

## DEVELOPMENT SECURITIES PLC – UNAUDITED PRELIMINARY RESULTS

Increased contribution from development activities and strong investment portfolio performance  
Development Securities PLC, the leading property development and investment company, today announces profits after tax of £23.6 million and earnings of 63.4 pence per share for the year ended 31<sup>st</sup> December 2006, compared to £20.1 million and 54.8 pence per share for the previous year.

### Financial highlights

	31 <sup>st</sup> Dec 2006	31 <sup>st</sup> Dec 2005 (restated)*
Profit after tax	£23.6 million	£20.1 million
Earnings per share	63.4p	54.8p
Shareholders' funds	£231.4 million	£187.5 million
Net assets per share	568p	510p
Dividend per share	6.75p	6.37p
Gearing#	6%	17%

There has been an increased contribution from our development activities, coupled with a sixth year of strong performance from the property investment portfolio.

The increased strength of the balance sheet reflects the £23.1 million Ordinary share placing in November 2006, when 3.7 million shares were issued at a price of 625 pence per share. The proceeds of the placing were principally utilised to acquire a 10-acre development site in Birmingham.

### Property development portfolio

#### PaddingtonCentral

- Phase II is under construction, which includes a 250,000 sq. ft. office building and a 206-room Accor hotel scheduled for practical completion in 2008
- Phase III, a 366,000 sq. ft. prime office building known as Two Kingdom Street, has already been granted detailed planning consent

#### CityPark, Manchester

- The part of the site on which the hotel will be developed has been sold to a reputable hotel operator
- The forward funding arrangements for the sale and development of the office component are close to finalisation

#### Colindale, London NW

- In November 2006, proposals to redevelop Oriental City, at 399 Edgware Road, London NW9, received a unanimous resolution from the London Borough of Brent to grant planning consent for a new mixed-use scheme
- The scheme includes 300,000 sq. ft. gross retail space, 340,000 sq. ft. of private and affordable housing and associated retail
- The development will also include a new 80,000 sq. ft. primary school for 420 pupils, the first primary school to be built in Brent in the last 50 years

#### Huyton, Liverpool

- Disposal of the retail scheme near Liverpool to a private investor for £24 million, reflecting an initial yield of 5.5 per cent and generating a net surplus of £5.8 million

\* refer note 2

# refer note 6

### **Curzon Park, Birmingham**

- 10-acre site acquired for £33.5 million in November 2006 in equal partnership with Grainger PLC
- The proposed 1.4 million sq. ft. mixed-use project, with a gross development value of over £350 million, will comprise approximately 800,000 sq. ft. of office and 400,000 sq. ft. of residential accommodation, together with a 180-bed hotel and 30,000 sq. ft. of retail space

### **West Quay III, Southampton**

- An agreement to lease with Carnival PLC was signed to develop their new 150,000 sq. ft. UK headquarters building
- Acquisition of the site and development of this building will be forward funded with Lime Property Fund LP, with practical completion anticipated in 2009
- Negotiations continue regarding the acquisition and development of the second phase

### **Hammersmith Grove, London**

- Selected as preferred development partner by Transport for London for a 350,000 sq. ft building to include offices, retail and a cinema

### **Property Investment Portfolio**

- 2006 represented the sixth consecutive year of strong performance in the property investment portfolio
- Excellent level of returns generated: 18.5 per cent IPD Total Annual Portfolio Return#, which compares favourably to the average market return of 18.1 per cent

### **Roy Dantzic, Chairman, Development Securities PLC, commented,**

“I am pleased to report another very satisfactory year for your Company, resulting in a significant uplift in shareholder funds.

“We believe our resources will be more efficiently employed by continuing to focus on urban development opportunities in suburban London and the main UK provincial cities. We are also keen to expand our regional joint venture relationships with complementary partners.

“Owing to the structure and timing of our development activity, its full financial impact may not be evident until 2008. We will endeavour to extend further our pipeline of projects in the medium term. Our financial resources remain available to support any new opportunities that we consider will provide the returns we seek.

“After four years as Chairman, I shall be succeeded by David Jenkins, who joined the Board in February 2007. David retired three years ago as a senior audit partner of Deloitte where he specialised in the property sector for most of his career and I wish him every success in the role.”

# refer note 6

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## **Chairman's statement**

I am pleased to report another very satisfactory year for your Company, resulting in a significant uplift in shareholder funds.

