**319,364**	**122,924**	**260**	342,080	122,800	278
Basic net assets per share based on total net assets	**313,242**	**122,352**	**256**	333,107	122,352	272

10 Investment properties

	Freehold £'000	Long leasehold £'000	Total £'000
At valuation 1st January 2010	178,761	2,275	181,036
Additions:			
— acquisitions	30,027	—	30,027
— capital expenditure	4,097	—	4,097
Disposals	(24,187)	(505)	(24,692)
Surplus/(deficit) on revaluation	9,084	(315)	8,769
At valuation 31st December 2010	197,782	1,455	199,237
Additions:			
— acquisitions	12,100	8,107	20,207
— capital expenditure	3,163	—	3,163
Transfer from development properties	20,029	—	20,029
Disposals	(51)	—	(51)
Deficit on revaluation	(4,139)	(547)	(4,686)
At valuation 29th February 2012	228,884	9,015	237,899

Direct costs of £3,710,000 (31st December 2010: £3,682,000) arose as a result of ownership of investment properties.

Weeke Local Centre, Winchester, a property previously constructed by the Group has been transferred from Development and trading assets. It is the Group's intention to hold the asset for income and long-term capital appreciation. At 29th February 2012, the valuation of Weeke Local Centre, Winchester increased by £1,040,000.

Notes to the Consolidated Financial Statements continued

For the 14-month period ended 29th February 2012

10 Investment properties continued

Reconciliation of market value of investment properties to the net book amount

The following table reconciles the market value of investment properties to their net book amount. The components of the reconciliation are included within their relevant balance sheet heading.

	29th February 2012 £'000	31st December 2010 £'000
Market value as assessed by the independent valuers or Directors	**242,539**	202,118
Amount included in prepayments and accrued income in respect of lease incentives	**(4,640)**	(2,881)
Net book amount of Investment property	**237,899**	199,237

The Group's Investment properties have been valued at 29th February 2012 and at 31st December 2010 by independent valuers and by the Directors on the basis of market value in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors. Completed Investment properties have been valued by DTZ Debenham Tie Leung, Chartered Surveyors, Savills Commercial Limited, Chartered Surveyors or Ryden LLP, Commercial Property Consultants at a value of £208,509,000 (31st December 2010: £168,399,000).

Land held as investment property has been valued by Colliers CRE, Chartered Surveyors at £14,000,000 (31st December 2010: £12,400,000).

The valuers have consented to the use of their names in the financial statements.

Also included within Investment properties are freehold land and buildings representing investment properties under development, amounting to £15,390,000 (31st December 2010: £18,438,000), which have been valued by the Directors. These properties comprise buildings and landholdings for current or future development as investment properties. This approach has been taken because the value of these properties is dependent on a detailed knowledge of the planning status, the competitive position of these assets and a range of complex project development appraisals.

Investment properties under development include £7,590,000 (31st December 2010: £7,104,000) of landholdings adjacent to retail properties within the Group's portfolio, acquired for the purpose of extending the existing shopping centres. The fair value of these properties rests in the planned extensions, and is difficult to estimate pending confirmation of designs and planning permission, and hence has been estimated by the Directors at cost as an approximation to fair value.

£215,329,000 (31st December 2010: £145,425,000) of Investment properties are charged as security against the Group's borrowings.

11 Operating properties – serviced offices

	Long leasehold £'000
At valuation 1st January 2010	2,020
Deficit on revaluation	(310)
At valuation 31st December 2010	1,710
Deficit on revaluation	(213)
At valuation 29th February 2012	1,497
Accumulated depreciation	
At 1st January 2010	440
Charge for the year	80
At 31st December 2010	520
Charge for the period	77
At 29th February 2012	597
Net book amount 29th February 2012	900
Net book amount 31st December 2010	1,190
Net book amount 1st January 2010	1,580
Original cost of operating properties at 29th February 2012	1,583
Original cost of operating properties at 31st December 2010	1,583

The operating property is charged as security against the Group's borrowings.

Depreciation expense of £77,000 (31st December 2010: £80,000) is included within operating costs.

The deficit on revaluation of long leasehold properties for the period ended 29th February 2012 is £213,000 (31st December 2010: £310,000 deficit). £127,000 has been debited to the Property revaluation reserve and the balance of £86,000 has been charged to the Statement of Comprehensive Income. If the Operating properties were measured using the cost model, the carrying value would be £986,000 (31st December 2010: £1,063,000).

The Group's Operating property has been valued at market value as at 29th February 2012 by independent professional valuers DTZ Debenham Tie Leung, Chartered Surveyors, on the basis of Existing Use Value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors and without any special assumptions. The values disclosed above are as stated by the valuer in its valuation report to the Directors. The valuer has consented to the use of its name in the financial statements.

12 Intangible assets

Goodwill	£'000
At 1st January 2011 and 29th February 2012	1,268

On 29th March 2010, the Group acquired 100.0 per cent of the issued shares in Henry Davidson Developments Limited (HDD), a property development company specialising in neighbourhood retail schemes. Goodwill of £1,268,000 arose as a result of HDD's expected future profits from two specific developments acquired.

The carrying amount of the goodwill has been tested for impairment at the reporting date. The current project appraisals are reviewed at each reporting date, assessing the timing of the cash flows and expected future profit associated with the project.

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to the operating segment. The recoverable amount of all CGUs has been determined based on value-in-use calculations. The calculations use pre-tax cash flow projections based on financial budgets approved by management covering a period up to the completion of each project (or less than five years). The pre-tax discount rate used was 8.0 per cent. No provision for impairment was considered necessary. No reasonable change in any assumption would give rise to a material impairment.

13 Other plant and equipment

	Fixtures and fittings and computer equipment £'000	Motor vehicles £'000	Total £'000
Cost			
At 1st January 2010	7,517	379	7,896
Additions	1,410	69	1,479
Disposals	(553)	(45)	(598)
At 31st December 2010	8,374	403	8,777
Additions	1,106	71	1,177
Disposals	(107)	(109)	(216)
At 29th February 2012	9,373	365	9,738
Accumulated depreciation			
At 1st January 2010	3,502	182	3,684
Charge for the year	541	80	621
Disposals	(331)	(35)	(366)
At 31st December 2010	3,712	227	3,939
Charge for the period	845	81	926
Disposals	(55)	(93)	(148)
Impairment of assets	1,575	—	1,575
At 29th February 2012	6,077	215	6,292
Net book amount 29th February 2012	3,296	150	3,446
Net book amount 31st December 2010	4,662	176	4,838
Net book amount 1st January 2010	4,015	197	4,212

Depreciation expense of £300,000 (31st December 2010: £215,000) is included within operating costs and £626,000 (31st December 2010: £406,000) is included within direct costs.

During the period the Directors conducted an impairment review of the fixed assets associated with the operating segment. This review resulted in an impairment provision of £1,575,000 (refer note 2).

Notes to the Consolidated Financial Statements continued

For the 14-month period ended 29th February 2012

14 Investments

	Investments in associates £'000	Investments in joint ventures £'000
At 1st January 2010	1,500	—
Additions	444	9,718
At 31st December 2010	1,944	9,718
Additions	2,332	16,850
At 29th February 2012	4,276	26,568

A summary of the Group's projects in partnership and the balance sheet classification of its interests is set out in note 27.

a) Investment in associates

The Group has the following interest in associates:

	% of holding	Country of incorporation	Principal activity	Reporting segment
Atlantic Park (Bideford) Limited	40	United Kingdom	Property development	Development and trading
Barwood Development Securities Limited	40	United Kingdom	Property development	Development and trading
Barwood Land and Estates Limited	25	United Kingdom	Property development	Development and trading
Continental Estates Corporation BV	29	The Netherlands	Investment company	Investment
CTP Securities Limited	25	United Kingdom	Property development	Development and trading
Wessex Property Fund	47	Jersey	Investment property	Investment

During 2010, the Group acquired 40.0 per cent of the Ordinary shares of Atlantic Park (Bideford) Limited, a company incorporated and registered in the United Kingdom, whose principal activity is investment in strategic land.

In January 2012, the Group exercised an option to acquire 40.0 per cent of the share capital in Barwood Development Securities Limited, a company incorporated and registered in the United Kingdom, whose principal activity is investment in strategic land, for £2,500,000.

In 2009, the Group acquired 25.0 per cent of the Ordinary shares of Barwood Land and Estates Limited, a company incorporated and registered in the United Kingdom, whose principal activity is investment in strategic land, for £1,500,000.

The Group holds a 29.0 per cent interest in Continental Estates Corporation BV, a company incorporated and registered in The Netherlands, whose principal activity is the holding of investments. The equity investment of £256,000 has been provided against in full in previous years.

The Group holds 25.0 per cent of the Ordinary shares of CTP Securities Limited, a company incorporated and registered in the United Kingdom, whose principal activity is property development. The rights granted under the shareholder agreement for this company reflect the status of this investment as an associate. As at 29th February 2012 and 31st December 2010, the investment in Ordinary shares has been fully provided against.

Wessex Property Fund is a Jersey property unit trust that was established on 5th April 2006. Its principal activity is to invest in property situated in the south-west of England. As at 29th February 2012 and 31st December 2010 the Group held 47.0 per cent of the units in issue. The investment has been fully provided against.

Any contingent liabilities in relation to our associate investment partners are disclosed in note 24.

