31st March 2009

DEVELOPMENT SECURITIES PLC – UNAUDITED PRELIMINARY RESULTS

Proven Resilience in Challenging Markets

Development Securities PLC, a leading property development and investment company, today announces a loss before tax of £65.6 million for the year ended 31st December 2008, compared to £0.2 million profit for the previous year. As a consequence, shareholders funds decreased by £67.9 million to £161.0 million or 397p per share. This compares to £228.9 million and 564p for last year, a decrease of 29.6 per cent, considerably less than the sector average.

The significant components of the reduction in shareholder funds arose from the severe decline in the property markets, which generated valuation decreases of £45.1 million, £11.5 million and £9.8 million on the investment, trading and joint venture and associates portfolios respectively. In addition, other one-off charges included an £5.9 million repayment fee on a long-term loan, which has been re-financed at current lower rates, a £5.6 million charge in respect of interest rate instruments and a £2.8 million charge in relation to liabilities arising from the receivership of Stead & Simpson Limited. These reductions in net worth were mitigated by strong development profits of £22.9 million.

Despite these disappointing results, the board believes that the Company is resilient and well positioned in this cyclical downturn, due to its attractive levels of cash liquidity, modest net gearing and a focused development programme that achieved excellent results last year from the successfully completed and let buildings at PaddingtonCentral and West Quay, Southampton. Also, the Company has not sought to renegotiate its banking loan-to-value covenants.

Financial summary

unaudited for the year ended 31st December 2008

	31st Dec 2008	31st Dec 2007
(Loss) / profit before tax	£(65.6) million	£0.2 million
(Loss) / earnings per share	(149.2)p	0.0p
Net assets	£161.0 million	£228.9 million
Net assets per share	397p	564p
Dividend per share	4.8p	7.2p
Gearing *	54.1%	31.2%

* refer note 13

Property and other highlights

Property development portfolio

PaddingtonCentral

- One Kingdom Street was completed in February 2008 and has been largely let to Vodafone, Statoil UK Ltd and Misys plc.
- Two Kingdom Street, comprising 230,000 sq. ft. offices and 22,000 sq. ft. studios, is under construction and is due to be completed early next year.
- Three Kingdom Street, a 206-room four star hotel pre-let to Accor was completed in August 2008.

CityPark, Manchester

- The development provides 147,000 sq. ft. of office accommodation and a 250-room hotel.
- Construction is continuing on this office scheme, which has been forward sold to a private investor for part owner occupation and which will complete later this year. The site for the hotel was sold in 2007.

West Quay, Southampton

- This 210,000 sq. ft. office, developed with Aviva Investors, was completed two months ahead of schedule in December 2008.
- It is let to Carnival UK, the world's largest cruise company, as its UK headquarters building.

St Bride Street

- Development commenced at St Bride Street in the City of London in a joint venture with funding partner, Corpus Sireo Immobilienfonds.
- The six-storey building will provide some 50,000 sq. ft. of new Grade A office space and 4000 sq. ft. of restaurant space.

Hammersmith Grove, London

- Planning consent has been secured for an office/cinema/restaurant development on this 1.5-acre site in Hammersmith town centre immediately adjacent to the tube station, but discussions on funding have yet to be completed.

Colindale, London NW9

- It was announced during the year that the due date on the £52.0 million loan notes currently outstanding from the private property investor who bought the development in 2007, had been extended by mutual agreement but the purchaser was unable to complete the acquisition and we have now appointed an LPA receiver to repossess the property on our behalf.

Property Investment Portfolio

- We achieved superior levels of returns for the year with a negative 18.7 per cent total return from our property investment portfolio compared to relevant IPD UK Annual Property Index, which recorded a 22.1 per cent negative return.
- On a five-year average, the investment portfolio returned 10.5 per cent, compared to 5.1 per cent for the relevant IPD UK Index.

David Jenkins, Chairman of Development Securities PLC, commented:

"It is with regret that I report this year's results, but the circumstances leading to them arise from a sequence of events that are unprecedented in living memory.

I still believe that the company is well prepared to weather this cyclical downturn and our strategy of forward funding large-scale development projects, restricting ourselves to a modest level of net gearing and maintaining an investment portfolio to contribute cash flow to our operational costs, provides us with the resilience necessary to withstand the shocks caused by current economic and financial events.

Our business model does not depend on debt, but rather on institutional equity for development finance and we have been in discussions with our traditional UK and European funding partners as well as having early stage dialogues with a broader group of overseas investors to ensure that we have the necessary funding take advantage of opportunities when the market does eventually bottom and opportunities arise."

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Chairman's statement

It is with considerable regret that I report a loss before tax of £65.6 million, the first time since 1992 that your Company has reported a significant loss to shareholders. The circumstances leading to this result arise from a sequence of events that are unprecedented in living memory. As a consequence, shareholders' funds decreased by £67.9 million to £161.0 million, equivalent to 397 pence per share. This compares to £228.9 million and 564 pence per share twelve months earlier, with this year's results thus representing a decline in net worth of some 29.6 per cent.

Our active development programme achieved excellent results from the successfully completed and let buildings at Paddington and Southampton, but the severe decline of the property markets generated valuation decreases totalling £82.0 million across our investment, trading and joint venture portfolios. The 22.1 per cent decline in the Investment Property Databank index (IPD)* in 2008, as compared to the fall of 8.4 per cent recorded at the mid point of the year, reflected the increasing pace of outward yield shift and rental declines as the year progressed. The dysfunctioning banking markets in the United Kingdom have mirrored those in most of Europe and North America and have caused a severe credit and liquidity crisis which has impacted most immediately on the real estate sector. For as long as I can recall, and certainly during the last 15 years, bank debt has provided the key leverage whereby property investors generated investment returns. However, the excessive leverage provided by the banking and related sectors helped to generate the unsustainable boom of recent years in property values, both commercial and residential. The unwinding of these inflated values was inevitable, but it has been the pace and extent of the decline that took even the most cautious of market participants and commentators by surprise.

It is self evident that we are closer to the bottom of the market than we were 12 months ago, but that is of scant comfort given the acceleration in downward market momentum that was witnessed in the final quarter of 2008.

In the circumstances that pertain today, your Board feels that it would be appropriate to recommend the payment of a final Ordinary dividend of 2.4 pence per share for the year, payable on 6th July 2009 to shareholders on the register on 12th June 2009. Matching the interim dividend of 2.4 pence per share, which was paid on 28th October 2008, will bring the total Ordinary dividend for 2008 to 4.8 pence per share, a one third reduction from the 7.2 pence per share paid in respect of 2007.

The reduced final Ordinary share dividend for 2008 reflects the need for a conservative approach to finances. As shareholders will appreciate, our business model does not depend on the provision of debt for development finance in respect of our large urban regeneration projects and accordingly our Balance sheet has been much less negatively impacted than would otherwise have been the case. Whilst our strategy of maintaining a relatively prudent level of net gearing* reflected an awareness of the traditional vulnerability of property values to external factors, it was never in our contemplation that there could be such a combination of events so as to occasion the economic adversity we have witnessed. One seldom regrets prudence.

Accordingly, due to our relatively attractive levels of cash liquidity and modest net gearing, we do not envisage the requirement to raise additional equity from our shareholders for the purpose of complying with our banking loan to value covenants. Even after significant reductions in shareholder funds, our net gearing at 31st December 2008 was 54.1 per cent. Net gearing, excluding £33.2 million of net debt arising from our 2027 Unsecured Subordinated Loan Note facility, was 33.5 per cent.

In December 2008, your Company acknowledged that these problematic trading conditions were likely to continue for an extended period and implemented a programme of overhead review which included a voluntary 10.0 per cent reduction in remuneration for the Executive Directors and a voluntary 7.5 per cent reduction from senior members of the management team with effect from January 2009.

Strategy

Our traditional three-pronged strategy of forward-funding large-scale development projects, restricting ourselves to a modest level of net gearing and maintaining an investment portfolio to contribute cash flow to our operational costs, has provided us with the resilience necessary to withstand the initial shocks caused by current economic and financial events. However, we clearly now need to adjust to the realities in which we find ourselves.

Our decision in early 2005 to withdraw from commencing new development projects in Central London was appropriate. Perhaps unsurprisingly, it is here that we anticipate the recovery in the next cycle will commence. London's stature as a pre-eminent international financial and business centre will mean it likely that large-scale urban regeneration will focus on the main Central London markets and we believe that the scale and complexity of such projects will continue to afford us a competitive advantage.

For the opportunities that are likely to emerge, we will again partner our skills to institutional equity and we intend to approach the traditional funding partners with whom we have engaged in previous cycles as well as casting the net wider in the search for the scale of equity such that is likely to be needed.

Our investment strategy for nearly a year now has been to remain firmly on the sidelines as far as additions to our investment portfolio are concerned. The widening arbitrage of returns between cash and investment property is compelling us cautiously to reassess that posture.

Mid the red ink, it seems churlish to talk of out-performance, but it is perhaps worth recording that we achieved a superior level of returns from our property investment portfolio to those recorded in the overall market. We recorded a negative 18.7 per cent IPD Total Portfolio Return* in 2008, compared to the IPD UK Annual Property Index of a negative 22.1 per cent.