An increased contribution from our development activities, coupled with a strong performance from our property investment portfolio enables me to report a profit after tax of £23.6 million and earnings of 63.4 pence per share, compared to £20.1 million and 54.8 pence per share for the previous year.

Shareholder funds increased for the eleventh successive year, reaching £231.4 million, equivalent to 568 pence per share. This compares to £187.5 million and 510 pence per share 12 months earlier.

In light of this strong performance, the Board has recommended the payment of a final Ordinary dividend for the year of 4.50 pence per share, payable on 6<sup>th</sup> July 2007 to shareholders on the register on 8<sup>th</sup> June 2007. This brings the total Ordinary dividend coupon for the year to 6.75 pence per share, an advance of six per cent over the previous year.

The increased strength of our balance sheet of course reflects the £23.1 million Ordinary share placing in November 2006, when 3.7 million shares were issued at a price of 625 pence per share. As shareholders will be aware, the proceeds of the placing were principally utilised to acquire a 10-acre development site in Birmingham, thus allowing your Company to conserve its cash resources for other potential property acquisitions. We were pleased with the strength of support demonstrated by both existing and new shareholders for this successful placing.

## **Strategy**

Shareholders will be aware that the strategic focus of our development activities over the last two years has been suburban London and the main provincial UK cities, rather than Central London. The City of London property market remains innately volatile, due to the dominance of its financial services sector and, together with the West End market, is always likely to become one of the most competitive in any development cycle upturn. For some time now, we have believed that a more attractive risk/return ratio would be available elsewhere. Indeed, 2006 was a year of considerable progress in pursuit of our chosen strategy, with project 'wins' in Birmingham, Hammersmith, Southampton and significant advances at recently acquired sites in North London, Huyton and Manchester.

We continue to search out developments we believe will give us a competitive advantage, due to the scale and complexity of urban regeneration, for which your Company has considerable proven expertise. It is likely that large-scale, multi-phase projects, such as Curzon Park in Birmingham, will be delivered over more than one economic cycle. This will offer good visibility to our future activity and, we hope, potential profitability over the medium term. Our development portfolio now comprises a number of similar projects, further underpinning what we believe to be a sustainable business model.

The growing size and strength of our balance sheet, recently augmented by the £23.1 million share placing, supports our adjusted business model, whereby we now consider it appropriate to secure direct ownership of land for development. Our recent £33.5 million acquisition of Curzon Park, in equal partnership with Grainger PLC, is a case in point. We also plan to take an equity interest in Beadon Road, Hammersmith. Acquiring land is relatively straightforward and can now be achieved within the constraints of our enlarged capital structure. However, the subsequent development is much more capital intensive. Therefore, we will continue to seek leading financial institutions as equity partners, either in an individual phase or possibly through the entire project, thus maintaining our risk-averse approach.

For a sixth successive year, I am pleased to report an excellent level of returns from our property investment portfolio, generated by Matthew Weiner and his team. In 2006, your Company achieved an 18.5 per cent IPD Total Portfolio Return (refer note 6), which compares favourably to the average market return of 18.1 per cent. In broad terms, six per cent came from the rental income of the properties themselves and the balance from realised and unrealised surpluses over existing book values.

During the year, we realised gains from properties where we felt medium-term rental growth prospects were limited. However, reinvestment of these proceeds proved more challenging than ever due to the seemingly relentless weight of money seeking similar assets. As a result, allocation of our resources into the investment property portfolio fell below target levels. Income returns in the cash market now approach those available in the direct real estate market. In order to justify the risk inherent in property ownership, it is important that asset value grows through significant property-related initiatives. We have never believed market momentum to be the sole justification for property investment.

### **Outlook**

Whilst we long ago gave up predicting an end to the current investment market boom, we find it difficult to believe that the total investment returns of recent years will be sustainable in 2007. However, we will continue to seek superior performance through active management both of our existing portfolio and of acquisitions.

At such points in the property cycle superior returns may be more readily obtained in the development arena. This is increasingly understood by our traditional institutional development and joint venture partners, banks and by those with adequate financial and professional resources to compete alongside us. The strength of the current development cycle will benefit from continuing employment growth, a benign economic outlook and declining office vacancy rates. Prospects for the medium term encourage us to further expand our project portfolio, which presently has a completed investment value in excess of £1 billion.