The Group's share of assets and liabilities in its associates is set out below:

							29th February 2012
	Atlantic Park (Bideford) Limited £'000	Barwood Development Securities Limited £'000	Barwood Land and Estates Limited £'000	Continental Estates Corp. BV £'000	CTP Securities Limited £'000	Wessex Property Fund £'000	Total £'000
Summarised balance sheets:							
Non-current assets	—	34	177	329	1,205	5,071	6,816
Current assets	247	1,195	97	10	4,861	282	6,692
Current liabilities	(116)	(188)	(35)	(141)	(954)	(345)	(1,779)
Non-current liabilities	—	—	—	(757)	(6,489)	(9,268)	(16,514)
Share of net assets/(liabilities)	131	1,041	239	(559)	(1,377)	(4,260)	(4,785)
Share of net liabilities not recognised	—	—	—	559	1,377	4,260	6,196
Goodwill	145	1,459	1,261	—	—	—	2,865
Group's share of net assets	276	2,500	1,500	—	—	—	4,276
Summarised income statements:							
Share of revenue	—	20	33	—	63	575	691
Share of post-tax (losses)/profits of associates	(15)	(27)	5	(50)	(62)	(2,210)	(2,359)
Share of losses/(profits) not recognised	15	27	(5)	50	62	2,210	2,359
Share of (losses)/profits recognised	—	—	—	—	—	—	—

						31st December 2010
	Atlantic Park (Bideford) Limited £'000	Barwood Land and Estates Limited £'000	Continental Estates Corp. BV £'000	CTP Securities Limited £'000	Wessex Property Fund £'000	Total £'000
Summarised balance sheets:						
Non-current assets	—	139	329	1,205	7,261	8,934
Current assets	180	93	11	2,964	366	3,614
Current liabilities	—	(21)	(93)	(547)	(254)	(915)
Non-current liabilities	—	—	(757)	(5,041)	(9,424)	(15,222)
Share of net assets/(liabilities)	180	211	(510)	(1,419)	(2,051)	(3,589)
Share of net liabilities not recognised	—	—	510	1,419	2,051	3,980
Goodwill	264	1,289	—	—	—	1,553
Group's share of net assets	444	1,500	—	—	—	1,944
Summarised income statements:						
Share of revenue	—	213	160	3,833	609	4,815
Share of post-tax profits of associates	—	—	73	41	183	297
Share of profits not recognised	—	—	(73)	(41)	(183)	(297)
Share of profits recognised	—	—	—	—	—	—

Notes to the Consolidated Financial Statements continued

For the 14-month period ended 29th February 2012

14 Investments continued

b) Investment in joint ventures

As at 29th February 2012, the Group has the following interests in joint ventures:

	% of holding	Country of incorporation	Principal activity	Reporting segment	Joint venture partner	Accounting reference date
Accrue Student Housing GP Limited	50	United Kingdom	Property development	Development and trading	Accrue Capital Limited	31st August
Curzon Park Limited	50	United Kingdom	Property development	Development and trading	Grainger PLC	29th February
Development Equity Partners Limited	50	Jersey	Property development	Development and trading	Grey Rock Management Limited	29th February
Manchester Arena Complex LP	30	United Kingdom	Investment property	Investment	Patron Capital Partners	29th February
Notting Hill (Guernsey Holdco) Limited	24	Guernsey	Investment property	Development and trading	Brockton (Guernsey)	31st December
Purplexed LLP	50	United Kingdom	Property development	Development and trading	Deadhare Limited	31st March
S Harrison Developments Lichfield Limited	50	United Kingdom	Property development	Development and trading	S Harrison Developments Limited	29th February

In September 2011, the Group acquired a 50.0 per cent holding in Accrue Student Housing GP Limited with its partner Accrue Capital Limited holding the remaining 50.0 per cent of the equity. The company is registered and incorporated in the United Kingdom. The Group's 50.0 per cent share of net assets has been recognised as at 29th February 2012.

Curzon Park Limited acquired the 10.5-acre Curzon Street site in Birmingham in November 2006. In January 2012, the Government confirmed their intention to proceed with the High Speed Rail Link between London and Birmingham (HS2). The proposed route passes through our site, which may restrict development by approximately two thirds of its original potential. The Group together with our joint venture partner is liaising with HS2 and the Department for Transport to discuss a revised master plan for the site. The Group has provided for its share of net assets.

In 2010, the Group provided a further £5,000,000 funding to our Curzon Park Limited joint venture, to enable a partial repayment of the bank loan held within the entity. Our joint venture partner also made a similar contribution. These partial repayments reduced the bank's loan to the joint venture entity to £15,610,000. In turn, the bank extended the loan for a new five-year term, with loan-to-value testing suspended for three years until 6th May 2013.

In December 2011, the Group acquired a 50.0 per cent holding in Development Equity Partners Limited with its partner Grey Rock Management Limited holding the remaining 50.0 per cent of the equity. The company is registered and incorporated in Jersey. The Group's 50.0 per cent share of net assets has been recognised as at 29th February 2012.

In June 2010, the Group acquired a 30.0 per cent holding in Manchester Arena Complex Limited Partnership with its partner, Patron Capital Partners holding 70.0 per cent of the equity. The limited partnership is registered and incorporated in the United Kingdom. The Group's 30.0 per cent share of net assets has been recognised as at 29th February 2012 and 31st December 2010.

In June 2011, the Group acquired a 24.0 per cent holding in Notting Hill (Guernsey Holdco) Limited with its partners Brockton (Guernsey) holding 72.0 per cent of the equity. The company is registered and incorporated in Guernsey. The Group's 24.0 per cent share of net assets has been recognised as at 29th February 2012.

In April 2011, the Group acquired a 50.0 per cent holding in Purplexed LLP with its partner Deadhare Limited holding the remaining 50.0 per cent of the equity. The limited liability partnership is registered and incorporated in the United Kingdom. The Group's 50.0 per cent share of net assets has been recognised as at 29th February 2012.

In July 2011, the Group acquired a 50.0 per cent holding in S Harrison Developments Lichfield Limited with its partner S Harrison Developments Limited holding the remaining 50.0 per cent of the equity. The company is registered and incorporated in the United Kingdom. The Group's 50.0 per cent share of net assets has been recognised as at 29th February 2012.

The Group's joint venture partner in Wimbledon Phoenix Limited, Foinavon Limited, went into administration on 26th August 2009 at which time the Directors considered the investment in joint venture to be impaired and made a full provision. On 14th February 2011, the Group acquired the 50.0 per cent share capital previously held by Foinavon Limited. Wimbledon Phoenix Limited is now accounted for as a wholly owned subsidiary.

Any contingent liabilities in relation to our joint ventures are disclosed in note 24.

The Group's share of the assets, liabilities, income and expenses of its joint ventures, which includes amounts receivable from those joint ventures, is as follows:

									29th February 2012
	Accrue Student Housing GP Limited £'000	Curzon Park Limited £'000	Development Equity Partners Limited £'000	Manchester Arena Complex LP £'000	Notting Hill (Guernsey Holdco) Limited £'000	Purplexed LLP £'000	S Harrison Developments Lichfield Limited £'000	Wimbledon Phoenix Limited £'000	Total £'000
Summarised balance sheets:									
Non-current assets	—	—	—	23,101	—	—	2,567	—	25,668
Current assets	3,842	19,363	135	2,871	12,855	12,148	54	—	51,268
Current liabilities	(161)	(19)	(1)	(2,468)	(649)	(729)	(198)	—	(4,225)
Non-current liabilities	(2,243)	(12,805)	—	(13,877)	(6,124)	(4,555)	—	—	(39,604)
Share of net assets	1,438	6,539	134	9,627	6,082	6,864	2,423	—	33,107
Share of net assets not recognised	—	(6,539)	—	—	—	—	—	—	(6,539)
Share of net assets recognised	1,438	—	134	9,627	6,082	6,864	2,423	—	26,568
Summarised income statements:									
Revenue	154	77	—	2,040	267	1,068	—	—	3,606
Administrative expenses	(178)	(102)	(5)	(465)	(20)	(123)	(92)	(71)	(1,056)
Finance income	—	—	—	—	—	1	—	—	1
Finance costs	(38)	(396)	—	(778)	(337)	(82)	—	—	(1,631)
Gain on revaluation	—	—	—	546	—	—	—	—	546
Share of (loss)/profit before taxation	(62)	(421)	(5)	1,343	(90)	864	(92)	(71)	1,466
Taxation	—	—	—	111	—	—	—	—	111
Share of (loss)/profit recognised after taxation	(62)	(421)	(5)	1,454	(90)	864	(92)	(71)	1,577

Notes to the Consolidated Financial Statements continued

For the 14-month period ended 29th February 2012

14 Investments continued

b) Investment in joint ventures continued

				31st December 2010
	Curzon Park Limited £'000	Manchester Arena Complex LP £'000	Wimbledon Phoenix Limited £'000	Total £'000
Summarised balance sheets:				
Non-current assets	—	22,347	462	22,809
Current assets	19,009	2,614	3	21,626
Current liabilities	(62)	(927)	(43)	(1,032)
Non-current liabilities	(12,805)	(14,316)	—	(27,121)
Share of net assets	6,142	9,718	422	16,282
Share of net assets not recognised	(6,142)	—	(422)	(6,564)
Share of net assets recognised	—	9,718	—	9,718
Summarised income statements:				
Revenue	98	925	—	1,023
Administrative expenses	(246)	(165)	(5)	(416)
Finance income	—	6	—	6
Finance costs	(349)	(533)	—	(882)
Gain on revaluation	—	3,294	—	3,294
Share of (loss)/profit before taxation	(497)	3,527	(5)	3,025
Taxation	—	(111)	—	(111)
Share of (loss)/profit recognised after taxation	(497)	3,416	(5)	2,914

c) Principal subsidiaries

The Group has taken advantage of the exemption under s410 of the Companies Act 2006 and presents below only those undertakings with net assets in excess of 5.0 per cent of Group net assets.