Outlook

At some stage, the low point in the market will be reached. In the likely absence of any significant new real estate finance becoming available from the banking sector, it would appear that property values will only be underpinned when cash investors, perhaps with modest levels of gearing, enter the market in a meaningful way. Whilst this point of inflection may be with us later in 2009, we remain cautious since the continuing decline in economic activity and a significant negative GDP growth, will mean more and perhaps extended challenges within the occupational markets. Indeed, we anticipate the occupational markets will continue their decline through 2009 and 2010 as the recession deepens.

Our ability to intermediate between medium-term development opportunities and long-term investors will become increasingly relevant. As well as our more traditional UK and European development funding partners, we are in the early stages of dialogue with a number of overseas investors that might have appetite for appropriately timed investment and development risk as well as exposure to Central London, especially given the recent decline in Sterling alongside the significant fall in the property values. From a property acquisition point of view, I do not anticipate that your Company will remain on the sidelines of the market for very much longer as pricing of property continues to move towards its eventual low point.

Conclusion

Almost wherever one may look today, confidence has deteriorated markedly, with cash being the scarcest and most sought after resource. The significant deleveraging process within the UK and global financial systems that is now underway has led us into this economic recession. There is now every prospect that the recessionary impact on the UK economy will apply further pressure to our fragile banking system. In turn, we expect the banks to increase the pressure on the real estate sector to assist them in the deleveraging process, with the result that the financing burden in the market generally, for the foreseeable future, may remain with shareholders to ensure capital adequacy within the sector. In the final analysis, the Government is the lender of last resort and it would come as no surprise to see it having further recourse to the printing presses, eventually leading the economy back to an inflationary environment. I believe that, since we have a business model that has traditionally faced towards equity rather than debt; our expertise will be recognised perhaps sooner than might otherwise have been the case.

If I may, I would like to repeat my welcome to our new Finance Director, Graham Prothero who joined us in November 2008. He takes over this position from Michael Marx who continues as Chief Executive. It remains for me to thank all of our Directors, management and staff for their valued contributions in this difficult year. The year ahead will also have its challenges, but I would not wish for a better team with which to face them.

David Jenkins
Chairman
31st March 2009

* refer note 13

Review of operations

Commercial property can be seen as part cause but certain victim of the current financial market and economic turmoil.

Development

PaddingtonCentral

Significant progress was achieved during 2008 on this major Central London regeneration project. Practical completion of One Kingdom Street was achieved in February 2008 and we are pleased to report that the 250,000 sq. ft. prime office building is now fully let bar 13,300 sq. ft. which currently remains vacant. The quality of the tenants reflects the excellent environment which our development has created at PaddingtonCentral, with Vodafone, Misys plc and Statoil UK Limited sharing the overwhelming majority of accommodation. The 206-room four star hotel, let to Accor, at Three Kingdom Street, attained practical completion in August 2008 and was open for business in the autumn of last year.

In January 2008, Morley Fund Management and Quinlan Private formed a joint-venture partnership to fund Two Kingdom Street, the latest speculative development phase to be initiated, representing 230,000 sq. ft. net of prime office accommodation and 22,000 sq. ft. of high-end studio space. Construction started in February 2008 and is programmed for completion in early 2010.

St Bride Street, London EC4

Construction has now commenced in respect of this 54,000 sq. ft. office and retail project forward funded with the Luxembourg-based Corpus Sireo Immobilienfonds. Practical completion is scheduled for the first quarter of 2010.

Colindale, London NW9

In November 2007, we completed the sale of 399 Edgware Road, London NW9 to a private investor for £68.0 million, with the consideration comprising both cash and loan notes payable on or before 30th June 2008. Subsequently, by mutual agreement, the due date on the outstanding £52.0 million loan notes was extended to 28th November 2008, to assist the purchaser in completing his financing arrangements. Unfortunately, due no doubt to the exceptionally difficult conditions in the banking markets, the purchaser was unable to complete the acquisition and we have now taken repossession of the property via a LPA Receiver, since all payments under the Loan Notes were secured by way of a first charge on the property in favour of Development Securities. Cash of £16.0 million received from the purchaser has been retained by us. Interest on the Loan Notes was paid by the purchaser up to 31st July 2008 and has been included within other income in the accompanying financial statements. We are now giving careful consideration to the options open to us to extract value from this property, including seeking an alternative planning consent, an operational partnership to re-open the existing building for retail activity or an outright sale.

The Royals Business Park

Early in 2008, we received £5.2 million from The London Development Agency, which included the reimbursement of infrastructure and other costs which had been incurred by us since commencement of this project. Following the disposal by our joint development partner, Standard Life Investments, of the initial 252,000 sq. ft. office facility, we are now planning a second phase which we intend to contain three hotels and a speculative office building of up to 75,000 sq. ft. An application for detailed planning consent will be submitted in due course.

West Quay, Southampton
In December 2008, we achieved practical completion of the prime headquarters building for Carnival UK, two months ahead of the scheduled delivery programme.

The 210,000 sq. ft. project, developed with Aviva Investors, occupies the West Quay site in Southampton's town centre. The building, with a 10,000 sq. ft. atrium and five storey sculpture surrounding its main entrance, was handed over to Carnival UK on 15th December 2008 for their internal fit out. Carnival UK had agreed, prior to commencement of the development, to take a 20-year lease upon practical completion. The entire development was funded by our joint development partner, Aviva Investors.

CityPark, Manchester
Construction is on schedule on the 147,000 sq. ft. office building, which was forward-sold in October 2007 to a private investor for part owner occupation. The scheme, financed on our own Balance sheet against the bank-guaranteed sale contract, is scheduled for completion in the final quarter of 2009. The leisure element of the site was sold in 2007, once we had obtained planning consent for a 250-room hotel.

Heart of Slough
The economic recession has significantly reduced expected levels of development at this mixed-use regeneration project with Slough Borough Council, English Partnerships and others. As originally conceived, it was to include 350,000 sq. ft. of office accommodation, a 50,000 sq. ft. library and 1,400 residential units. A planning application was submitted by ourselves in October 2008 in respect of 264,000 sq. ft. of office accommodation, together with associated public realm and underground car park. This is likely to be considered at the planning committee meeting in a few months time, together with the planning application submitted by the Local Authority regarding a new bus station. The economic viability of new office development at this time remains questionable without a significant pre-let.

Hartfield Road, Wimbledon, London SW19
Resolution to grant planning was obtained in May 2008 for 35,000 sq. ft. retail and 83,000 sq. ft. private apartments together with a number of affordable units. We are pleased that Merton Council remains a firm supporter of the project for which a pre-let of the retail component will be a necessary precursor of construction.

Broughton, Flintshire
With regard to our 19-acre residential site, the Planning Inspector's final report is now anticipated imminently by the Local Authority although, given the history of slow progress with his review of the emerging Unitary Development Plan (UDP), further delay should not be ruled out. We are encouraged that the status of our land remains designated for residential use in the emerging UDP. Given the clear slowdown in the housing market, we will need to give careful consideration as to how value can best be realised once the UDP has been ratified.

Negotiations have stalled with British Land PLC regarding the 171,000 sq. ft. extension to the existing Broughton Retail Park, in respect of which planning consent was obtained in March 2007 and part of which would be located on land owned by your Company. We are making contingent arrangements for the disposal of some of our peripheral land holdings.

Hammersmith Grove, London W6

In September 2007, we exchanged conditional contracts with London Underground Limited for the acquisition of a 1.5-acre site in Hammersmith town centre, immediately adjacent to the Hammersmith and City Line underground station. Our development will contain 325,000 sq. ft. of offices together with ancillary retail and leisure space. Although we were able to assemble the long-term equity partners required to finance this transaction, the lack of bank finance for the development stage left our original equity co-investors unable to proceed with the project as originally planned. It now seems likely that this development will need to await the next property cycle and we are in dialogue with Transport for London regarding an extension of our contractual arrangements.

Curzon Street, Birmingham

In June 2008, we achieved outline planning consent for some 1.4 million sq. ft. of office, residential, hotel and leisure uses on the 10.5 acre site which we acquired, in equal partnership with Grainger PLC, in November 2006. It is intended that the first phase will incorporate a 75,000 sq. ft. speculative office building, and a 200-bedroom hotel together with retail and leisure space. Curzon Street, which fronts Birmingham's new city park at the heart of Eastside, will represent one of Birmingham's major regeneration projects.

Cambourne

With three phases already completed at our 750,000 sq. ft. office park scheme located nine miles from Cambridge, the significant reduction in letting interest has compelled us to defer the next phase of 50,000 sq. ft., for which we own the land outright. Since we hold a 44.0 per cent interest in the land still remaining to be developed, we are now in early stages of discussion with our co-investors to restructure our 10-year development agreement, which expired at the end of last year.

Kirkby Shopping Centre, Liverpool

In April 2008, we disposed of our entire interest in Kirkby Shopping Centre for £65.5 million to Tesco. The consideration equaled the price we paid for the property 12 months previously, notwithstanding significantly more adverse market conditions.