In this regard, your Company will pursue two tactical options. First, we believe our resources will be more efficiently employed by continuing to focus on urban development opportunities in suburban London and the main UK provincial cities, where our brand strength and reputation continue to grow. Second, we remain keen to expand our regional joint venture relationships with those whose expertise best complements our own. In some instances, our partners will be of equal financial strength; in others we may take the financial lead while the appropriate regional specialist heads the development project. We look forward to establishing more such relationships in the near and medium term.

### **Board composition**

As previously reported, Bill Grant retired from the Board in May 2006. Earlier this month, Paul Willis stood down as a member of our Board for family reasons. We wish him well for the future. After four years as your Chairman, I shall not be seeking re-election at this year's Annual General Meeting. I shall be succeeded by David Jenkins, who joined the Board in February. David retired three years ago as a senior audit partner of Deloitte & Touche LLP where he specialised in the property sector for most of his career. I have no doubt that he will make a significant contribution to the Company's further progress.

## **Conclusion**

The strength of the property investment market and the returns now emerging from our development portfolio resulted in our 2006 financial performance exceeding even that of 2005. We do not yet discern any credible or significant threats to the property sector as an asset class, unless values are driven still higher in 2007, which would make us more apprehensive. Global growth may slow marginally in 2007, but this might be of benefit, allowing interest rates generally to fall slightly as any perceived inflationary threats recede.

Given the structure and timing of our development activity, we may well have to wait until 2008 for the next meaningful contribution to our financial results. We will endeavour to extend our pipeline of projects in the medium term. Our financial resources remain available to support any new opportunities that we consider will provide the returns we seek.

It remains for me to thank all of our Directors, management and staff for their valued contributions to our performance to date. Their professionalism and reputations have been an undoubted important feature of our success so far. Long may it continue.

I am certain we have the executive and management teams to meet the challenges that lie ahead.

Roy Dantzie  
Chairman  
27<sup>th</sup> March 2007

## **Review of operations**

2006 represented the fourth consecutive year of divergence between the property investment market and the occupational market.

Sustained and strong investment demand was reflected in 2006 with capital values rising almost as much as they had in 2005.

Investors were seemingly willing to accept the further compression in yields that this represented. Whilst it remains to be seen whether these investment ratings are sustainable in the medium to long term, it is comforting to observe that the fundamentals underpinning the real UK economy remain supportive of property values. In particular, office rents are now growing at their fastest rate for five years, albeit that this positive trend owes much to the considerable improvement witnessed in the Central London market. Employment growth is expected to remain fairly constant over the next few years, supported by an economy which might be expected to return to trend growth in 2008 and 2009, after a possible slight deceleration in 2007. Interest rates in 2006, both in the UK and the US, have trended upwards largely in response to inflationary indications and have probably all but peaked. Even so, the rise in property values continued uninterrupted in 2006 and may well be sustainable in the medium term if investors feel confident regarding economic fundamentals and the prospects for rental growth.

Through this period of rising property investment prices, we have maintained our strategy of realising surpluses where we felt we were no longer able to extract additional value rather than expecting market momentum to generate further gains. Conversely, it has been a much more difficult market in which to source new investment product. Competition in the market place in 2006 was even less discerning in the relationship between quality and value. Accordingly, during 2006, the investment markets became less attractive to us in general terms than the development arena.

## **Current development programme**

2006 has seen considerable activity in our development programme with successes achieved on a number of existing projects and some further deals which either extend, or have a significant possibility of extending, our pipeline of future work. We are encouraged that institutional investment support is increasingly available to fund development projects, since it is precisely this class of long-term, patient capital that is the best underpinning for market stability and growth. A concern with any development activity must be that developers and institutions engender such a significant oversupply of product that the current upswing ends prematurely. Whilst we are always mindful of such events, we believe there is some way to go to the end of this development cycle, especially if UK and global economic growth continues. The Central London markets are, unsurprisingly, currently demonstrating the largest increases with strong rental and asset value growth in both the City and West End markets. It remains to be seen whether demand here can be sustained and to what degree the supply side response may act as a brake on rental growth. The lead times involved in large-scale, urban development are considerable and there is little margin for error especially if site acquisitions are made at values which reflect current short-term investor demand rather more than those predicated on economic fundamentals.