The following were principal subsidiaries at 29th February 2012:

	% holding in Ordinary shares	Country of incorporation	Principal activity
Development Securities Estates PLC	100	United Kingdom	Management and Investment Company
Development Securities (Investments) PLC	100	United Kingdom	Property Investment
DS Cardiff Unit Trust*	100	Jersey	Property Investment
DS Jersey (No. 1) Limited	100	Jersey	Investment
Kirkby Centre (No. 2) Limited*	100	United Kingdom	Investment

*Indirectly held.

A full list of subsidiaries is available on request.

15 Inventory – development and trading properties

Inventory	Development properties £'000	Trading properties £'000	Total £'000
At 1st January 2010	35,333	43,222	78,555
Additions:			
— acquisitions	34,430	37,168	71,598
— acquired through business combination	18,114	—	18,114
— development expenditure	3,180	—	3,180
Disposals	(11,386)	(2,378)	(13,764)
Transfer from trading to development properties	4,507	(4,507)	—
At 31st December 2010	84,178	73,505	157,683
Additions:			
— acquisitions	10,906	18,204	29,110
— development expenditure	18,338	1,858	20,196
Disposals	(19,824)	(10,167)	(29,991)
Transfer to investment properties	(20,029)	—	(20,029)
Write down of development and trading properties to net realisable value	(1,657)	(119)	(1,776)
At 29th February 2012	71,912	83,281	155,193

Included in the above amounts are projects stated at net realisable value, being development and trading properties of £48,959,000 (31st December 2010: £42,947,000).

Net realisable value has been estimated by the Directors, taking account of our plans for each project, the planning status and competitive position of each asset, and the anticipated market for the scheme. For material developments the Directors have consulted with third party chartered surveyors in setting their market assumptions.

Weeke Local Centre, Winchester, a property previously constructed by the Group for sale, has been transferred to investment assets in the period. It is the Group's intention to hold the asset for income and long-term capital appreciation. Capitalised interest of £521,000 has been transferred with the asset.

Interest of £665,000 (31st December 2010: £nil) was capitalised on development and trading properties during the period. Capitalised interest included within the carrying value of such properties on the Balance Sheet is £759,000 (31st December 2010: £615,000).

16 Trade and other receivables

a) Non-current	29th February 2012 £'000	31st December 2010 £'000
Prepayments and accrued income	**4,265**	2,861

b) Current	29th February 2012 £'000	31st December 2010 £'000
Trade receivables	**4,046**	10,750
Amounts due from customers for contract work	**10,594**	3,109
Other receivables	**10,042**	4,756
Other tax and social security	**566**	3,372
Prepayments and accrued income	**3,576**	3,793
	28,824	25,780

The Group has provided £35,000 (31st December 2010: £72,000) for outstanding balances where recovery is considered doubtful. Apart from the receivables that have been provided for at the period-end, there are no other material receivables, past due but not impaired. The maximum exposure to credit risk at the reporting date is the carrying value of the receivable.

Transactions and balances with related parties are disclosed in note 26.

17 Trade and other payables

a) Current	29th February 2012 £'000	31st December 2010 £'000
Trade payables	**2,240**	1,027
Amounts due to customers for contract work	**117**	—
Other payables	**8,118**	6,387
Other tax and social security	**2,122**	1,625
Accruals and deferred income	**13,863**	15,288
	26,460	24,327

b) Provisions	Onerous leases £'000	Residual development liabilities £'000	Total £'000
At 1st January 2011	5,276	775	6,051
Credited to the Statement of Comprehensive Income	—	(775)	(775)
Charged to the Statement of Comprehensive Income	1,270	8	1,278
Utilised during the period	(4,178)	—	(4,178)
Unwinding of discount	308	—	308
At 29th February 2012	2,676	8	2,684

Notes to the Consolidated Financial Statements continued

For the 14-month period ended 29th February 2012

17 Trade and other payables continued

Analysis of total provisions	29th February 2012 £'000	31st December 2010 £'000
Non-current	**2,684**	2,427
Current	**—**	3,624
	2,684	6,051

Provisions of £8,000 (31st December 2010: £775,000) relate to properties and £2,676,000 (31st December 2010: £5,276,000) to onerous leases. The property provisions of £775,000 arose from residual liabilities on completed development projects where the Group was responsible for certain development costs in prior years. The provision has been reversed in the period as it is no longer considered payable.

Following a review of our serviced office operation it was identified that the future revenue of four of the seven centres was not sufficient to cover future rental commitments. £1,270,000 has been provided to cover the onerous liability associated with these leases (refer note 2).

Two further provisions of £1,051,000 (31st December 2010: £1,010,000) and £355,000 (31st December 2010: £590,000) relate to onerous lease obligations entered into in 2009 and 1989 respectively.

The Group made a payment of £3,624,000 in respect of a lease to Stead & Simpson Limited in respect of which Development Securities PLC was a guarantor. The payment represented the final obligation as guarantor. A further onerous lease provision of £52,000 was utilised in the period.

18 Financial assets and financial liabilities

The following table is a summary of the financial assets and financial liabilities included in the Consolidated Balance Sheet:

	29th February 2012 £'000	31st December 2010 £'000
Non-current assets		
Derivative financial instruments used for hedging at fair value	**—**	3,302
Derivative financial instruments not used for hedging at fair value through profit or loss	**—**	6
Loan notes at amortised cost less impairment	**8,614**	8,514
Available-for-sale financial assets	**25,921**	18,726
	34,535	30,548
Current assets		
Loans and receivables	**1,700**	467
Trade and other receivables at amortised cost less impairment	**24,682**	18,615
Cash and cash equivalents	**35,585**	77,114
	61,967	96,196
Total financial assets	**96,502**	126,744
Current liabilities		
Trade and other payables at amortised cost	**21,026**	17,493
Borrowings at amortised cost	**9,879**	523
	30,905	18,016
Non-current liabilities		
Borrowings at amortised cost	**193,177**	174,976
Derivative financial instruments used for hedging at fair value	**1,925**	—
Derivative financial instruments not used for hedging at fair value through profit or loss	**544**	—
	195,646	174,976
Total financial liabilities	**226,551**	192,992

a) Other financial assets

Non-current	29th February 2012 £'000	31st December 2010 £'000
Available-for-sale financial assets	**25,921**	18,726
Loan notes at amortised cost less impairment	**8,614**	8,514
	34,535	27,240

Available-for-sale financial assets comprise:	29th February 2012 £'000	31st December 2010 £'000
Development participation rights	**5,000**	5,000
Development loans to joint operations	**20,921**	13,726
	25,921	18,726

Development participation represents the Group's risk capital invested alongside our partners in one of our development schemes PaddingtonCentral. The fair value of the participation is assessed by reference to the stage of completion of the project and progress on construction and lettings.

Development loans to joint ventures include a number of working capital and project-specific loans of £11,191,000 (31st December 2010: £5,703,000) to CTP Securities Limited. The loans attract fixed coupon rates of between 5.0 and 13.0 per cent. Included in the above amount is an interest-free loan of £208,000.

Following the renegotiation of the Curzon Park Limited loan facility, the Group provided a £5,000,000 loan to the joint venture in order to repay a share of its bank debt. The joint venture partner provided a similar loan.

The Group has two funding agreements totalling £4,730,000 (31st December 2010: three agreements totalling £3,023,000), in respect of projects in partnership. The loans attract fixed coupon rates of between 3.0 and 8.5 per cent.

Loan notes with a carrying value of £89,000 (31st December 2010: £89,000) are held in Continental Estates Corporation BV, an associate. Interest is earned at a fixed rate of 6.0 per cent. Loan notes with a carrying value of £8,425,000 were issued in November 2007 by CTP Securities Limited, with a term of five years and a fixed coupon rate of 4.25 per cent. During the period the Group acquired a further £100,000 of CTP loan notes.

Current	29th February 2012 £'000	31st December 2010 £'000
Loans and receivables:		
CTP Securities Limited	**200**	200
Other	**1,500**	267
	1,700	467

The Group has provided a short-term, non-interest-bearing facility of £200,000 to CTP Securities Limited and £1,500,000 to Property Alliance Group as a contribution to a prospective future project. This amount is repayable on demand.

b) Borrowings

Current	£'000	29th February 2012 £'000	£'000	31st December 2010 £'000
Bank overdrafts		**1,184**		831
Current instalments due on bank loans	**2,219**		17	
Current loans maturing	**7,221**		—	
Unamortised transaction costs	**(745)**		(325)	
		8,695		(308)
		9,879		523

Non-current	29th February 2012 £'000	31st December 2010 £'000
First mortgage debenture 11% due 2016	**20,000**	20,000
Bank loans and loan notes	**176,004**	157,037
Unamortised transaction costs	**(2,827)**	(2,061)
	193,177	174,976

Notes to the Consolidated Financial Statements continued

For the 14-month period ended 29th February 2012

18 Financial assets and financial liabilities continued

b) Borrowings continued

Bank loans and the debenture are secured by way of mortgages and legal charges on certain properties and cash deposits held by the Group.