Investment

Commercial property can be seen as part cause but certain victim of the current financial market and economic turmoil. As the credit crunch unfolded and debt became harder and more expensive to obtain, the driver of the market, the leveraged investor, was finally squeezed out, resulting in a significant fall in demand for investment assets.

The global financial system remains fragile with the risk of further systemic shocks still remaining and, whilst credit markets have finally begun to exhibit tentative signs of improvement, the property market has entered a difficult 'second' phase as the real economy itself slows down. This trend will inevitably dampen occupational demand and, though the market is faced with a modest supply of rentable stock by historical comparison, vacancies are increasing. Consequently, corporate failures and contracting activity levels lead us to believe that occupier demand will remain weak throughout 2009. Whilst this has been immediately obvious in the office markets, retail and industrial sectors are now also in distress. Risks on the occupational markets remain on the downside as gross domestic product estimates for 2009 continue to deteriorate possibly down to a negative 3.0 per cent, making this year likely to record the worst economic performance since 1946, inevitably bringing with it further rises in unemployment and its associated impacts.

As short-term rental growth turns negative, it is unlikely to stabilise and turn positive for a further two years thus maintaining the momentum of outward yield shift and the decline of capital values in the near term. Thereafter, a combination of improving rents, increased investor demand and the return of a modest level of banking activity to the sector should assist the generation of acceptable returns.

A further challenge for the sector in 2009 is the need to refinance maturing property debt. With commercial mortgage-backed securities markets likely to remain frozen, borrowers facing maturing loans have nowhere to turn for funds other than to their existing lenders. Banks will, in all likelihood, have to restructure these debts to avoid widespread defaults. However, original lenders sometimes may not wish, or indeed, be able to provide more capital. In these situations, a layer of fresh equity may be required to reduce debt to appropriate levels and additional expertise may be required to progress certain development situations. Such situations could be of interest to your Company.

We would expect the rate of capital value deterioration to ease but remain negative through the first six months of 2009. Investors are demanding a much higher risk premium as the process of deleveraging intensifies with tenant credit risk, illiquidity and depreciation quite properly coming back into the investment consideration. The dislocation between finance rates and asset yields indicates the lack of appetite for risk and the inability of the market to arrive at a rational risk premium. It is always thus in moments of crisis. With the risk free rate of return reaching unchartered lows, the risk premium for well let real estate is beginning to look more favourable, providing cash returns into double digits. This trend will provide a comparative return to assess more risky projects with income return properly re-emerging as the driver to property performance.

Our strategy will continue to focus on assets with a mix of core defensive income and asset management initiatives to drive value in the medium term. However, we need to be disciplined in evaluating each opportunity as income return will come under increasing pressure in the current economic downturn.

The revaluation of the total investment portfolio (including investment properties in development) at December 2008 showed a capital decline of £45.1 million or 25.2 per cent. Not only have yields softened further over the last six months reflecting events in both the wider economy and financial markets, but uncertainty over rental growth in the short term is leading to little value being attributed to rental reversions which are a key feature of our asset profile.

The dire news flow surrounding the retail industry has not, to date, significantly affected the 69.0 per cent retail component of our portfolio. Despite the number of retailers that have indicated financial distress in the previous six months, Development Securities' portfolio has registered only three shop closures out of a total of 101 retail tenants, representing only 1.3 per cent of rental income. Careful credit analysis along with implementation of creative asset management initiatives, remain the essential components to outperformance.

Swanley Shopping Centre

In this economic downturn we have revised our proposals to redevelop the Centre and will now create value through a phased refurbishment programme. The first phase will be a 16,000 sq. ft. letting to a national variety store operator, strengthening the focus of the town as a convenience based shopping centre. With the Centre re-anchored, we hope that new operators will be attracted to the scheme and improve rental tone, even in these challenging times.

Atlantic Village, Bideford
We are pleased to report that the recent opening of the adjacent 55,000 sq. ft. ASDA store has led to very significant increases in the number of shoppers to Atlantic Village. Our objective is to induce these shoppers to increase dwell time within the Centre and, to this end, we were pleased to secure Marks & Spencer into a newly configured 10,500 sq. ft. unit. We believe this letting will be the catalyst that allows us to upgrade the tenant profile and rental tone of this asset.

Atlantic Village has the clear potential to become the centre of choice for the local population, thus improving footfall, especially outside the tourist season. A master plan for 40,000 sq. ft. open A1 retail consent to act as an additional anchor will be submitted within a few months.

The Furlong Shopping Centre, Ringwood
During the year, we obtained planning permission to extend the fashion-led centre by 44,300 sq. ft. The current limited level of retail pre-let interest dictates that Ringwood will require a more rigorous phasing plan and a more conservative land acquisition strategy for the extension to be viable. Within the existing Centre, the inherent value of rental reversions, ignored in the current investment market pricing, will crystallise over the next three years as rent reviews come forward. Even within the existing difficult letting market, we leased a 1,500 sq. ft. new store to Crew Clothing, setting a record £85 Zone A rent. We also have good leasing interest in the remaining two vacant units.

Kingsland Shopping Centre, Thatcham
The scheme has been re-evaluated to improve viability by retaining the Waitrose store and reconfiguring the service areas thus enabling the development of an additional 35,000 sq. ft. of open A1 retail space on car park land and adjoining areas. This will reinvigorate the Centre and improve rental tone. We believe the planning authority is likely to support the necessary variation to the outline permission which we received in 2007.

Other Portfolio Properties
We are beginning to see income returns improve at Great West Trading Estate, Brentford as we crystallise rental reversions through the rent review process, focusing on trade park rents for units with direct frontage to the busy Great West Road. At our retail scheme in Blackpool, we completed the letting of 10,000 sq. ft. to Dorsman Estates Company Limited and are now seeking an operator for the leisure space which fronts on to The Promenade, immediately adjacent to the Blackpool Tower.

Property portfolio analysis

Analysis by sector

1	Retail	69%
2	Office	18%
3	Industrial	12%
4	Residential	1%

Tenant profile

1	Government	2%
2	FTSE 100	1%
3	PLC/Nationals	55%
4	Regional multiples	13%
5	Local traders	29%

Location profile

1	South East	55%
2	North	17%
3	London	10%
4	South West	18%

Lease profile

1	0-5 years	34%
2	5-10 years	27%
3	10-15 years	12%
4	15-20 years	17%
5	20 years +	10%

Income generating properties as at 28th February 2009.

Development Projects in Partnership

Over the course of the year our joint venture relationships have seen significant activity in respect of both existing projects and new opportunities. These relationships continue to provide diversification to our core development business, thus providing access to other sectors and areas of the country.

Blue Living

Following an extensive consultation process, Blue Living will shortly be submitting a planning application for the project at Tilehurst, near Reading. This project will comprise a high quality, authentically sustainable neighbourhood development of more than 750 homes with other complementary mixed uses. Given the forecast shortfall in housing units within the South East and the exceptional sustainability credentials of this proposal, we are hopeful of achieving a favourable planning consent in 2009.

With this first project progressing well, Blue Living is now focusing on securing additional projects in favourable deal structures, thus minimising the need for initial capital outlays.

Fiducia

At Buckshaw Village, a £24.0 million mixed-use development, the joint venture with Fiducia, has completed the disposal of land to a food store operator for £8.0 million, thereby realising a £1.7 million profit share for your Company. Development of the retained retail element will commence in line with the anchor food operator's programme. Other current projects are progressing well with tenant demand proving more resilient in comparison to the wider retail market.

New acquisitions in the year included a £4.0 million mixed-use development site at Lawley Village, Telford where plot sales continue to progress well thereby assisting the early recycling of invested capital. This scheme, as with Buckshaw Village, will set the profile for the retail led, mixed-use schemes that are the focus of the joint venture with Fiducia. Prior to the year-end, a mixed-use development site was acquired at Stanground, Peterborough for £2.5 million of which £2.3 million was deferred until minimum housing units are delivered by the vendor, thus enabling the matching of operator requirements to the land payment.

New opportunities mirroring this structure are being targeted by Fiducia, allowing deferred completion monies to be funded by third party investors or tenants, thereby minimising the amount of risk equity required. We remain keen to grow our relationship with Fiducia which delivers a stream of modest but consistent profits.

CTP

CTP continues to make progress with its pipeline of projects, focusing on achieving exits via forward sales and fundings. In particular, they are progressing discussions with budget hotel operators and a Government sponsored office occupier for their proposed development in Sunderland and, elsewhere, have entered into an agreement with Sainsbury's to deliver a freehold store for the operator in Neston. CTP is also making good progress with its scheme at Hattersley, where terms have been agreed with a food store operator for a 100,000 sq. ft. unit and at Kensington, Liverpool which comprises a mix of pre-sold residential and public sector uses and some retail accommodation.

There is no doubt that, like most modestly capitalised provincial developers, CTP is finding it difficult to hold to its historic business model as, even where it has land under control, planning for a scheme and pre-let interest ready to transact, the lack of either institutional or bank finance means that it is unable to progress to the construction phase and therefore recycle equity.