## **PaddingtonCentral**

Few projects can better illustrate the cyclical nature of the property markets in Central London than our large-scale, urban regeneration scheme adjacent to London's West End, which has turned a derelict former railway yard into a dynamic living and working environment, supported by retail and leisure amenities. The substantial first phase commenced in 2000 and was fully-let on completion, some two years later, with your Company's share of profit easily surpassing the anticipated level due to strength

in both the letting and investment markets. A further period of four years was to follow until the property markets were strong enough to support construction of the second phase, beginning in April 2006. The intervening years have not been entirely unproductive, as both the completion of the £30 million 'Crossrail Deck' and the reopening of the newly widened six-lane, 175-metre long Paddington Bridge on Bishops Bridge Road provided vital new infrastructure to underpin future phases.

The current phase under construction, a 250,000 sq. ft. office building at One Kingdom Street and a 206-room Accor hotel, is scheduled for practical completion in 2008 and is funded by our development partners Morley Fund Management and DIFA Deutsche Immobilien Fonds AG. Phase three, a 366,000 sq. ft. prime office building known as Two Kingdom Street, has already been granted detailed planning consent and represents a substantial pre-let opportunity in a market where occupiers for large space face limited choice from existing buildings.

### **CityPark, Manchester**

This mixed-use site was acquired towards the end of 2004 for £3 million. Whilst outline planning existed for a 94,000 sq. ft. hotel and a 177,000 sq. ft. office building, variation in mix and quantum of space was sought and achieved in 2006. That part of the site on which the hotel will be developed has been sold to a reputable hotel operator. We are close to finalising the forward-funding arrangements for the sale and development of the office component.

### **Colindale, London NW**

In November 2006, we were pleased to note that our proposals to redevelop Oriental City, at 399 Edgware Road, London NW9, received a unanimous resolution from the London Borough of Brent to grant planning consent for a new mixed-use scheme to include 300,000 sq. ft. gross retail space and 340,000 sq. ft. of private and affordable housing, along with associated retail and residential car parking. It is particularly beneficial that the development will also include a new 80,000 sq. ft. primary school for 420 pupils, the first primary school to be built in Brent in the last 50 years. Marketing of the available accommodation to retail and residential third parties has begun and we are cautiously optimistic that our original value expectations will be met. This 7.5-acre property, currently comprising 100,000 sq. ft. of retail accommodation with 750 car park spaces was acquired in June 2005.

### **Cavendish Walk Shopping Centre, Huyton**

2006 ended with a more than satisfactory outcome with the completion of this new 110,000 sq. ft. retail scheme in Huyton, near Liverpool. Acquired by your Company in January 2005, and constructed by our joint development partner, CTP Limited, this scheme achieved practical completion in December 2006. This was immediately followed by the disposal of Cavendish Walk to a private investor for £24.0 million reflecting an initial yield of 5.5 per cent and generating a net surplus of £5.8 million. On our acquisition of the site, Wilkinsons PLC was the sole pre-let anchor tenant, with the majority of the space letting up during construction and against the background of a weakening retail market, mostly to well known High Street names. We believe that retailers prefer such thriving and cost-effective locations over expensive prime pitches, and will continue to seek out similar opportunities in the future. This project is a good illustration of the synergy between our development and investment skills. As momentum in the investment market slows, such a combination of our skill base will prove key to further successful projects.

### **Curzon Park, Birmingham**

In November 2006, in equal partnership with Grainger PLC, we acquired the 10-acre Curzon Park site for £33.5 million. The proposed 1.4 million sq. ft. mixed-use project, with a gross development value of over £350 million, will comprise approximately 800,000 sq. ft. of office and 400,000 sq. ft. of

residential accommodation, together with a 180-bed hotel and 30,000 sq. ft. of retail space. The development strategy includes the securing of planning consent, delivery of £12 million of infrastructure works and a phased development of the site over a period of approximately 11 years. It is intended that your Company will project manage the planning process and construction of the infrastructure and commercial phases, with Grainger PLC project managing the residential component.

### **The Royals Business Park**

In June 2006, our funding partner, Standard Life Investments, secured the first letting of some 10,000 sq. ft. at Building 1000, the 252,000 sq. ft. new Grade A office accommodation completed speculatively in 2004. Whilst Standard Life have a number of other live enquiries, the level of demand for offices in this location has clearly not met initial expectations, and we are in discussion with the London Development Agency with a view to introducing other users to the site in order to create a truly mixed-use and sustainable environment. We continue to be cautiously optimistic that discussions with parties interested in some of the remaining accommodation will be successful.