Non-current borrowings:	29th February 2012 £'000	31st December 2010 £'000
£20,000,000 first mortgage debenture 2016	**20,000**	20,000
£6,565,000 variable rate loan 2012	**4,682**	6,565
£5,355,000 variable rate loan 2013	**2,539**	—
£15,296,000 variable rate loan 2013	**353**	15,296
£3,000,000 variable rate loan 2014	**3,000**	—
£5,669,000 variable rate loan 2014	**5,638**	—
£1,531,000 variable rate loan 2014	**1,522**	—
£6,200,000 variable rate loan 2015	**6,200**	6,200
£4,500,000 variable rate loan 2015	**4,437**	—
£1,500,000 variable rate loan 2015	**1,500**	—
£38,000,000 variable rate loan 2016	**37,913**	31,113
£57,565,000 fixed rate loan 2025	**56,128**	57,565
£22,470,000 fixed rate loan 2025	**22,176**	—
€47,000,000 variable rate loan notes 2027	**39,339**	40,298
£16,500 variable rate loan notes 1999	**17**	17
	205,444	177,054
Less: current instalments due on bank loans	**(2,219)**	(17)
Current loans maturing	**(7,221)**	—
	196,004	177,037

£20,000,000 first mortgage fixed rate debenture
This secured debenture is repayable in one instalment on 6th January 2016.

£6,565,000 variable rate loan
This secured loan is repayable in one instalment on 25th June 2012. Amounts totalling £1,883,000 were repaid during the period. The current balance outstanding on the facility is £4,682,000.

£5,355,000 variable rate loan
This secured loan is repayable in one instalment on 4th February 2013. This is a development facility where the loan is drawn down over the progress of the development. The current balance outstanding on the facility is £2,539,000.

£15,296,000 variable rate loan
This secured loan is repayable in one instalment on 28th October 2013. Amounts totalling £14,943,000 were repaid during the period following the disposal of assets. The current balance outstanding on the facility is £353,000.

£3,000,000 variable rate loan
This secured loan is repayable in one instalment on 8th July 2014.

£5,669,000 variable rate loan
£770,000 loan capital amortises over the term of the loan. The remaining £4,899,000 is repayable in one instalment on 24th November 2014. The current balance outstanding on the facility is £5,638,000.

£1,531,000 variable rate loan
£208,000 loan capital amortises over the term of the loan. The remaining £1,323,000 is repayable in one instalment on 24th November 2014. The current balance outstanding on the facility is £1,522,000.

£6,200,000 variable rate loan
This secured loan is repayable in one instalment on 12th July 2015.

£4,500,000 variable rate loan
£500,000 loan capital amortises over the term of the loan. The remaining £4,000,000 is repayable in one instalment on 6th October 2015. The current balance outstanding on the facility is £4,437,000.

£1,500,000 variable rate loan
This secured loan is repayable in one instalment on 6th October 2015.

£38,000,000 variable rate loan
£2,700,000 loan capital amortises over the term of the loan. The remaining £35,213,000 is repayable in one instalment on 16th December 2016. The current balance outstanding on the facility is £37,913,000.

£57,565,000 fixed rate loan
£25,665,000 loan capital amortises over the term of the loan. The remaining £31,900,000 is repayable in one instalment on 12th March 2025. The current balance outstanding on the facility is £56,128,000.

£22,470,000 fixed rate loan
£9,980,000 loan capital amortises over the term of the loan. The remaining £12,490,000 is repayable in one instalment on 12th March 2025. The current balance outstanding on the facility is £22,176,000.

€47,000,000 variable EURIBOR loan notes
These unsecured loan notes were issued on 20th September 2007 and are denominated in Euros. They are repayable on 25th October 2027.

£16,500 loan notes
These unsecured loan notes were repayable in 1999. The balance of £16,500 represents the residual amount of unredeemed loan notes.

A full explanation of the Group's borrowings and any changes since the balance sheet date can be found in the Financial Review on pages 36 to 44.

c) Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including cash flow interest rate risk, foreign currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Group defines capital as total equity and monitors this on the basis of gearing.

The nature and extent of the Group's financial risks, and the Directors' approach to managing those risks, are described in the Financial Review on pages 39 to 40 and below. This note provides further detailed information on these risks.

Interest rate maturity profile of financial liabilities
The following table sets out the carrying amount by maturity of the Group's financial instruments that are exposed to interest rate risk:

							29th February 2012 Maturity
	Within one year £'000	**One to two years £'000**	**Two to three years £'000**	**Three to four years £'000**	**Four to five years £'000**	**More than five years £'000**	**Total £'000**
Fixed rate borrowings	**—**	**—**	**—**	**—**	**—**	**98,304**	**98,304**
Variable rate borrowings	**3,740**	**—**	**3,000**	**6,200**	**—**	**—**	**12,940**
Variable rate borrowings with interest rate caps or swaps	**4,682**	**353**	**7,160**	**5,937**	**37,913**	**39,339**	**95,384**
	8,422	**353**	**10,160**	**12,137**	**37,913**	**137,643**	**206,628**

							31st December 2010 Maturity
	Within one year £'000	One to two years £'000	Two to three years £'000	Three to four years £'000	Four to five years £'000	More than five years £'000	Total £'000
Fixed rate borrowings	—	—	—	—	—	77,565	77,565
Variable rate borrowings	848	—	31,113	—	6,200	—	38,161
Variable rate borrowings with interest rate caps or swaps	—	6,565	15,296	—	—	40,298	62,159
	848	6,565	46,409	—	6,200	117,863	177,885

Interest on financial instruments classified as variable rate is re-priced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial assets and financial liabilities of the Group that are not included above are non-interest bearing and are therefore not subject to interest rate risk.

Notes to the Consolidated Financial Statements continued

For the 14-month period ended 29th February 2012

18 Financial assets and financial liabilities continued

c) Financial risk management continued

Foreign currency risk

The Group does not undertake significant trade overseas, but does hold certain assets, amounting to £89,000 (31st December 2010: £642,000) denominated in foreign currencies. The currency exposure arising from these investments is not considered to materially affect the Group's operations and is not subject to hedging arrangements.

The Group is exposed to foreign currency risk from €47,000,000 (31st December 2010: €47,000,000) loan notes issued during 2007 that are denominated in Euros.

The Group has entered into a currency and interest rate swap with a banking institution to minimise these potential risks. The swap is cash collateralised and qualifies to be accounted for as a cash flow hedge as detailed below. The fair value of this instrument at 29th February 2012 was a liability of £1,925,000 (31st December 2010: £3,302,000 asset).

The Group maintains a security deposit of £4,000,000 (31st December 2010: £4,000,000) throughout the loan note term. The security deposit is required to cash collateralise the risk for the swap counterparty. The Group is further required to increase this security if the Group's potential liability under the instrument increases to within £250,000 of the security deposit.

During the 14-month period to 29th February 2012, the movement of Sterling against the Euro was approximately 8.0 per cent. Management has therefore measured sensitivity on this basis.

The following table demonstrates the possible effect of changes in Sterling and Euro exchange rates with all other variables held constant:

	Increase/ decrease in Euro rate	Effect on cash collateral £'000
29th February 2012		
Euro	+8%	(430)
	–8%	505
31st December 2010		
Euro	+8%	(442)
	–8%	522

The Group does not undertake significant foreign exchange trading activity; consequently, a detailed foreign exchange sensitivity analysis is not presented.

Interest rate sensitivity

The following table demonstrates the sensitivity in respect of variable rate debt obligations to a change in interest rates, with other variables held constant, of the Group's (loss)/profit before income tax.

The sensitivity analysis excludes all non-derivative fixed-rate financial instruments carried at amortised cost as well as variable rate financial instruments with associated effective fixed-rate hedging instruments or currency hedging instruments.

Fair value interest rate hedging instruments that are part of a hedging relationship have been excluded. Variable rate non-derivative financial instruments where the associated interest has been capitalised have also been excluded.

As at 29th February 2012, a movement of 50 basis points higher or lower, with all other variables held constant would have the following effect on (loss)/ profit before tax. Management consider a movement of 50 basis points to be a reasonable guide to sensitivity in the current interest rate environment.

	Increase/ decrease in basis points	Effect on profit before tax £'000
29th February 2012		
Sterling borrowings	+50	(129)
	–50	129
31st December 2010		
Sterling borrowings	+50	(221)
	–50	221

Price risk

The Group is not exposed to commodity or security price risk.

Liquidity risk

A review of the Group's liquidity risk is set out in the Financial Review on pages 36 to 37.

The table below summarises the maturity profile of the Group's financial liabilities at 29th February 2012 and 31st December 2010 on a contractual undiscounted payments basis:

						29th February 2012
Maturity profile of financial liabilities	**On demand £'000**	**Less than three months £'000**	**Three to twelve months £'000**	**One to five years £'000**	**More than five years £'000**	**Total £'000**
Interest-bearing loans and borrowings	**1,201**	**7,326**	**9,476**	**122,292**	**170,840**	**311,135**
Trade and other payables	**—**	**10,120**	**10,906**	**—**	**—**	**21,026**
Derivative financial instruments	**—**	**129**	**419**	**2,236**	**6,120**	**8,904**
	1,201	**17,575**	**20,801**	**124,528**	**176,960**	**341,065**

						31st December 2010
Maturity profile of financial liabilities	On demand £'000	Less than three months £'000	Three to twelve months £'000	One to five years £'000	More than five years £'000	Total £'000
Interest-bearing loans and borrowings	106	1,577	6,931	89,381	157,513	255,508
Trade and other payables	—	9,129	8,364	—	—	17,493
Derivative financial instruments	—	254	761	5,128	17,446	23,589
	106	10,960	16,056	94,509	174,959	296,590

Market risk

A summary of market risk and its effect on the Group is set out in Business Risks on page 9 and further discussed in the Chief Executive's Statement on pages 4 and 5 and in the Operating Review on pages 11 to 31.