Consequently, Development Securities will, in all likelihood, be injecting additional bridging loan capital into the business to alleviate possible short-term cash flow pressures. We remain impressed by the CTP team's ability to deliver development opportunities and believe that over the medium-term they will secure additional opportunities in the north of England.

Centros

Following the sharp deterioration in the housing market we are considering alternative options for the joint venture site at Crawley. The land is well located and it should be possible to secure a food store operator as part of a mixed-use scheme. At Wells, following recent EU Guidance, a form of public procurement exercise is necessary before a development agreement can be entered into with the Local Authority. Given the joint venture land ownership and strong commitment to the project, we remain hopeful of being selected to partner the Council. In that event, we anticipate submitting a planning application, with a start on site later in 2009.

Weeke Local Centre, Winchester

Construction at our Waitrose anchored scheme in Winchester continues on programme and within budget, with practical completion scheduled for September 2009. We are now concentrating on leasing the four vacant retail units adjoining the food store and are encouraged by the interest to date having secured lettings to Boots and Costa.

Wessex Fund

Towards the end of 2007, we acquired a 47.0 per cent interest in the Wessex Property Fund. This Fund is focused in the south west of England, specialising in development and investment property. Now that the refinancing of the Wessex Property Fund has been concluded and with Development Securities appointed as Asset Manager of the Fund, there is a more stable platform from which to implement the asset improvement plans. Individually, the Fund's assets show potential for value enhancement in the short- to medium-term through rental uplifts and planning gains. As with our other partnership relationships, we feel that the Fund's local partners will deliver opportunities back to us over the next two years, thus widening our geographic exposure in the UK.

Financial review

Capital Structure and Liquidity Management

The Group's strategy for its capital is to maintain a conservative balance of equity and debt appropriate to the profile of our asset portfolio, taking account of our intentions for each asset. Our gearing has been maintained at a modest level, and even following the falls in asset values remains at 54.1 per cent at 31st December 2008. Within our debt facilities we maintain a mix of fixed and variable rates, in general preferring the certainty of fixed rates for our larger and longer-term borrowings.

Our cash and overall liquidity is managed at Group level, with each of our real estate portfolios assessed and monitored according to their own specific risks.

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 using our own 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 our own 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 per annum.

The principal tools of assessment are a 15-month cash flow forecast, which is updated monthly, a schedule of agreed bank facilities and the amounts drawn against them, a summary of net debt and a formal monthly commentary on the position prepared by the Finance Director.

For the longer term the Directors review the Group's capital structure, taking account of the real estate cycle, the likely forthcoming risks and opportunities for the Group, and the market for equity and debt finance: this is formally revisited at least annually, via the Group's Risk Committee, which reports to the Board, and informally as appropriate at each Board meeting. In the current economic environment the Directors are keeping the Group's capital structure under continual review, both in consideration of potential opportunities for investment and development which we foresee arising over the coming months, and in the light of the radically changed risk appetite of the banks.

Medium-term liquidity is arranged through a mix of the Group's own equity and its debt facilities. The Group maintains both active and reserve banking facilities. This is currently an area of heightened focus for the Directors, in view of the general liquidity constraints in the marketplace, the minimal availability of new bank finance for real estate, and the pressure on borrowing covenants in view of falling asset values.

Owing to the nature of the Group's business, short-term liquidity requirements are reasonably predictable. Cash balances are monitored on a daily basis. Cash and short-term deposits are placed across a few banks and financial institutions with high credit ratings, taking care to avoid a significant concentration of credit risk with any one counterparty, and selecting periods which optimise the interest received whilst maintaining suitable flexibility for our operations.

Current bank facilities and borrowings

The Group's bank facilities are set out in the table below. As at 31st December 2008 the nominal value of the Group's gross borrowings was £147.9 million (2007: £144.6 million). Cash balances were £60.7 million (2007: £73.1 million), including amounts of £31.7 million (2007: £45.3 million) held as restricted deposits, giving net debt of £87.2 million and gearing of 54.1 per cent (2007: £71.5 million and 31.2 per cent).

Committed facilities totalled £252.2 million with a weighted average term of 10.0 years. Unutilised facilities were £114.8 million, of which £10.0 million was collateralised. Since the year end we have renegotiated certain facilities, as explained in the table and the notes below.

Of those facilities financing longer-term assets there is one facility requiring refinancing in 2011; apart from this our investment property finance is secure until 2013. The Directors are comfortable with this position.

Our development finance tends to be shorter term. We monitor these loans carefully in conjunction with the performance of the relevant development. We consider that these loans will be repaid in a timely manner from the proceeds of their respective projects, or from existing cash resources.

In view of the current position, year end values and these resources, the Directors have not sought to renegotiate any loan-to-value covenants. In view of current market conditions, the Directors have agreed appropriate amendments to certain other covenants, as noted in the table below. The Directors are comfortable with the revised covenants and consider that our lenders continue to have appropriate security.

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.

Facility type	Total facility £'000	Utilised as at 31 December 2008 £'000	Interest rate	Principal financial covenants: Maturity	Loan to value ratio	Interest cover ratio	Minimum net worth £'000	Notes 1
Loans financing longer-term assets								
Loan notes	†32,844	32,844	Hedged	25-Oct-2027	-	-	100,000	2
Term loan	14,455	14,455	Hedged	31-May-2013	70%	120%	-	3
Debenture	20,000	20,000	Fixed	06-Jan-2016	66%	-	-	
Revolving credit	25,000	2,000	Variable	31-Mar-2011	-	150%	-	
Term loan	8,400	8,400	Hedged	17-Oct-2014	80%	125%	-	4
Revolving credit	38,000	38,000	Variable	31-Jan-2013	70%	105%	-	
Loans financing development and refurbishment assets								
Term loan – Facility A	14,280	-	Variable	3yrs from draw	-	-	-	
Term loan – Facility B	8,400	-	Variable	3yrs from draw	-	-	-	
Term loan – Facility C	5,320	-	Variable	3yrs from draw	-	-	-	
Term loan	13,000	3,871	Variable	31-May-2010	-	-	100,000	5
364 day revolving credit	10,000	-	Variable	364 days from draw	-	-	100,000	6
364 day revolving credit	15,000	4,612	Variable	26-Jan-2010	65%	125%	160,000	7
Revolving credit	30,000	13,228	Hedged	23-Jan-2010	71%	-	155,000	8
Term loan	17,550	-	Variable	42 Mths from draw	-	-	150,000	

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 (31st December and 30th June).
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, and has been reduced since the year end; at 31st December 2008 this amount was £150 million.
3. The variable rate benefits from an interest rate collar.
4. The variable rate benefits from an interest rate cap.
5. The minimum net worth covenant has been reduced since the year end; at 31st December 2008 the minimum net worth covenant was £150 million.
6. The minimum net worth covenant has been reduced since the year end; at 31st December 2008 the minimum net worth covenant was £150 million.
7. The amount drawn under this facility has been reduced to nil since the year end.
8. Both the facility and the minimum net worth covenant have been reduced since the year end; at 31st December 2008 the facility was £34,535,000 and the minimum net worth covenant was £185 million. This facility also has a maximum gearing covenant of 135 per cent. The variable rate benefits from an interest rate cap.

†Represents the amount of the Group's liability in Sterling taking account of the hedging instrument.

The December valuations exceeded agreed loan-to-value ratios in respect of two facilities; in each case the Group has cured the breach within the terms of the facility. It is almost inevitable that if the current trend, of increases in market yields and corresponding falls in asset valuations, continues as expected through 2009, the Group will be required to deposit additional cash in respect of certain facilities, in order to maintain required loan-to-value levels. In preparing our cash flow forecasts, we have allowed for the possibility of significant further yield increases and estimated the corresponding impact on our assets. In each case we have calculated any consequent requirement to make partial loan repayments, or to deposit funds, in order to restore the required loan-to-value ratios.

The Directors also regularly consider the risk that, in view of the pressures within the banks to conserve their own liquidity, undrawn facilities may prove to be unavailable in the event that the Group requires this funding. The Directors seek to mitigate this risk by maintaining regular contact with our bankers. We have also commenced negotiations for new finance in respect of those facilities which we consider to be most susceptible to withdrawal, and have been encouraged by the positive response we have received.

Interest rate risk and hedging

As noted in the table in note 11(c), interest rate caps and swaps are used to provide commercial hedges against the Group's 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 interest rate risk. The Directors keep this risk under continual review, and regularly consider the possibility and likely cost of extending our interest rate hedging.

Interest rate swaps are marked-to-market, giving rise to the risk of fair value movements in the derivative instrument, and a consequent impact on net asset value. The recent falls in base rates means that our swaps and caps are significantly out of the money, producing a charge in the period of £5.6 million.

Interest rate swaps are marked to market, giving rise to the risk of fair value movements in the derivative instrument, and a consequent impact on Net asset value. The recent falls in base rates means that our interest swaps and caps are significantly out of the money, producing a charge in the period of £3.2 million in the Income statement. 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 the net unrealised gain reserve, in respect of which we made a charge of £2.4 million for 2008. The aggregate impact on our net asset value during 2008 of the mark-to-market of fixed interest instruments was therefore £5.6 million.