### **Luneside, Lancaster**

In mid-2006, a compulsory purchase order was confirmed in respect of this 17.5-acre urban regeneration project. A land remediation strategy and detailed planning application are being devised, with a view to starting on site in 2007. The development will comprise 350 new homes, 90,000 sq. ft. of new offices and a hotel.

### **Cambourne Business Park**

In July 2006, we leased further space on phase two of this 750,000 sq. ft. development, leaving only 30,000 sq. ft. available to let. Located nine miles from Cambridge, this business park is an integral part of the new Cambourne settlement, a 1,040-acre scheme of 3,300 houses with town centre, hotel, retail and leisure facilities. Discussions are presently in hand with the institutional market to forward-fund the next 50,000 sq. ft. phase.

### **Hammersmith Grove, London W6**

In October 2006, following a detailed selection process, Development Securities was selected by Transport for London as its preferred development partner for the 1.5-acre Hammersmith Car Park Site immediately adjacent to Hammersmith Underground Station. Consultation with the relevant planning authority is underway, with the anticipation that construction on site can commence by the end of 2007, in order to deliver the completed 350,000 sq. ft. building to include offices, retail, and a cinema by the end of 2009.

### **West Quay III, Southampton**

Significant milestones have been achieved at the West Quay Road site in the centre of Southampton. Firstly, last autumn, we signed an Agreement to Lease with Carnival PLC to develop their new 150,000 sq. ft. UK headquarters building and then, early in 2007, we secured detailed planning consent for this project, the first of what we hope will be a two phase mixed-use scheme adjacent to the existing West Quay Shopping Centre. Finally, in March 2007, we exchanged contracts with Lime Property Fund LP to fund the site and development of the building. Practical completion of the first phase is estimated for 2009. If our current negotiations are successful, the second phase of this urban regeneration project is expected to provide a further 50,000 sq. ft. of office, 75,000 sq. ft. of residential or hotel use and 5,000 sq. ft. of retail accommodation together with a 20,000 sq. ft. casino.

### **Broughton**

In the first half of 2006, Flintshire County Council approved the resolution to grant planning consent for both the 170,800 sq. ft. extension to the existing Broughton Retail Park and the related highway

link from the A55. Whilst realisation of any profit potential from this phase will ultimately await the conclusion of discussions with British Land PLC, we did move ahead in November 2006 by acquiring not only the land necessary to construct the interchange that will provide enhanced access to the expanded retail facilities, but also the 10 acres of land required to construct a reservation for the existing, protected local population of greater crested newts.

In October 2006, Flintshire County Council ratified in their emerging Unitary Development Plan (UDP) the status of our 19-acre site as allocated for residential purposes. The number of units that the Council considered could be accommodated on the land was increased by 35 to 260 dwellings, in line with our earlier planning application. At the same meeting in October, the Local Authority confirmed within the emerging UDP, that a further two acres of our land has been designated for non-retail commercial use. The emerging UDP is expected to be ratified within the next 15 months.

### **Heart of Slough**

During 2006, English Partnerships gained approval for a £17 million gross infrastructure investment to enable the Heart of Slough regeneration scheme. We are now preparing the outline masterplan alongside our joint venture partners, Berkeley Homes, Slough Borough Council and English Partnerships, with a view to commencing development in 2008, with completion of the first phase anticipated two years later. In September, we acquired Compair House, a key strategic site that will permit the permanent relocation of the existing town centre bus station, thus releasing the existing facility for redevelopment to provide approximately 300,000 sq. ft. of commercial space adjacent to the town's transport hub. We are encouraged by the continued gradual reduction in the office vacancy rate in Slough and expect still further strengthening of the local occupational market in the medium term.

### **Princes Road, Wells**

In early 2006, in joint venture with respected town centre developer Centros Miller, Development Securities acquired three strategic sites at the edge of Wells town centre. The sites form part of a wider area identified by Mendip District Council for a comprehensive, retail-led, mixed-use development in excess of 100,000 sq. ft. The joint venture has recently signed a Lock Out Agreement with the Local Authority which is the significant first step in the preparation of a masterplan for the wider project. We are also working with the adjoining occupier, Tesco PLC, to incorporate an enlarged food store into the master plan, to the benefit of all parties.

### **Telford Place, Crawley**

Towards the end of 2006, we entered into a further joint venture with Centros Miller under which Development Securities has now acquired two parcels of land adjacent to the town centre in Crawley. Working with English Partnerships, the joint venture will promote the sites for a 200,000 sq. ft. residential-led, mixed-use development. A planning application has been submitted and we are hopeful to have secured all the required consents by the end of 2007.