Fair values of financial assets and financial liabilities

Except as detailed below, in respect of fixed rate debenture and loan facilities, the Directors consider the carrying amount to be either fair value or a reasonable approximation of fair value apart from equity instruments classified as available-for-sale assets under IAS 39, where fair value cannot be reliably measured.

Fixed rate debt

A valuation was carried out as at 29th February 2012 by J C Rathbone Associates Limited, to calculate the market value of the Group's fixed rate debt on a replacement basis, taking into account the difference between fixed interest rates for the Group's borrowings and the market value and prevailing interest rate of appropriate debt instruments. Whilst the replacement basis provides a consistent method for valuation of fixed rate debt, such financing facilities are in place to provide continuing funding for the Group's activities. The valuation is therefore only an indication of a notional effect on the net asset value of the Group as at 29th February 2012, and may be subject to daily fluctuations in line with money market movements. J C Rathbone Associates Limited have consented to the use of their name in the financial statements.

The fair value compared to the carrying amounts of the Group's fixed rate financial liabilities as at 29th February 2012 is analysed below:

	Book value 29th February 2012 £'000	**Fair value 29th February 2012 £'000**
First mortgage debenture 11% due 2016	**20,000**	**25,857**
Fixed rate term loan due 2025	**56,128**	**65,935**
Fixed rate term loan due 2025	**22,176**	**24,594**
Total fixed rate financial liabilities	**98,304**	**116,386**

	Book value 31st December 2010 £'000	Fair value 31st December 2010 £'000
First mortgage debenture 11% due 2016	20,000	25,711
Fixed rate term loan due 2025	57,565	60,819
Total fixed rate financial liabilities	77,565	86,530

The fair value difference of £18,082,000 at 29th February 2012 (31st December 2010: £8,965,000) represents approximately 18.3 per cent of gross, fixed rate borrowings (31st December 2010: 11.6 per cent). The effect on net assets per share after tax of this adjustment would be a decrease of 10.9 pence after tax (31st December 2010: 5.3 pence decrease).

Notes to the Consolidated Financial Statements continued

For the 14-month period ended 29th February 2012

18 Financial assets and financial liabilities continued

d) Derivative financial instruments

	29th February 2012 £'000	31st December 2010 £'000
Cash flow hedge: cross-currency interest rate swap	**(1,925)**	3,302
Derivative financial instruments at fair value through profit or loss		
Interest rate swaps, caps and collars	**(544)**	6
Derivative financial instruments	**(2,469)**	3,308

At 29th February 2012, the Group held one cross-currency interest rate swap designated as a hedge of expected future cash flows arising from €47,000,000 variable rate loan notes issued in September 2007. The cross-currency swap is used to hedge the EURIBOR interest rate exposure to a fixed rate of 7.97 per cent and Euro currency exposure from the loan notes fixed at a rate of €1.43:£. The terms of the derivative have been negotiated to match the terms of the loan notes.

The cash flow hedge of the expected future loan note cash flows was assessed to be 100.0 per cent effective. The mark-to-market movement in the foreign currency leg of the swap of £959,000 (31st December 2010: £1,352,000) has been recycled through profit or loss to offset the re-translation of the €47,000,000 loan. The mark-to-market movement on the interest leg of this swap of £4,268,000 loss (31st December 2010: £2,819,000 loss) is included within the net unrealised gain/(loss) reserve in equity.

At 29th February 2012, the Group held interest rate swaps, caps and collars designated as economic hedges and not qualifying as effective hedges under IAS 39. The derivatives are used to mitigate the Group's interest rate exposure to variable rate loans of £56,045,000 (31st December 2010: £6,565,000). The fair value of the derivatives amounting to £544,000 is recorded as a financial liability at 29th February 2012 (31st December 2010: £6,000 asset) with the fair value (loss)/gain taken to finance costs.

Fair value estimation

From 1st January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the Balance Sheet at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

(ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

(iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3). Discounted cash flows are used to determine fair values of these instruments.

The following table presents the Group's assets and liabilities that are measured at fair value at 29th February 2012.

	29th February 2012				31st December 2010			
	Level 1 £'000	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets								
Derivative financial instruments:								
Cross-currency interest rate swap	**—**	**—**	**—**	**—**	—	3,302	—	3,302
Derivative financial instruments at fair value through profit or loss	**—**	**—**	**—**	**—**	—	6	—	6
Available-for-sale financial assets	**—**	**—**	**25,921**	**25,921**	—	—	18,726	18,726
Total assets	**—**	**—**	**25,921**	**25,921**	—	3,308	18,726	22,034
Liabilities								
Derivative financial instruments:								
Cross-currency interest rate swap	**—**	**(1,925)**	**—**	**(1,925)**	—	—	—	—
Derivative financial instruments at fair value through profit or loss	**—**	**(544)**	**—**	**(544)**	—	—	—	—
Total liabilities	**—**	**(2,469)**	**—**	**(2,469)**	—	—	—	—

19 Deferred income tax

The following are the deferred income tax liabilities and assets and movements thereon recognised by the Group during the current and previous financial period. The UK corporation tax rate decreased on 1st April 2012 from 26.0 per cent to 24.0 per cent. Deferred income tax is calculated on the temporary differences under the liability method using a tax rate of 25.0 per cent (31st December 2010: 27.0 per cent).

At 1st January	29th February 2012 £'000	31st December 2010 £'000
Charge for the period in the Statement of Comprehensive Income (note 7)	**1,067**	761
Credited directly to equity	**(1,067)**	(761)
	—	—

Revaluation of property	29th February 2012 £'000	31st December 2010 £'000
Deferred income tax liabilities recognised:		
At 1st January	**5,507**	3,912
(Charged)/credited to the Statement of Comprehensive Income	**(2,266)**	1,595
	3,241	5,507

Deferred income tax assets recognised:	Decelerated capital allowances £'000	Provisions £'000	Tax losses £'000	Other £'000	Total £'000
At 1st January 2010	(492)	(136)	(3,327)	43	(3,912)
Charged/(credited) to the Statement of Comprehensive Income	78	(222)	(690)	—	(834)
Credited directly to equity	—	—	(761)	—	(761)
At 31st December 2010	(414)	(358)	(4,778)	43	(5,507)
(Credited)/charged to the Statement of Comprehensive Income	(288)	(22)	3,686	(43)	3,333
Credited directly to equity	—	—	(1,067)	—	(1,067)
At 29th February 2012	(702)	(380)	(2,159)	—	(3,241)

Net deferred income tax asset:	29th February 2012 £'000
At 29th February 2012	—

Deferred income tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. Deferred income tax assets arising from the Group's trading and capital losses are recognised on the basis that there will be sufficient profits in the foreseeable future to utilise such losses. The Group has not recognised deferred income tax assets of £12,105,000 (31st December 2010: £11,839,000) in respect of losses amounting to £48,422,000 (31st December 2010: £43,848,000) that can be carried forward against future taxable income. The proposed reductions of the main rate of corporation tax by 1.0 per cent per annum to 22.0 per cent by 1st April 2014 are expected to be enacted separately each year. The overall effect of the further changes from 26.0 per cent to 22.0 per cent, if these applied to the deferred tax balance at 29th February 2012, would be to reduce the net deferred income tax asset by £nil.

Movements in deferred income tax assets and liabilities (prior to the offsetting of balances) are shown above.

Notes to the Consolidated Financial Statements continued

For the 14-month period ended 29th February 2012

20 Share capital

Issued, called up and fully paid	29th February 2012 £'000	31st December 2010 £'000
122,352,504 Ordinary shares of 50 pence (31st December 2010: 122,352,504 Ordinary shares of 50 pence)	**61,176**	61,176

	Number of shares
Shares in issue at the date of this report	122,352,504

The Company has one class of Ordinary shares which carry no right to fixed income.

The movement in share capital is set out in note 21.

Share option schemes

As at 29th February 2012, and at the date of this report, the options outstanding under the Company's share option schemes were exercisable as set out below (price stated in pence per share). The share options are more fully described in the Remuneration Report on pages 57 to 64.

Executive share option scheme 1995:

Date of grant	Number 29.02.12	Number 01.05.12	Exercise dates	Price
19th April 2004	69,382	69,382	19th April 2007 to 18th April 2014	347.50
	69,382	69,382		

Executive share option plan 2005:

Date of grant	Number 29.02.12	Number 01.05.12	Exercise dates	Price
27th October 2005	41,435	41,435	27th October 2008 to 26th October 2015	430.25
28th April 2006	41,435	41,435	28th April 2009 to 27th April 2016	559.75
8th May 2009	103,587	103,587	8th May 2012 to 7th May 2019	275.00
31st August 2010	120,000	120,000	31st August 2013 to 30th August 2020	248.00
	306,457	306,457		

Save as you earn option plan 2005:

Date of grant	Number 29.02.12	Number 01.05.12	Exercise dates	Price
28th October 2008	3,501	3,501	1st December 2011 to 31st May 2012	274.16
24th October 2011	192,021	192,021	1st December 2014 to 31st May 2015	152.00
	195,522	195,522		

Share-based payments

The following table illustrates the number and weighted average exercise prices of, and movements in, share options during the period:

	29th February 2012 Number	29th February 2012 Weighted average exercise price (pence)	31st December 2010 Number	31st December 2010 Weighted average exercise price (pence)
At 1st January	**528,647**	**325.3**	418,447	346.2
Options granted	**193,205**	**152.0**	120,000	248.0
Options lapsed	**(76,914)**	**361.1**	(7,281)	274.2
Options cancelled	**(73,577)**	**272.2**	(2,519)	274.2
	571,361	**268.7**	528,647	325.3

Any options granted on or before 7th November 2002 have not been recognised under IFRS 2 under the exemption in that standard. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

The weighted average fair value of options granted during the period was £0.50 (31st December 2010: £0.50). The average share price during the period was 194.1 pence (31st December 2010: 255.0 pence). Of the 571,361 (31st December 2010: 528,647) outstanding options at 29th February 2012, 155,753 were exercisable (31st December 2010: 229,166).