Our interest rate and cross-currency hedges are provided by well-established banking institutions and the Group does not consider that there is an abnormal counterparty credit risk in this regard.

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 described in note 8, during the year the purchaser of the Colindale, London NW9 site failed to repay the loan notes issued to the Group in respect of the transaction, and the Group was compelled to retake control of the property. The Directors had maintained close review and control of the situation throughout, and are satisfied that the arrangements implemented to deal with this eventuality were appropriate and effective.

The major financial assets in the Balance sheet as at 31st December 2008 are considered below.

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, are large financial institutions. At the conclusion of One Kingdom Street, PaddingtonCentral in December 2008 the Group received interest of £2.7 million and gross profit of £14.1 million, at which point the principal of £5.0 million was rolled into the next phase, Two Kingdom Street. This risk capital is held as an available-for-sale financial asset, and at the year end was valued at £5.0 million (2007: £6.4 million).

The office development at CityPark, Manchester has been pre-sold to the prospective occupier. The purchaser paid the Group for the land in 2007, and is contracted to pay the balance of consideration for the building of £43.5 million on practical completion, which is expected in the last quarter of 2009. Settlement of this amount is supported by a bank guarantee. The transaction is accounted for as a construction contract under IAS 11, and at the Balance sheet date the Group had accumulated a receivable of £22.0 million. The development is progressing in line with the planned timetable and budget, and the Directors do not anticipate any delay in completing this contract.

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 continual review. The portfolio is managed by local agents, with active oversight and involvement by the Development Securities 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 outstanding rent reviews, as well as a formal commentary by the investment team. The current profile of the portfolio is set out above.

Provision is made for overdue rents according to the specific circumstances of each case. At 31st December 2008, amounts of rent overdue by more than 30 days were £335,000, against which the Group has provided £151,000.

As at 31st December 2008 the Directors consider that the portfolio is well diversified among tenants, with the highest exposures being mainly to strong covenants. There is a deliberate sector bias towards retail; this is offset by the geographic spread within that sector, and the concentration on local centres anchored by the resilient food sub-sector.

Joint ventures and associates

As described in the Review of operations, the Group has a number of joint venture operations. The Group provides both development expertise and funding to each venture.

The financial instrument risks in respect of these ventures are in the contractual risk of the joint venture agreements, and in the operating success of the venture. The Group manages the risk in these by securing appropriate rights 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

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.

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 31st December 2008.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Review of operations The financial position of the Group, its cash flows, liquidity position, borrowing facilities and financial instrument risks are described above which also cover the Group's objectives, policies and processes for managing its capital.

The Group has strong contracted cash flows. Rental income continues to be generally robust. The Group continues to earn project management fees from PaddingtonCentral and St Bride Street. The principal development cash flow to be received in the current year relates to the CityPark, Manchester contract, which is proceeding on time and on budget, and is secured by a bank guarantee. Our debt finance is secured for appropriate periods, and we are comfortable with our covenant positions. Having assessed the headroom within the Group's cash flow forecast and the risks to those cash flows, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Consolidated income statement

i) Result for the year and net asset value

The Income statement shows a loss before tax of £65.6 million (2007: profit of £0.2 million). After tax and reserve movements the change in net asset value was a fall of £67.9 million (2007: £2.5 million), equivalent to 167 pence per share (2007: 4 pence per share). A strong contribution from our development projects was outweighed by the sharp falls in value of properties, share of losses from our joint venture partners and increased finance costs.

At 31st December 2008 the Group's net asset value was £161.0 million, equivalent to 397 pence per share, representing a decline of 29.6 per cent from £228.9 million and 564 pence per share in 2007.

ii) Net rental income

Net rental income for the year was £3.0 million, reduced from £6.9 million in 2007. Gross rental income decreased by £0.5 million representing portfolio changes and new lettings. Rental costs increased from £2.5 million to £5.9 million primarily reflecting £3.3 million of onerous lease provisions.

iii) Trading and development profits

The principal components were net profits of £15.7 million from the completion of One Kingdom Street, PaddingtonCentral and £6.5 million from West Quay, Southampton. These profits were partly offset by trading property write-downs amounting to £11.5 million (excluding Colindale, London NW9). We recognised £15.8 million of cash (net of costs), received in 2007 from the purchaser of Colindale, London NW9, as revenue in 2008, but also reduced the net realisable value of the property by £15.3 million. The development programme produced project management fees from PaddingtonCentral, West Quay, Southampton and St Bride Street, London.

Trading and development profits

	2008	2007
	£m	£m
Trading and development profits	38.6	7.8
Project management fees	1.4	1.2
Write-downs	(26.8)	-
	13.2	9.0

iv) Operating costs

Administrative expenses increased to £13.4 million (2007: £11.4 million). Underlying costs were broadly in line with 2007. The increase includes redundancy costs and a charge of £1.3m in respect of our lease at PaddingtonCentral for the period of overlap with our existing office.

v) Gain on disposal of investment properties

During the year to 31st December 2008 the Group sold a parcel of land at Broughton with a book value of £2.0 million producing a gain of £0.5 million.

vi) Loss on revaluation of investment properties

The valuation approach is described in notes 7 (b). The decline in our completed portfolio, as calculated by the IPD, was 18.7 per cent, mainly reflecting the shift in average yield applied, from 7.0 per cent in 2007 to 9.0 per cent as at the balance sheet date, and values based on initial rather than equivalent yield. This compared with an all-property decline of 22.1 per cent as estimated by the IPD. The decline in the total portfolio (including investment property under development) was 25.2 per cent, (the difference mainly reflecting provisions against the carrying value of the land at Broughton, Flintshire and Cambourne).

vii) Joint ventures and associates

The movements mostly reflect underlying property revaluations, including a charge of £8.6 million in respect of the Group's share of the Curzon Street, Birmingham development.

viii) Finance costs

Interest payable on borrowings was £11.6 million (2007: £10.6 million). The decision to terminate our £34.5 million fixed rate loan early in 2008 incurred a break penalty of £5.9 million, a cost which would have been considerably higher at today's prevailing interest rates. IAS 39 requires that we revalue interest rate swaps to their current market value, although these instruments are purchased and held by the Group to obtain certainty over interest costs, and not for trading. The falls in base rates through the final quarter of 2008 resulted in a charge of £3.2 million in the Income statement, and a further £2.4m in the net unrealised gain reserve, aggregating to a £5.6 million reduction in net asset value in respect of such mark-to-market adjustments.

Net finance costs

	2008	2007
	£m	£m
Interest payable on bank loans and other borrowings	11.6	10.6
Early loan repayment fee	5.9	-
Amortisation of transaction costs	0.3	0.4
Loss arising on derivatives	3.2	-
Net foreign currency movement	(1.6)	-
Capitalised interest	(1.1)	(0.7)
	18.3	10.3
Interest receivable	(3.0)	(3.8)
Net finance costs	(15.3)	6.5

ix) Taxation

There is no charge to tax in the year, as a consequence of the use of losses brought forward and arising in the period. The large revaluation deficits give rise to significant potential deferred tax credit balances, but the Directors have restricted recognition of these assets to the amount of corresponding deferred tax liabilities, as current market conditions do not offer sufficient probability of profits in the foreseeable future within the terms of IAS 12.

x) Dividends

The Board will recommend to shareholders at the Annual General Meeting on 22nd May 2009 a final dividend of 2.4 pence per share (2007: 4.8 pence) to be paid on 6th July 2009 to shareholders on the register on 12th June 2009. This final dividend, amounting to £1.0 million (2007: £1.9 million) has not been included as a liability at 31st December 2008, in accordance with IFRS.

Dividends

	2008 pence	2007 pence
Interim	2.4	2.4
Prior period final	4.8	4.5
Total dividends paid in the year	7.2	6.9

xi) Earnings per share

The loss per share in the year to 31st December 2008 was 149.2 pence (2007: nil pence earnings) per share and on a diluted basis were 149.2 pence loss (2007: nil pence earnings) per share.

Consolidated balance sheet

xii) Investment portfolio

During the year the Group acquired Atlantic Village in Bideford for £21.1 million, and invested a further £5.2 million in enhancing and refurbishing existing assets within the portfolio. The disposal represents the sale at Broughton, Flintshire.

Investment portfolio and assets held for sale

	2008 £m	2007 £m
Valuation at 1st January	154.8	139.5
Additions at cost	26.4	5.4
Disposals	(2.0)	(0.7)
Transfer from operating properties	-	5.5
Revaluation	(45.1)	5.1
Valuation at 31st December	134.1	154.8

xiii) Financial assets

Financial assets are analysed in 11(a) to the financial statements. In December 2008 the Group's participation in PaddingtonCentral was returned together with interest and profit share; the Group then reinvested £5.0 million in the next phase, Two Kingdom Street.