This transaction strengthens our relationship with Centros Miller and is a further advance into an increasingly favoured area in which value is added via the planning process. This is a complex aspect of the development process, but one where we feel our core skills and risk-focused strategy will allow significant returns to shareholders.

### **Hartfield Road, Wimbledon**

In February 2006, in a joint venture with Foinavon Limited, conditional contracts were exchanged to acquire the 1.25-acre development site at Hartfield Road. We expect our planning application for a 159,000 sq. ft. scheme to comprise 63,000 sq. ft. of residential accommodation, a 30,000 sq. ft. hotel

and 66,000 sq. ft. of retail space together with car parking for 220 vehicles to be considered in the next few weeks. Practical completion is targeted for 2009.

### **Frimley and Marlow**

In November 2006, Development Securities and Equitable Life Assurance Society entered into an Agreement to Lease the entire 180,000 sq. ft. office campus to Siemens Holdings PLC for a 20-year term. Simultaneously, we sold our equity stake in this scheme and our residual equity stake at Globeside, Marlow to Equitable Life, generating a combined surplus of £2.9 million over book values.

### **Staines**

In the first half of 2006, we reached agreement with the adjoining land owner to jointly promote for planning our combined land holdings in this significant development site which could accommodate a 250,000 sq. ft. office building. A planning application has been submitted and is awaiting determination.

### **Investment portfolio**

2006 marked another strong year in the property investment market with total returns reaching 18.5 per cent. This is the third consecutive year where returns have reached these exceptional levels and against a backdrop of solid, if not spectacular, economic growth, the future would appear to be set fair.

Once again, financial performance was driven primarily by falling investment yields as the weight of money targeting the real estate sector remained strong. Yield compression has been a global phenomenon, reflecting the glut of savings in Asia and energy-producing countries. This further compression continued in the face of rising interest rates, such that the IPD Initial Yield (refer note 6), of 4.6 per cent finished the year 70 basis points below the five-year finance swap rate, making the leveraged investor a reticent participant. Risk aversion may return if perceptions change regarding UK monetary policy.

We are beginning to see the early signs of this particular reverse yield gap impacting on secondary property values, which comprise the bulk of investment stock, as the market becomes more selective where rental growth prospects look limited and where yield compression is no longer seen to be the apparent indiscriminate driver of enhanced returns. Yield differentials will eventually adjust to reflect the realities of the occupational market as compared to the current exuberance of the investment market. We have sought to close out our exposure in this sector of the market since values of these assets may deteriorate rapidly, depending on the cost and availability of money. It is worth reflecting that whilst markets can take a long time to rise, they can reverse at a more alarming rate.

The value of prime property, by virtue of location, covenant or asset management opportunities, will remain stable. There remains a wall of money chasing a finite property supply. We have increasingly focused our portfolio towards assets with one or all of these characteristics.

As the capital markets plateau, the focus will once again turn to the income-related element of returns which involves the demand and supply balance in occupational markets. Encouragingly, 2006 saw rental growth contributing to returns, with offices doing notably well relative to retail and industrial property.

We feel that the Company's exposure to the office market is best achieved through its development business where we can, through new build and refurbishment projects, provide high quality accommodation which will have enhanced letting and performance prospects. We are uncertain as to

whether the recovery in this sector will spread to Grade B and C quality buildings which form the bulk of investment grade stock.

Despite a softening retail sector, we remain focused within our investment portfolio on the convenience shopping market, where consumer expenditure, by its nature, is more stable. The key component of the strategy is a food retail offer either within or adjoining the scheme. Since this is the one area of the retail market enjoying both volume and value growth, our focus remains on shopping centres which offer a combination of secure income and significant asset management opportunities compared to the traditional High Street, which we feel is more threatened. We have sold all of our remaining unit shop exposure during the course of 2006 except those assets with short-term value potential.

These various themes make the investment market difficult to predict. We therefore remain even more committed to our three key investment principles of sector rotation, stock selection and proactive management. Of these, we remain convinced that stock selection is the key to performance. In addition, we remain focused on releasing value from the assets we own.

In general, 2006 could be characterised as a year in which we reduced exposure to vulnerable assets, replenished our pipeline of opportunities and above all maximized value through our management activities. In total during 2006, we disposed of £45 million of property in eight transactions which included the Princess of Wales Centre, Dewsbury.