The options outstanding at 29th February 2012 were exercisable between 152.0 pence and 559.8 pence per share and have a weighted average remaining contractual life of 5.3 years (31st December 2010: 4.2 years).

The fair value of grants is measured at the grant date using a Black-Scholes pricing model, taking into account the terms and conditions upon which the instruments were granted. The services received and a liability to pay for those services are recognised over the expected vesting period. The main assumptions of the Black-Scholes pricing model are as follows:

Grant date	24.10.11	31.08.10	08.05.09	28.10.08	28.04.06	27.10.05	19.04.04
Exercise price (pence)	152.0	248.0	275.0	274.16	559.75	430.25	347.5
Term (years)	3	7	7	3	7	7	7
Expected volatility	41%	23%	79%	90%	22%	20%	10%
Expected dividend yield p.a.	3.2%	1.9%	2.0%	2%	1.5%	1.5%	1.5%
Risk-free rate	0.9%	2.9%	1.5%	3.5%	4.5%	4.5%	4.5%
Expected forfeiture p.a.	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Expected volatility was determined by calculating the historical volatility of the Development Securities PLC share price over multiple time periods. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome. The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur.

Conditional awards under the Performance Share Plan

The terms of the Performance Share Plan are set out in the Remuneration Report on pages 57 to 64.

Ordinary shares conditionally awarded under the Performance Share Plan are valued at their fair value on the date of the award, using an Equal Probability Model, which takes into account the probability of the Ordinary shares vesting based on an equal probability of achieving appropriate total shareholder return ranking as determined under the performance condition.

The principal assumptions for calculating the fair value of the Ordinary shares conditionally awarded are:

	29th February 2012	31st December 2010
Ordinary shares conditionally awarded (no. of shares)	**624,508**	527,621
Date of award	**22nd March**	23rd April
Share price (pence)	**229.3**	264.0
Percentage probability applied for fair value	**52.00%**	36.88%
Vesting period (months)	**32**	32

The expense recognised for equity-settled share-based payments in respect of employee services received during the period is £21,000 (31st December 2010: £nil).

The credit recognised for cash-settled share-based payments during the period due to historic cash-settled options lapsing is £15,000 (31st December 2010: expense of £19,000).

Notes to the Consolidated Financial Statements continued

For the 14-month period ended 29th February 2012

21 Reserves and movements in equity

	Share capital £'000	Share premium £'000	Property revaluation reserve £'000	Net unrealised gain/(loss) reserve £'000	Capital redemption reserve £'000	Capital reserve £'000	Merger reserve £'000
At 1st January 2010	41,128	103,961	437	(497)	1,631	44,188	—
Net proceeds of issue of new shares	20,048	—	—	—	—	—	73,678
Transfer of merger reserve to retained earnings	—	—	—	—	—	—	(73,678)
Fair value of cross-currency interest rate swap	—	—	—	(2,819)	—	—	—
Deferred income tax credited directly to equity	—	—	—	761	—	—	—
Deficit on revaluation of operating properties	—	—	(310)	—	—	—	—
At 31st December 2010	61,176	103,961	127	(2,555)	1,631	44,188	—
Fair value of cross-currency interest rate swap	—	—	—	(4,268)	—	—	—
Deferred income tax credited directly to equity	—	—	—	1,067	—	—	—
Deficit on revaluation of operating properties	—	—	(127)	—	—	—	—
At 29th February 2012	**61,176**	**103,961**	**—**	**(5,756)**	**1,631**	**44,188**	**—**

The Capital redemption reserve arose from business combinations in prior financial periods. This reserve is not distributable.

Retained earnings	£'000
At 1st January 2010	53,171
Profit for the year	1,678
Transfer from merger reserve	73,678
Final dividend 2009	(1,974)
Interim dividend 2010	(1,974)
At 31st December 2010	124,579
Loss for the period	(12,592)
Share based payments	21
Final dividend 2010	(2,937)
Interim dividend 2012	(2,937)
At 29th February 2012	**106,134**

22 Note to the cash flow statement

Reconciliation of operating profit to net cash outflow from operating activities:

	29th February 2012 £'000	31st December 2010 £'000
(Loss)/profit before income tax	**(10,167)**	2,649
Adjustments for:		
Gain on disposal of investment properties	**(211)**	(313)
Net loss/(gain) on revaluation of property portfolio	**4,772**	(8,769)
Other income	**(750)**	(186)
Share of post-tax profits of joint ventures and associates	**(1,577)**	(2,914)
Loss on sale of other fixed assets	**28**	32
Impairment of assets	**1,575**	—
Finance income	**(2,571)**	(1,542)
Finance cost	**13,215**	11,510
Depreciation of property, plant and equipment	**1,003**	701
Operating cash flows before movements in working capital	**5,317**	1,168
Increase in development and trading properties	**(18,374)**	(61,014)
Increase in receivables	**(2,661)**	(570)
Increase/(decrease) in payables	**233**	(8,318)
Decrease in provisions	**(3,367)**	(1,071)
Cash flows from operating activities	**(18,852)**	(69,805)

23 Financial commitments and operating lease arrangements

Capital commitments

At 29th February 2012, the Group had contracted capital expenditure of £782,000 (31st December 2010: £473,000). In addition, the Group has commitments for loans to its associates amounting to £4,976,000 (31st December 2010: £7,855,000).

Operating lease arrangements:

Operating lease arrangements in respect of land and buildings where the Group is lessee:

	29th February 2012 £'000	31st December 2010 £'000
Minimum lease payments under operating leases recognised for the period	**3,726**	3,109

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:

	29th February 2012 £'000	31st December 2010 £'000
Within one year	**3,689**	3,726
In the second to fifth years inclusive	**12,809**	14,171
After five years	**13,053**	15,380
	29,551	33,277

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases were negotiated for an average term of 15.2 years (31st December 2010: 15.2 years).

In respect of operating lease arrangements where the Group is lessor, at the balance sheet date, the Group had contracted with tenants for the following future minimum payments:

	29th February 2012 £'000	31st December 2010 £'000
Within one year	**16,767**	13,380
In the second to fifth years inclusive	**42,112**	46,821
After five years	**76,812**	86,099
	135,691	146,300

Property investment income earned during the period was £17,085,000 (31st December 2010: £12,865,000).

24 Contingent liabilities

In the normal course of its development activity the Group is required to guarantee performance bonds provided by banks in respect of certain obligations of Group companies. At 29th February 2012, such guarantees amounted to £34,000 (31st December 2010: £34,000).

The Group has provided guarantees for rent liabilities in respect of properties previously occupied by Group companies. In the event that the current tenants ceased to pay rent, the Group would be liable to cover any shortfall until the building could be re-let. The Group has made provision against crystallised liabilities in this regard. In respect of potential liabilities where no provision has been made, the annual rent-roll of the buildings benefiting from such guarantees is £503,000 (31st December 2010: £374,000) with an average unexpired lease period of 4.1 years (31st December 2010: 6.7 years).

The Group has guaranteed its share of the interest payable by Wessex Property Fund (see note 14(a)) in respect of the Fund's borrowings of £17,500,000. The interest liability is currently covered by the Fund's rental income.

The Group has guaranteed its share of the capital and interest payable by Curzon Park Limited, a joint venture, in respect of the company's borrowings of £15,610,000.

The Group has guaranteed its share of interest up to a maximum of £575,000 in respect of the £26,000,000 loan in Notting Hill (Guernsey HoldCo) Limited.

25 Pension scheme

The Company operates a defined contribution scheme for Directors and employees. Monthly premia are invested in an independent insured fund. The amounts charged to the Statement of Comprehensive Income during the period are set out in note 5.

Notes to the Consolidated Financial Statements continued

For the 14-month period ended 29th February 2012

26 Related parties

During the period, the Group entered into transactions, in the ordinary course of business, with related parties.

Transactions entered into and balances outstanding at 29th February 2012 and 31st December 2010 with related parties are set out below. Only Directors are considered to be key management personnel. There were no transactions with Directors other than remuneration set out in the Remuneration Report on pages 57 to 64.