The Group's Euro-denominated loan notes and the cross-currency hedge are carried as separate instruments in the Balance sheet. The significant movement in the Euro/Sterling exchange rate means that the hedge is reported as an asset of £7.9 million (with a corresponding increase in the loan liability and movement in reserves).

xiv) Trading and development properties

Trading and development properties reduced to £59.4 million from £155.5 million in 2007. The principal movements were the sale of Kirkby Shopping Centre, Liverpool, carried at £65.3 million in 2007, and net realisable value write-downs of £26.8 million (including Colindale, London NW9).

xv) Borrowings and financial risk

Net debt and gearing

		2008	2007
Gross debt	£m	(147.9)	(144.6)
Cash and cash equivalents	£m	60.7	73.1
Net debt	£m	(87.2)	(71.5)
Gearing*	%	54.1	31.2
Adjusted gearing (1)	%	46.6	31.2
Adjusted gearing (2)	%	33.5	21.2

* refer note 13

Our conservative use of debt has restricted gearing to 54.1 per cent after the reduction in net asset value.

(1) The gross debt figure includes the €47 million 2027 Unsecured Subordinated Loan note facility, stated in Sterling at the current fair value of £44.9 million. This ignores the hedging instrument. If the calculation is restated using the current effective Sterling liability of £32.8 million, gearing falls to 46.6 per cent.

(2) If these unsecured, subordinated loan notes are removed from borrowings, gearing falls to 33.5 per cent. This is calculated by deducting from net debt the current fair value of £44,881,000 (2007: £33,957,000) and adding back relevant restricted cash balances of £10,453,000 (2007: £8,665,000) and transaction costs of £1,191,000 (2007: £1,209,000).

Performance measures

Key performance indicators, as highlighted in the Review of operations above are set out below:

Year ended 31st December		2008	2007
Net asset value decline	%	(29.6)	(1.1)
Gearing	%	54.1	31.2
Investment property portfolio return as reported under IPD	%	(18.7)	3.7
Total shareholder return	%	(43.8)	(28.2)

Consolidated income statement
For the year ended 31st December 2008

	2008	2007
	£'000	£'000
Continuing operations:		
Revenue	171,114	60,358
Direct costs	(155,958)	(45,937)
Gross profit	15,156	14,421
Operating costs	(13,395)	(11,396)
Gain on disposal of investment properties	539	9
(Loss) / gain on revaluation of investment property portfolio	(45,060)	5,099
Deficit on revaluation of operating properties	-	(780)
Net foreign currency difference	-	262
Operating (loss) /profit	(42,760)	7,615
Other income	2,759	416
Share of post-tax (losses) / profits of joint ventures	(8,625)	57
Share of post-tax losses of associates	(1,212)	(826)
Income / (loss) from financial assets	1,311	(63)
Impairment provision of financial assets	(2,145)	(500)
Loss on sale of other fixed assets	(5)	-
Profit on sale of investments	293	-
(Loss) / profit before interest and income tax	(50,384)	6,699
Finance income	3,042	3,809
Finance costs	(18,298)	(10,264)
(Loss) / profit before income tax	(65,640)	244
Income tax	5,080	(205)
(Loss) / profit after income tax attributable to equity shareholders of the parent	**(60,560)**	**39**
Basic (loss) / earnings per share	(149.2)p	0.0p
Diluted (loss) / earnings per share	(149.2)p	0.0p

Consolidated balance sheet
As at 31st December 2008

	2008 £'000	2007 £'000
Non-current assets		
Property, plant and equipment		
– Operating properties	2,000	2,360
– Other plant and equipment	3,463	2,372
Investment properties	134,084	154,811
Other financial assets	15,033	16,398
Investments in associates	-	842
Investments in joint ventures	610	8,379
Trade and other receivables	1,768	653
Deferred income tax assets	3,495	4,997
Derivative financial instruments	7,909	142
	168,362	190,954
Investment in joint venture – held for sale	654	654
Current assets		
Inventory - developments and trading properties	59,365	155,544
Other financial assets	9,740	12,734
Trade and other receivables	46,940	16,597
Cash and cash equivalents	60,688	73,135
	176,733	258,010
Total assets	**345,749**	**449,618**
Current liabilities		
Trade and other payables	(24,335)	(62,925)
Borrowings	(4,661)	(853)
	(28,996)	(63,778)
Non-current liabilities		
Borrowings	(143,209)	(143,796)
Derivative financial instruments	(3,022)	-
Deferred income tax liabilities	(3,495)	(11,697)
Provisions	(5,982)	(1,431)
	(155,708)	(156,924)
Total liabilities	**(184,704)**	**(220,702)**
Net assets	**161,045**	**228,916**
Capital and reserves		
Share capital	20,302	20,283
Share premium	109,907	109,801
Revaluation reserve	789	1,081
Other reserves	43,375	47,596
Retained earnings	(13,328)	50,155
Total equity	**161,045**	**228,916**
Basic net assets per share	397p	564p
Diluted net assets per share	397p	563p

Consolidated statement of recognised income and expense

For the year ended 31st December 2008

	2008	2007
	£'000	£'000
(Loss) / gains on revaluation of operating properties	(292)	228
Loss on valuation of cross-currency interest rate swap	(4,014)	(114)
Gains on valuation of available-for-sale financial assets	-	1,827
Available-for-sale financial assets transferred to the Income statement	(1,827)	-
Deferred income tax credit / (charge)	1,620	(498)
Net (expense) / income recognised directly in equity	(4,513)	1,443
Loss /(profit) for the year	(60,560)	39
Total recognised income and expense for the year attributable to equity shareholders of the parent	**(65,073)**	**1,482**

Consolidated cash flow statement

For the year ended 31st December 2008

	2008	2007
	£'000	£'000
Net cash flow from operating activities (refer note 12)	15,908	(46,342)
Investing activities:		
Interest received	5,723	3,812
Proceeds on disposal of plant and equipment	39	728
Proceeds on disposal of investment properties	2,573	5,989
Proceeds on disposal of investment	293	-
Purchase of plant and equipment	(1,507)	(825)
Purchase of investment properties	(26,367)	(4,812)
Purchase of investments	(1,226)	(1,614)
Return on / (investment) in financial assets	1,698	(22,034)
Cash inflow from joint ventures	516	12,075
Net cash flow from investing activities	(18,258)	(6,681)
Financing activities:		
Dividends paid	(2,923)	(2,825)
Issue of new shares	125	865
Purchase of own shares	-	(2,019)
Repayments of borrowings	(81,375)	(42,699)
New bank loans raised	72,769	89,567
Net cash flow from financing activities	(11,404)	42,889
Net decrease in cash and cash equivalents	(13,754)	(10,134)
Cash and cash equivalents at the beginning of the year	72,473	82,607
Net foreign currency differences arising on re-translation of cash and cash equivalents	1,633	-
Cash and cash equivalents at the end of the year	60,352	72,473
Cash and cash equivalents comprise:		
Cash at bank and in hand	28,992	27,791
Pledged cash held as security against financial liabilities	31,696	45,344
Cash and short-term deposits	60,688	73,135
Bank overdrafts	(336)	(662)
Cash and cash equivalents	60,352	72,473

NOTES TO THE UNAUDITED PRELIMINARY RESULTS

1. BASIS OF PREPARATION

Whilst the financial information included in this preliminary announcement has been computed in accordance with International Financial Reporting Standards (IFRSs), this announcement does not itself contain sufficient information to comply with IFRSs. The Company will publish full financial statements that comply with IFRSs.

The financial information set out in the preliminary announcement does not constitute the Group's statutory accounts for the years ended 31st December 2008 or 2007.

The financial information for the year ended 31st December 2007 is derived from statutory accounts for that year which have been delivered to the Registrar of Companies. The auditors reported on those statutory accounts; their report was unqualified and did not contain a statement under s237(2) or (3) Companies Act 1985. The statutory accounts for the year ended 31st December 2008 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The audit report on the full financial statements has yet to be signed.

2. ACCOUNTING POLICIES

a) General information

This preliminary announcement of the Group for the twelve months ended 31st December 2008 comprise the results of the Company and its subsidiaries and were authorised by the Board for issue on 30th March 2009.

b) Basis of preparation

This preliminary announcement has been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the European and in accordance with the Companies Act 1985.

The accounting policies applied in this preliminary announcement are consistent with those reported in the Group's annual financial statements for the year ended 31st December 2007.

c) Judgements and key sources of estimation uncertainty

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 Income statement 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.

The key source of estimation uncertainty rests in the values of property assets, which significantly affects several categories of assets in the Balance sheet. The investment property portfolio is carried 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 task is made more difficult in light of current economic constraints and uncertainties, and of the small number of referable transactions in the marketplace, several of which may be characterised as distressed deals and therefore arguably of limited assistance. The approach to this valuation and the amounts affected are set out in note 7.

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

Several of the Group's trading properties have been written down to net realisable value, which relies upon similar estimates, with the added challenge, in some cases, of judgements about uncertain planning outcomes. These amounts are disclosed in note 8.

The development of CityPark in Manchester is characterised under IFRS as a construction contract (under IAS 11), whereby revenue is reported in line with construction progress. This requires an estimate of the revenues attributable to the land sale and the construction contract respectively, and of the final cost of the building.