The key to achieving future out-performance will be the intensive asset management of each holding and we believe, perhaps justified by our long-term out-performance of the investment market, that we possess the requisite skills to achieve this.

A remarkable £4.0 million of value was created over the year at The Furlong Centre, Ringwood where 2006 saw the continuation of our active strategy to take back units and re-let to aspirational retailers, thereby driving rental values further. Rental levels have broken through the £60 per sq. ft. Zone A level and we are hopeful of achieving in excess of £70 per sq. ft. Zone A with our next letting. In addition, the turnover provisions that we secured in some leases, based on our confidence in the trading potential of the Centre, are starting to generate additional income and should increase the rental levels to an effective £100 per sq. ft. So successful have we been in recent years, that we now have few units remaining with which to implement this strategy. Consequently, we have secured adjoining land for further phases of development at The Furlong Centre. The additional critical mass thus created will improve dwell times within the scheme and further improve the rental tone. This process of further land assembly is almost complete and we are hopeful of securing planning consent and commencing on site during 2007.

We continue a similar process at Thatcham where, during 2006, we also acquired adjoining land. Here again we hope to make a planning application shortly and are close to securing those final land acquisitions required for implementation. We have been encouraged by the lettings achieved in 2006, which have seen rents improve by 11 per cent, and believe there is latent demand for the new space to be created.

At Swanley Shopping Centre, we intend to submit a planning application shortly for the comprehensive redevelopment of the entire scheme. Not only is a positive dialogue underway with the Local Authority and local interest groups, but pre-letting interest is encouraging us to maintain the initiative.

This retail development strategy coupled with a defensive investment strategy is an evolving area of our business in which we prefer to work in conjunction with smaller, specialist partners who assist in facilitating these opportunities. We have long recognised the need to ensure that we have a clear pipeline of opportunities that will deliver value whether or not the investment market continues its current strength. Sourcing these deals is the current challenge and we are pleased with our progress to date.

During the course of 2006, we acquired interests worth £4.3 million in two other schemes. In one, we are in advanced negotiations to pre-let a food store, with a favourable planning decision anticipated by mid-2007. The other project should provide medium-term pipeline product and, when considered alongside our projects at Ringwood, Thatcham and Swanley, is ample confirmation of an enviable stream of such projects.

Other asset management initiatives completed during 2006 included the restructuring of retail leases at Bexleyheath which contributed to the 23 per cent increase in the property's value. At our retail warehouse in Formby, we agreed with the tenant a surrender and re-grant of the occupational lease, which allowed us to agree a sale just before the year-end in a difficult market, thus removing a problematic covenant exposure from our balance sheet. Completion of this transaction occurred in February 2007.

Significant progress has been achieved at Peacock Place, Northampton, our joint venture shopping centre project with Capmark, acquired in December 2005. The refurbishment of the internal areas commenced in January 2007 and we are now starting to reposition and re-market the Centre to access latent demand within the town. Discussions are also ongoing with the major Centre occupiers to enlarge their holdings, thereby strengthening and re-anchoring the scheme.

We have completed the refurbishment of our vacant warehouse in Wigan, acquired early in 2006. Demand in the logistics market has been patchy, but we are beginning to see a resurgence in demand in the 100,000 sq. ft. size range as distributors look to acquire sub-regional facilities. In addition, there are tentative signs of demand from manufacturers seeking to upgrade facilities. We are optimistic that an occupier for the unit will be secured during 2007.

### **Key performance indicators**

Since the business of property investment and development, especially that of Development Securities, which has a considerable emphasis on development activity, can only properly be judged over a long period, probably a complete cycle, annual performance indicators are of less relevance in running our business. That said, Total Shareholder Return (refer note 6) is a good guide to relative performance, but the importance of that measure needs to be moderated by both the risk profile which we are prepared to accept and the precise stage that has been reached in any cycle.

Our compound Total Shareholder Return since January 2000, the date on which we would regard the present cycle to have commenced, is 18 per cent per annum. This compares to 21 per cent as similarly derived from the Real Estate sector index. One of the contributors to our comparative under-performance to date is the lower level of gearing (refer note 6) with which Development Securities has operated over the current cycle. It is therefore perhaps not unexpected that the consequent reduction in exposure to volatility risk should lead to a lower actual and required level of returns. That said, we are of the view that the next stages of the current cycle should generate superior returns from development activity, rather than investment portfolios.