	Finance income from related parties £'000	Amounts owed by related parties (before provision) £'000
Joint ventures		
29th February 2012	—	23,193
31st December 2010	—	11,473
Associates		
29th February 2012	1,322	20,323
31st December 2010	668	14,341

27 Projects in partnership

The following is a summary of the Group's projects in partnership and the Balance Sheet classification of its financial interests:

Project/partner	Project activity	Accounting classification	**29th February 2012 £'000**	31st December 2010 £'000
Barwood Land and Estates Limited	Strategic land investment	Investment in associates	**1,500**	1,500
		Financial assets	**—**	1,178
Barwood Development Securities Limited	Strategic land investment	Investment in associates	**2,500**	—
Atlantic Park (Bideford) Limited	Strategic land investment	Investment in associates	**276**	444
Wessex Property Fund	Property investment	Investment in associates	**—**	—
CTP Securities Limited	Property development	Investment in associates	**—**	—
		Financial assets	**19,916**	14,328
Continental Estates Corporation BV	Holding of investments	Investment in associates	**—**	—
		Financial assets	**89**	89
Manchester Arena Complex LP	Investment property	Investment in joint ventures	**9,627**	9,718
Curzon Park Limited	Property development	Investment in joint ventures	**—**	—
		Financial assets	**5,000**	5,000
Beyond Green Developments	Property development	Development properties	**5,112**	4,516
Wessex Investors	Property development	Development properties	**3,360**	3,121
Grantham Associates	Hotel operator	Trading property	**4,267**	4,215
Orion Shepherds Bush Limited	Property development	Financial assets	**2,545**	408
Cathedral (Greenwich Village) LLP	Property development	Financial assets	**2,185**	1,437
Property Alliance Group	Property development	Financial assets	**1,500**	—
S Harrison Developments Lichfield Limited	Property development	Investment in joint ventures	**2,423**	—
Accrue Student Housing GP Limited	Student accommodation	Investment in joint ventures	**1,438**	—
Notting Hill (Guernsey Holdco) Limited	Development property	Investment in joint ventures	**6,082**	—
Purplexed LLP	Property development	Investment in joint ventures	**6,864**	—
Development Equity Partners Limited	Property development	Investment in joint ventures	**134**	—
			74,818	45,954

The aggregate amounts included within each relevant Balance Sheet account are as follows:

	29th February 2012 £'000	31st December 2010 £'000
Investment in associates	**4,276**	1,944
Investment in joint ventures	**26,568**	9,718
Financial assets – current	**1,700**	200
Financial assets – non-current	**29,535**	22,240
Development properties	**8,472**	7,637
Trading properties	**4,267**	4,215
	74,818	45,954

28 Post balance sheet events

Since the balance sheet date the Group has entered into the following significant contracts:

In March 2012, the Group entered into a joint venture agreement to acquire and develop a vacant 19-acre site in East London for £1,760,000.

In April 2012, the Group entered into a joint venture established to acquire a vacant residential building adjacent to the Olympic Park in East London. Subsequently the building was purchased by the jointly controlled entity for £15,700,000. The Group's share of the entity is 35.0 per cent.

During April, contracts have been exchanged for the sale of seven development and trading assets with a combined book value of £4,500,000. These sales are due to complete by the end of May 2012.

Company Independent Auditors' Report

We have audited the Parent company financial statements of Development Securities PLC for the 14-month period ended 29th February 2012 which comprise the Parent Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on pages 55 and 56, the Directors are responsible for the preparation of the Parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the Parent company financial statements:
- give a true and fair view of the state of the Company's affairs as at 29th February 2012;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial period for which the Parent company financial statements are prepared is consistent with the Parent company financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the Parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter
We have reported separately on the Group financial statements of Development Securities PLC for the 14-month period ended 29th February 2012.

Andrew Paynter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
1st May 2012

Company Balance Sheet

As at 29th February 2012

	Notes	£'000	29th February 2012 £'000	£'000	31st December 2010 £'000
Fixed assets					
Tangible assets	32	**862**		963	
Financial assets	35	**13,735**		6,111	
Investments	33	**96,299**		96,198	
			110,896		103,272
Current assets					
Financial assets	35	**1,700**		467	
Debtors	34	**530,541**		525,742	
Cash in hand and at bank		**23,626**		50,167	
		555,867		576,376	
Creditors					
Amounts falling due within one year	36(a)	**(265,925)**		(312,844)	
Net current assets			**289,942**		263,532
Total assets less current liabilities			**400,838**		366,804
Creditors					
Amounts falling due after more than one year:					
Bank loans	36(b)	**(75,615)**		(56,850)	
Provisions for liabilities	36(c)	**(1,051)**		(4,634)	
			(76,666)		(61,484)
Net assets			**324,172**		305,320
Capital and reserves					
Called up share capital	37		**61,176**		61,176
Share premium	38		**103,961**		103,961
Capital redemption reserve	38		**1,631**		1,631
Profit and loss account	38		**157,404**		138,552
Total equity shareholders' funds			**324,172**		305,320

The notes on pages 108 to 114 are an integral part of these financial statements.

Approved by the Board of Directors on 1st May 2012 and signed on its behalf by

M H Marx
Director

Notes to the Company Financial Statements

For the 14-month period ended 29th February 2012

29 Accounting policies

a) Basis of accounting

The Company's financial statements have been prepared in accordance with applicable laws and United Kingdom accounting standards and on a going concern basis and under the historical cost convention. The accounting policies adopted are consistent with the previous year and are set out below.

The Company has not presented its own profit and loss account, as permitted by s408 of the Companies Act 2006. The profit after tax for the period was £24,705,000 (31st December 2010: £8,467,000 loss).

The Company has taken advantage of the exemption from preparing a Cash flow statement under the terms of FRS 1.

The Company has also taken advantage of the exemption in paragraph 2D of FRS 29, 'Financial Instruments: Disclosures' and has not disclosed information required by that standard, as the Group's Consolidated financial statements, in which the Company is included, provide equivalent disclosures for the Group under IFRS 7, 'Financial Instruments: Disclosures'.

The financial statements were approved by the Directors for issue on 1st May 2012.

b) Investments

The Company's investments in subsidiaries, associates and joint ventures are accounted for in the financial statements at cost less any provision for impairment.

Loans and receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

c) Operating leases

Rental payments under operating leases are charged on a straight-line basis to the profit and loss account over the lease term even if the payments are not made on such a basis.

d) Tangible assets

Tangible assets are held at cost less accumulated depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided so as to write off the cost less estimated residual value of such assets over their expected useful lives on a straight-line basis. The principal annual rates used for this purpose are as follows:

Fixtures and fittings and computer equipment	– 10% to 33%
Motor vehicles	– 20%

e) Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The accretion in the discount is recognised as an interest expense.

f) Taxation

Current tax is the expected tax payable on the taxable income for the period, using tax rates applicable at the balance sheet date, together with any adjustment in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences or unutilised tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Income tax relating to items recognised directly in equity is recognised in equity and not in the profit and loss account. Deferred tax is measured on a non-discounted basis.

g) Pension schemes

The Company operates a defined contribution scheme on behalf of the Development Securities PLC Group. The charge to the profit and loss account in the period represents the actual amount payable to the scheme in the period. Differences between contributions payable in the period and contributions paid are shown as either accruals or prepayments in the Balance Sheet.

h) Foreign currencies

Transactions denominated in foreign currencies are translated into UK Sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Exchange movements are dealt with in the Profit and loss account.

i) Share-based payments

The Company operates a number of share-based compensation plans, the majority of which are cash-settled, under which the entity receives services from employees as consideration for cash-settled instruments of the Company. The fair value of the employee services received in exchange for the grant of the option is recognised as an expense.

The Company has used a Black-Scholes option valuation model to determine the fair value of share options granted. An equal probability model has been used to determine the fair value of share awards under the Performance Share Plan. The cost of cash-settled transactions with employees and Directors is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. In valuing cash-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of cash-settled share-based instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the Profit and loss account, with a corresponding entry in accruals.

30 Auditors' remuneration

Auditors' remuneration in respect of the audit for the Company was £15,000 (31st December 2010: £15,000).

31 Operating lease arrangements

	29th February 2012 £'000	31st December 2010 £'000
The Company as lessee:		
Minimum lease payments under operating leases recognised for the period	**1,168**	941

Annual commitments under non-cancellable operating leases are as follows:

	29th February 2012 £'000	31st December 2010 £'000
Operating leases which expire:		
Within one year	**—**	—
In the second to fifth years inclusive	**1,168**	1,168
After five years	**763**	763
	1,931	1,931

Operating lease payments represent rentals payable by the Company for its office property. The lease payments were negotiated for an average term of 11.5 years (31st December 2010: 11.5 years).

32 Tangible assets

	Fixtures and fittings and computer equipment £'000	Motor vehicles £'000	Total £'000
Cost			
At 1st January 2011	1,019	357	1,376
Additions	192	68	260
Disposals	(99)	(109)	(208)
At 29th February 2012	1,112	316	1,428
Accumulated depreciation			
At 1st January 2011	217	196	413
Charge for the period	233	67	300
Disposals	(54)	(93)	(147)
At 29th February 2012	396	170	566
Net book amount 29th February 2012	716	146	862
Net book amount 31st December 2010	802	161	963

Notes to the Company Financial Statements continued

For the 14-month period ended 29th February 2012

33 Investments

	Shares in subsidiary undertakings £'000	Interest in associated undertakings £'000	Interest in loan notes £'000	Interest in joint ventures £'000	Total £'000
Cost at 1st January 2011	133,414	997	9,014	446	143,871
Additions	1	—	100	—	101
Transfer to subsidiary	—	—	—	(446)	(446)
At 29th February 2012	133,415	997	9,114	—	143,526
Amounts provided:					
At 1st January 2011	(45,730)	(997)	(500)	(446)	(47,673)
Transfer to subsidiary	—	—	—	446	446
At 29th February 2012	(45,730)	(997)	(500)	—	(47,227)
Net book amount 29th February 2012	87,685	—	8,614	—	96,299
Net book amount 31st December 2010	87,684	—	8,514	—	96,198

Interest in loan notes includes £89,000 (31st December 2010: £89,000) invested in loan stock of Continental Estates Corporation BV. Continental Estates Corporation BV is incorporated and registered in The Netherlands. The company's principal activity is currently as an investment holding company. Details of the Company's equity investment in Continental Estates Corporation BV are set out in note 14(a) of the Group financial statements.