The Group is party to a number of interest rate swap agreements which are required by IAS 39 to be carried in the Balance sheet at fair value. The estimation of this figure is based upon assumptions about future movements in interest rates. The assumptions used, the estimated fair values and the movements in the period are set out in note 11 (c).

The Group has significant deferred tax losses, arising mainly from valuation movements in the Group's investment and trading property portfolios. Recognition of these losses as a deferred tax asset requires judgements and estimates about the amounts and timing of the Group's future taxable profits.

The Group has made provision against the cost of onerous lease obligations. In each case the Group is required to make assumptions about the likelihood, timing and rental levels of future lettings. These provisions are described in note 10 (b).

Apart from these judgements involving estimations, the other judgements made by management which have a significant effect on amounts recognised in the financial statements are those concerning the status of associates and joint ventures. The Group has a number of associates and joint ventures, with the Group's share of control governed and achieved by a mixture of rights set out in agreements and participation in the management of each business. 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.

3. SEGMENTAL ANALYSIS

For management purposes, the Group is currently organised into three operating divisions:

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

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 £808,000 (2007: £808,000), which are located in France and The Netherlands. Accordingly no secondary segmental information is shown. All revenue arises from continuing operations.

Unallocated expenses are costs incurred centrally which are neither directly or reasonable attributable to individual segments. Unallocated assets and liabilities include certain items which can not be directly attributable to individual segments.

Year ended 31st December 2008

	Investment	Trading and development	Operating	Total
	£'000	£'000	£'000	£'000
Segment revenue	**8,925**	**158,636**	**3,553**	**171,114**
Direct costs	(5,943)	(145,433)	(4,582)	(155,958)
Segment result	**2,982**	**13,203**	**(1,029)**	**15,156**
Operating costs	(5,056)	(8,339)	-	(13,395)
Gain on disposal of investment properties	539	-	-	539
Loss on revaluation of investment property portfolio	(45,060)	-	-	(45,060)
Operating (loss) / profit	**(46,595)**	**4,864**	**(1,029)**	**(42,760)**
Other income	-	2,759	-	2,759
Share of post-tax profits of joint ventures	-	(8,625)	-	(8,625)
Share of post-tax losses of associates	(1,003)	(209)	-	(1,212)
Income from financial assets	-	1,311	-	1,311
Impairment provision of financial assets	(2,145)	-	-	(2,145)
Loss on sale of other fixed assets				(5)
Profit on sale of on investments	293	-	-	293
Loss before interest and income tax				**(50,384)**
Finance income	1,963	1,079	-	3,042
Finance costs	(13,963)	(4,335)	-	(18,298)
Loss before income tax				**(65,640)**
Income tax				5,080
Loss after income tax attributable to equity shareholders of the parent				**(60,560)**

Year ended 31st December 2008

	Investment	Trading and development	Operating	Total
	£'000	£'000	£'000	£'000
Assets and liabilities				
Segment assets	165,486	139,255	6,648	311,389
Unallocated assets				34,360
Total assets				**345,749**
Segment liabilities	98,377	74,569	2,147	175,093
Unallocated liabilities				9,611
Total liabilities				**184,704**

	Investment	Trading and development	Operating	Total
				Year ended 31st December 2008
	£'000	£'000	£'000	£'000
Other segment information				
Capital expenditure	26,367	-	1,289	27,656
Unallocated capital expenditure				218
Depreciation	-	-	286	286
Unallocated depreciation				149
Revenue				
Rental income	8,827	33	-	8,860
Operating property income	-	-	3,499	3,499
Project management fees	-	1,431	-	1,431
Trading property sales	-	89,342	-	89,342
Construction contract revenue	-	35,779	-	35,779
Development proceeds	-	32,051	-	32,051
Other income	98	-	54	152
	8,925	158,636	3,553	171,114

4. FIXED RATE DEBT

The notional fair value adjustment at 31st December 2008 in respect of the Group's fixed rate debt, calculated on a replacement basis, taking into account the difference between fixed interest rates of the Group's borrowings and the market value and prevailing interest rates of appropriate debt instruments, was £6,736,000 (2007: £11,598,000) equivalent to a decrease in net assets of 11.9 pence per share after tax (2007: 20.0 pence per share).

5. FINANCE INCOME AND COSTS

	2008	2007
	£'000	£'000
Finance income		
Interest receivable	2,980	3,747
Other finance income	62	62
Total finance income	3,042	3,809

	2008	2007
	£'000	£'000
Finance costs		
Interest on bank loans and other borrowings	9,419	8,378
Interest on debenture	2,200	2,200
Loan repayment fees	5,891	-
Amortisation of transaction costs	395	384
Fair value loss/(gain) in financial instruments – interest rate caps and collars	3,164	(16)
Net foreign currency differences arising on re-translation of cash and cash equivalents	(1,633)	-
Total finance cost	19,436	10,946
Capitalised interest on development and trading properties	(1,138)	(682)
Net finance cost	**18,298**	**10,264**

Interest has been capitalised at an average rate of 7.06 per cent (2007: 7.34 per cent). Capitalised interest in the amount of £nil (2007: £20,000) was written off in the year against gross profit as a result of property disposals.

6. DIVIDENDS

	2008 £'000	2007 £'000
Declared and paid during the year:		
Equity dividends on Ordinary shares:		
Final dividend for 2007: 4.80 pence per share (2006: 4.50 pence per share)	1,949	1,842
Interim dividend for 2008: 2.40 pence per share (2007: 2.40 pence per share)	974	983
	2,923	2,825
Proposed or approval by shareholders by the Annual General Meeting:		
Final dividend for 2008: 2.40 pence per share (2007: 4.80 pence per share)	974	1,948

The final dividend was approved by the Board on 30th March 2009 and has not been included as a liability or deducted from retained profits as at 31st December 2008. The final dividend is payable on 6th July 2009 to ordinary shareholders on the register at the close of business an 12th June 2009 and will be recognised in 2009.

7. INVESTMENT PROPERTIES

a) Summary of investment properties

	Freehold £'000	Long leasehold £'000	Total £'000
At valuation 1st January 2007	137,043	2,418	139,461
Additions:			
- acquisitions	1,198	246	1,444
- capital expenditure	4,026	4	4,030
Transfer from operating properties	5,458	-	5,458
Disposals	(436)	(245)	(681)
Surplus / (deficit) on revaluation	5,108	(9)	5,099
At valuation 31st December 2007	152,397	2,414	154,811
Additions:			
- acquisitions	21,122	-	21,122
- capital expenditure	5,245	-	5,245
Disposals	(2,034)	-	(2,034)
Deficit on revaluation	(44,750)	(310)	(45,060)
At valuation 31st December 2008	131,980	2,104	134,084

b) 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.

	2008 £'000	2007 £'000
Market value at 31st December as assessed by the independent valuers	136,037	155,538
Amount included in prepayments and accrued income in respect of lease incentives	(1,953)	(727)
Book value if investment property at 31st December	134,084	154,811

The Group's investment properties have been valued at 31st December by independent valuers and by the Directors on the basis of market value in accordance with the Appraisal and Valuation Standards of the Royal Institute of Chartered Surveyors. Completed investment properties have been valued by DTZ Debenham Tie Leung, Chartered Surveyors, Colliers CRE, Chartered Surveyors or Savills Commercial Limited, Chartered Surveyors at a value of £118,412,000 (2007: £135,303,000).

Included within investment properties are freehold land and buildings, being land and investment properties under development, amounting to £47,732,000 (2007: £64,414,000), which have been valued by the Directors. Of this, £32,535,000 (2007: £44,310,000) has been included in the above valuation by the Group's independent valuers. The amounts valued by Directors include a balance of £7,945,000 (2007: £7,533,000) which is stated at cost. This represents buildings and landholdings adjacent to existing investment properties, acquired for the purpose of extending the existing shopping centres. The fair value of these properties rests in the planned extensions, and therefore exceeds the respective open market values.

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. In each case the Directors have obtained confirmation of their market assumptions from third party Chartered Surveyors.

Fair value has been 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 and no special assumptions have been made except in the case of those properties held at Directors' valuation where it is the Directors' opinion that the valuation of an investment property under development should also take account of its future development potential in order to reflect its true fair value.

Savills Commercial Limited valued a single retail property at an amount of £18,750,000. In their report Savills referred to "abnormal uncertainty caused by market instability", as envisaged by the Royal Institute of Chartered Surveyors Guidance Note 5. Despite this Savills noted that they consider the valuation to be "well supported, with appropriate adjustments to reflect current market conditions". The Directors have considered the approach and assumptions used by Savills in the light of these comments, and are satisfied that the valuation represents the appropriate carrying value under IAS40.

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, appropriate discount rate and make reference to market evidence of transaction prices for similar properties.

£114,537,000 (2007: £112,935,000) of investment properties are charged as security against the Group's borrowings.

8. INVENTORY – DEVELOPMENTS AND TRADING PROPERTIES

	2008 £'000	2007 £'000
Developments in progress	17,347	15,749
Trading properties	42,018	139,795
	59,365	155,544

Included in the above amounts are projects stated at net realisable value, being trading properties of £39,846,000 (2007: £nil). 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 obtained confirmation of their market assumptions from third party Chartered Surveyors. During the year the Directors made write-downs of £26,769,000 (2007: £nil) including £15,300,000 in respect of Colindale, London NW9 (see below), largely in respect of the reduced market value estimates of certain trading properties.