The Company holds £8,525,000 (31st December 2010: £8,425,000) of loan notes in CTP Securities Limited, a company incorporated and registered in the United Kingdom. The loan notes earn interest at a fixed rate of 4.25 per cent per annum.

The principal subsidiaries of the Company are set out in note 14(c) of the Group financial statements.

34 Debtors

	29th February 2012 £'000	31st December 2010 £'000
Trade debtors	**1**	156
Amounts owed by subsidiary undertakings	**525,746**	518,360
Amounts owed by associated undertakings	**105**	—
Other debtors	**2,556**	3,708
Other taxation recoverable	**210**	1,598
Prepayments	**1,923**	1,920
	530,541	525,742

Amounts owed by subsidiary undertakings are unsecured, interest free and repayable on demand.

35 Financial assets

Fixed assets	29th February 2012 £'000	31st December 2010 £'000
Available-for-sale financial assets – loans to joint ventures	**13,735**	6,111

Current assets	29th February 2012 £'000	31st December 2010 £'000
Available-for-sale financial assets – loans and receivables (refer note 18(a))	**1,700**	467

Development loans to joint ventures include a number of working capital and project specific loans of £11,191,000 (31st December 2010: £5,703,000) to CTP Securities Limited. The loans attract fixed coupon rates of between 5.0 and 13.0 per cent. In addition an interest free loan of £208,000 is included in the above amount. The Company also provided a short-term, non-interest bearing loan of £200,000 to CTP Securities Limited.

The Company has provided funding to Orion Shepherds Bush Limited. As at 29th February 2012, £2,544,000 (31st December 2010: £408,000) had been advanced, attracting a fixed coupon rate of 3.0 per cent.

The Company has provided £1,500,000 to Property Alliance Group as a contribution to a prospective future project. This amount is repayable on demand.

36 Creditors

a) Amounts falling due within one year	29th February 2012 £'000	31st December 2010 £'000
Bank loans and overdrafts – unsecured	**17**	17
Bank loans – secured	**1,671**	—
Trade creditors	**144**	82
Amounts owed to subsidiary undertakings	**257,435**	304,448
Amounts owed to associated undertakings	**1,932**	1,932
Other creditors	**1,765**	2,455
Taxation and social security	**671**	1,460
Accruals	**2,290**	2,450
	265,925	312,844

Amounts owed to subsidiary undertakings are unsecured, interest free and repayable on demand.

b) Amounts falling due after more than one year	29th February 2012 £'000	31st December 2010 £'000
Bank loans	**75,615**	56,850

c) Amounts falling due after more than one year	29th February 2012 £'000	31st December 2010 £'000
Provisions for liabilities	**1,051**	4,634

The provision of £1,051,000 (31st December 2010: £1,010,000) relates to an onerous lease obligation entered into in 2009. During the period, the Company made a payment of £3,624,000 in respect of a lease to Stead & Simpson Limited of which the Company was a guarantor. The payment represents the final obligation as guarantor.

Notes to the Company Financial Statements continued

For the 14-month period ended 29th February 2012

37 Called up share capital

Issued, called up and fully paid	29th February 2012 £'000	31st December 2010 £'000
122,352,504 Ordinary shares of 50 pence (31st December 2010: 122,352,504 Ordinary shares of 50 pence)	**61,176**	61,176

	Number of shares
Shares in issue at the date of this report	122,352,504

The Company has one class of Ordinary shares which carry no right to fixed income.

The movement in share capital is set out in note 38.

Share option schemes

As at 29th February 2012 and at the date of this report, the options outstanding under the Company's share option schemes were exercisable as set out below (price stated in pence per share). The share options are more fully described in the Remuneration Report on pages 57 to 64.

Executive share option scheme 1995:

Date of grant	Number 29.02.12	Number 01.05.12	Exercise dates	Price
19th April 2004	69,382	69,382	19th April 2007 to 18th April 2014	347.50
	69,382	69,382		

Executive share option plan 2005:

Date of grant	Number 29.02.12	Number 01.05.12	Exercise dates	Price
27th October 2005	41,435	41,435	27th October 2008 to 26th October 2015	430.25
28th April 2006	41,435	41,435	28th April 2009 to 27th April 2016	559.75
8th May 2009	103,587	103,587	8th May 2012 to 7th May 2019	275.00
31st August 2010	120,000	120,000	31st August 2013 to 30th August 2020	248.00
	306,457	306,457		

Save as you earn option plan 2005:

Date of grant	Number 29.02.12	Number 01.05.12	Exercise dates	Price
28th October 2008	3,501	3,501	1st December 2011 to 31st May 2012	274.16
24th October 2011	192,021	192,021	1st December 2014 to 31st May 2015	152.00
	195,522	195,522		

Share-based payments

The following table illustrates the number and weighted average exercise prices of, and movements in, share options during the period:

	Number	29th February 2012 Weighted average exercise price (pence)	Number	31st December 2010 Weighted average exercise price (pence)
At 1st January	**528,647**	**325.3**	418,447	346.2
Options granted	**193,205**	**152.0**	120,000	248.0
Options lapsed	**(76,914)**	**361.1**	(7,281)	274.2
Options cancelled	**(73,577)**	**272.2**	(2,519)	274.2
	571,361	**268.7**	528,647	325.3

Any options granted on or before 7th November 2002 have not been recognised under FRS 20 under the exemption in that standard. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with FRS 20.

The weighted average fair value of options granted during the period was £0.50 (31st December 2010: £0.50). The average share price during the period was 194.1 pence (31st December 2010: 255.0 pence). Of the 571,361 (31st December 2010: 528,647) outstanding options at 29th February 2012, 155,753 were exercisable (31st December 2010: 229,166).

The options outstanding at 29th February 2012 were exercisable between 152.0 pence and 559.8 pence per share and have a weighted average remaining contractual life of 5.3 years (31st December 2010: 4.2 years).

The fair value of grants is measured at the grant date using a Black-Scholes pricing model, taking into account the terms and conditions upon which the instruments were granted. The services received and a liability to pay for those services are recognised over the expected vesting period. The main assumptions of the Black-Scholes pricing model are as follows:

Grant date	24.10.11	31.08.10	08.05.09	28.10.08	28.04.06	27.10.05	19.04.04
Exercise price (pence)	152.0	248.0	275.0	274.16	559.75	430.25	347.5
Term (years)	3	7	7	3	7	7	7
Expected volatility	41%	23%	79%	90%	22%	20%	10%
Expected dividend yield p.a.	3.2%	1.9%	2.0%	2.0%	1.5%	1.5%	1.5%
Risk-free rate	0.9%	2.9%	1.5%	3.5%	4.5%	4.5%	4.5%
Expected forfeiture p.a.	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Expected volatility was determined by calculating the historical volatility of the Development Securities PLC share price over multiple time periods. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur.

Conditional awards under the Performance Share Plan

The terms of the Performance Share Plan are set out in the Remuneration Report on pages 57 to 64.

Ordinary shares conditionally awarded under the Performance Share Plan are valued at their fair value on the date of the award, using an Equal Probability Model, which takes into account the probability of the Ordinary shares vesting based on an equal probability of achieving appropriate total shareholder return ranking as determined under the performance condition.

The principal assumptions for calculating the fair value of the Ordinary shares conditionally awarded are:

	29th February 2012	31st December 2010
Ordinary shares conditionally awarded (no. of shares)	**624,508**	527,621
Date of award	**22nd March**	23rd April
Share price (pence)	**229.3**	264.0
Percentage probability applied for fair value	**52.00%**	36.88%
Vesting period (months)	**32**	32

The expense recognised for equity-settled share-based payments in respect of employee services received during the period is £21,000 (31st December 2010: £nil). The credit recognised for cash-settled share-based payments during the period due to historic cash-settled options lapsing is £15,000 (31st December 2010: expense of £19,000).

Notes to the Company Financial Statements continued

For the 14-month period ended 29th February 2012

38 Reconciliation of movements in shareholders' funds

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000
At 1st January 2010	41,128	103,961	1,631	—
Net proceeds of issue of new shares	20,048	—	—	73,678
Transfer of merger reserve to profit and loss account	—	—	—	(73,678)
At 31st December 2010	61,176	103,961	1,631	—
At 29th February 2012	61,176	103,961	1,631	—

Profit and loss account	£'000
At 1st January 2010	77,289
Loss for the year	(8,467)
Transfer from merger reserve	73,678
Final dividend 2009	(1,974)
Interim dividend 2010	(1,974)
At 31st December 2010	138,552
Profit for the year	24,705
Share based payments	21
Final dividend 2010	(2,937)
Interim dividend 2012	(2,937)
At 29th February 2012	157,404

The profit after tax of the Company was £24,705,000 (31st December 2010: £8,467,000 loss).

39 Contingent liabilities

The contingent liabilities of the Group are set out in note 24. The Company has provided guarantees in respect of loans and overdrafts of its subsidiary entities totalling £149,299,000 (31st December 2010: £119,472,000). In addition, the Company has guaranteed the performance of subsidiary entities under a range of operating obligations, none of which is expected to give rise to a liability in the Company.

40 Related parties

Related party transactions are the same for the Company as for the Group. Details can be found in note 26 of the Group financial statements. The Company has taken advantage of the exemption within FRS8, not to disclose transactions with wholly owned subsidiaries.

Financial Calendar

Annual General Meeting	28th August 2012
Payment of Ordinary dividend	26th October 2012
Announcement of Interim Results to 31st August 2012	October 2012

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Chartered Accountants and Statutory Auditors

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Barclays Bank PLC
Lloyds Banking Group
Santander Group
The Royal Bank of Scotland plc
The Co-operative Bank

Corporate solicitors
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