Capitalised interest on development and trading properties to date is £1,303,000 (2007: £165,000).

Interest capitalised on development and trading properties during the year is disclosed in note 5.

In 2007 the Group sold its interest in a property at Colindale, London NW9 for proceeds of £68,000,000, comprising cash receipts of £16,000,000 and loan notes of £52,000,000, redeemable during 2008 and secured by a first charge on the property. Owing to the significant proportion of the sales proceeds represented by loan notes secured only against the property, in accordance with IAS 18 the Directors did not reflect the transaction as revenue in 2007, but retained the asset within inventory and held the cash received in creditors as deferred income. In November 2008 the final date for settlement of the loan notes passed without the cash being received, and the Company notified the purchaser of its intention to realise its security over the property. On 27th March 2009 the Company appointed a receiver over the property, thereby regaining effective control of the asset. The site continues to be carried within inventory, having been written down to its net realisable value of £25,000,000 (2007: £40,131,000). The cash of £16,000,000 received from the purchaser has been credited to the Income statement in the year.

Interest received on the £52,000,000 loan notes of £2,759,000 (2007: £416,000) has been credited to the Income statement as other income.

9. TRADE AND OTHER RECEIVABLES

a) Non-current

	2008 £'000	2007 £'000
Prepayments and accrued income	1,768	653

b) Current

	2008 £'000	2007 £'000
Trade receivables	3,479	3,825
Amounts due from customers for contract work	22,009	4,030
Other receivables	14,974	5,064
Other taxation recoverable	4,245	1,971
Prepayments and accrued income	2,233	1,707
	46,940	16,597

The Group has provided £151,000 (2007: £110,000) for outstanding balances where recovery is considered doubtful. Apart from the receivables that have been provided for, there are no other material receivables overdue at the year end.

10. TRADE AND OTHER PAYABLES

a) Current

	2008	2007
	£'000	£'000
Trade payables	2,725	489
Amounts due from customers for contract work	126	26,027
Other payables	4,870	4,327
Other tax and social security	4,729	2,118
Accruals and deferred income	11,885	29,964
	24,335	62,925

Accruals and deferred income as at 31st December 2007 included a £16,000,000 non-returnable deposit received upon exchange of a trading property in November 2007. As the sale failed to complete during 2008 the deposit proceeds have been credited to the Income statement (see note 8).

b) Non-current – provisions

	2008	2007
	£'000	£'000
At 1st January	1,431	1,055
Utilised during the year	(558)	(175)
Charge to the Income statement in the year	5,109	551
At 31st December	5,982	1,431

Provisions of £983,000 (2007: £958,000) relate to properties and £4,999,000 (2007: £473,000) to onerous leases.

The property provisions arose from residual liabilities on completed development projects where the Group was responsible for certain development costs in prior years. The provisions include estimated costs, the timing and amount of which are currently uncertain.

The onerous lease provision has arisen from three lease obligations entered into by the Group. A provision of £2,800,000 (2007: £nil) has been made in respect of a lease to Stead & Simpson Limited of which Development Securities PLC is a guarantor. Stead & Simpson Limited was placed into administration on 28th January 2008. The provision represents the liability expected to arise to the end of the lease term in December 2015. A second provision of £924,000 (2007: £473,000) relates to an onerous lease obligation entered into in 1989. The final provision of £1,275,000 (2007: £nil) is in respect of the Group's lease entered into on 19th December 2008 for office premises at One Kingdom Street, PaddingtonCentral, and reflects the overlap period with the Group's remaining commitment at Portland House. These provisions have been calculated by making assumptions about future lettings, the outcome of which is uncertain.

11. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

a) Other financial assets

	2008	2007
Non-current	£'000	£'000
Available-for-sale financial assets	6,353	7,718
Loan notes at amortised cost	8,680	8,680
	15,033	16,398

	2008	2007
Available-for-sale financial assets comprise:	£'000	£'000
Development participation	5,242	6,662
Development loans to joint venture	1,111	1,056
	6,353	7,718

Development participations represent the Group's risk capital invested alongside our partners in two of our development schemes. The fair value of these participations is assessed by reference to the stage of completion of the projects and progress on construction and lettings. The second phase of PaddingtonCentral was completed in 2008, and the participation was returned to the Group together with the related interest and profit share. In accordance with the agreement with our funding partner, the Group immediately reinvested £5,000,000 in the next phase, Two Kingdom Street. The other project is Hammersmith Grove, which has not yet commenced on site. Both current participations are valued at cost as at 31st December 2008. The amount the Group will recover in respect of these participations is related to the duration and profitability of the projects, and could reduce to nil.

Loan notes with a carrying value of £255,000 (2007: £255,000) 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.

		2008		2007
Current	£'000	£'000	£'000	£'000
Available-for-sale financial assets:				
Development participation		8,498		10,472
Loans and receivables:				
Wessex Property Fund	-		2,145	
CTP Limited	1,125		-	
Other	117		117	
		1,242		2,262
		9,740		12,734

In 2007, the Group entered into a five-year funding agreement with Fiducia Group Limited, providing finance by way of development participation for the development of neighbourhood retail facilities. The Group participates in profit share arrangements which vary with each development project. At 31st December 2008, £8,498,000 (2007: £10,065,000) funds had been advanced. The fair value of the development equity in the remaining projects is not reliably measureable and is therefore held at cost. During the year the Group received £1,311,000 in respect of these profit share arrangements.

The Group has granted finance of £2,145,000 (2007: £2,145,000) to the Wessex Property Fund to refinance its existing liabilities by way of convertible loan notes, which are convertible into units until 29th June 2009. The convertible loan notes earn interest at a rate of 6.0 per cent until the conversion rights are exercised. During the year the value of the Funds' assets fell to such a level that the Directors consider it unlikely that these loan notes will be recoverable and made full provision against the fair value of this asset.

The Group also provided £117,000 (2007: £117,000) to a third party by way of development funding. This is carried at cost.

During 2008, the Group granted a further loan of £1,125,000 to CTP Limited. Interest is earned at a rate of 13.0 per cent on the balance outstanding.

b) Borrowings

		2008		2007
	£'000	£'000	£'000	£'000
Current				
Bank overdrafts		336		662
Current instalments due on bank loans	4,629		543	
Unamortised transaction costs	(304)		(352)	
		4,325		191
		4,661		853

	2008	2007
Non-current	£'000	£'000
First mortgage debenture 11% due 2016	20,000	20,000
Bank loans and loan notes	124,835	125,604
Unamortised transaction costs	(1,626)	(1,808)
	143,209	143,796

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

c) Derivative financial instruments

	2008	2007
	£'000	£'000
Cash flow hedges: cross-currency interest rate swap	7,909	-
Derivative financial instruments at fair value through the Income statement:		
Interest rate caps and collars	(3,022)	142

At 31st December 2008, 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 and Euro currency exposure from the loan notes. 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 effective. The mark-to-market movement in the foreign currency leg of the swap of £12,038,000 has been recycled through the Income statement to offset the re-translation of the €47,000,000 loan. The mark-to-market movement on the interest leg of this swap of £2,418,000 (2007: £114,000) is included within the net unrealised (loss)/gain reserve in equity.

At 31st December 2008, the Group held an interest rate cap, collar and swap designated as economic hedges and not qualifying as an effective hedge under IAS 39. The derivatives are used to mitigate the Group's interest rate exposure to variable rate loans of £34,855,000 (2007: £63,250,000). The fair value of the derivatives £3,022,000 is recorded as a financial liability (2007: £142,000 asset) at 31st December 2008 with the fair value (loss)/gain taken to finance costs/income respectively.

12. NOTE TO THE CASH FLOW STATEMENT

	2008	2007
	£'000	£'000
Operating (loss) / profit	(42,760)	7,615
Adjustments for:		
Gain on disposal of investment properties	(539)	(9)
Net loss / (gain) on revaluation of property portfolio	45,060	(4,319)
Share based payments	-	428
Loss on disposal of property, plant and equipment	5	-
Depreciation of property, plant and equipment	435	1,063
Operating cash flows before movements in working capital	2,201	4,778
(Increase) / decrease in developments	(1,598)	2,924
Decrease / (increase) in trading properties	98,398	(83,805)
Increase in receivables	(31,380)	(5,418)
(Decrease) / increase in payables	(37,182)	45,272
Increase in provisions	4,551	376
Cash inflow / (outflow) from operations	34,990	(35,873)
Capitalised interest charged to direct costs	-	20
Income taxes paid	-	(21)
Interest paid	(19,082)	(10,468)
Net cash inflow / (ouflow) from operating activities	**15,908**	**(46,342)**

13. GLOSSARY

Operating profit: stated after profit on disposal of investment properties and the revaluation of the property portfolio and before the results of associates, jointly controlled entities, finance income and costs.

IPD Index and Total Portfolio Return: total return from the investment property portfolio, comprising net rental income or expenditure and 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 year 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.