We also measure our overall investment portfolio performance against an appropriate IPD Index (refer note 6) in order to assess relative performance of this asset class. In 2006, the total return (refer note

6) generated from our investment portfolio was 18.5 per cent, as compared to the IPD Index of 18.1 per cent. Over the last five years, our total return has been 19.0 per cent, as compared to 15.1 per cent of the IPD Index.

### **Debt and equity structure**

Our gearing continues to be low, at 6.2 per cent at 31<sup>st</sup> December 2006, compared to 16.9 per cent at the end of the previous year. Our gross debt totalled £102.9 million whilst we held £88.5 million of cash deposits. £6.9 million of those deposits were pledged as collateral to certain of our lenders. In November 2006, we issued 3.7 million Ordinary shares by way of a placing, raising gross proceeds of £23.1 million. These proceeds were principally used to fund the acquisition of the Curzon Park site in Birmingham. We continue to earmark a significant proportion of our cash balances to identified projects on which we are presently engaged and would expect our gearing levels to increase during 2007 if we are successful in securing all of the projects for which we are now in negotiation.

### **Property portfolio analysis**

#### **Tenant profile**

1	Government	2%
2	FTSE 100	1%
3	PLC/nationals	56%
4	Regional multiples	6%
5	Local traders	35%

#### **Lease profile**

1	0-5 years	43%
2	5-10 years	23%
3	10-15 years	13%
4	15-20 years	10%
5	20 years +	11%

#### **Location profile**

1	South East	54%
2	North	20%
3	London	25%
4	South West	1%

#### **Analysis by sector**

1	Retail	70%
2	Industrial	15%
3	Office	15%

As at 28<sup>th</sup> February 2007

**Consolidated income statement**For the year ended 31<sup>st</sup> December 2006

	2006	2005
	£'000	restated* £'000
Continuing operations:		
Revenue	48,727	25,468
Direct costs	(32,776)	(15,218)
Gross profit	15,951	10,250
Operating costs	(10,257)	(10,538)
(Loss)/profit on disposal of investment properties	(97)	3,728
Gain on revaluation of property portfolio	21,821	18,028
Deficit on revaluation of operating properties	(475)	(174)
<b>Operating profit</b>	<b>26,943</b>	<b>21,294</b>
Share of results of associates and joint ventures	151	1,453
Income from financial assets	63	149
Profit on disposal of investments	-	5,759
<b>Profit before interest and taxation</b>	<b>27,157</b>	<b>28,655</b>
Finance income	2,954	2,262
Finance costs	(7,321)	(7,667)
<b>Profit before taxation</b>	<b>22,790</b>	<b>23,250</b>
Taxation	769	(3,160)
<b>Profit after taxation attributable to equity shareholders of the parent</b>	<b>23,559</b>	<b>20,090</b>
Basic earnings per share	63.4p	54.8p
Diluted earnings per share	63.0p	54.5p
	2006	2005
	£'000	£'000
Dividends declared and paid during the year	2,390	2,245

\* refer note 2 (c)

**Consolidated balance sheet**As at 31<sup>st</sup> December 2006

	2006	2005
	£'000	restated* £'000
Non-current assets		
Property, plant and equipment		
– Operating properties	8,090	9,000
– Other property, plant and equipment	3,618	3,776
Investment properties	139,461	159,568
Financial assets	5,881	755
Investments in joint ventures	20,464	-
Investments in associates	673	1,165
Trade and other receivables	1,468	1,420
Deferred tax assets	5,619	4,387
	185,274	180,071
Investment property – held for sale	5,299	-
Current assets		
Inventory - developments and trading properties	74,663	56,479
Trade and other receivables	10,014	9,677
Cash and short-term deposits	88,536	73,094
	173,213	139,250
<b>Total assets</b>	<b>363,786</b>	<b>319,321</b>
Current liabilities		
Trade and other payables	(16,747)	(15,014)
Financial liabilities	(15,515)	(6,204)
	(32,262)	(21,218)
Non-current liabilities		
Financial liabilities	(87,419)	(98,632)
Deferred tax liabilities	(11,637)	(10,434)
Provisions	(1,055)	(1,529)
	(100,111)	(110,595)
<b>Total liabilities</b>	<b>(132,373)</b>	<b>(131,813)</b>
<b>Net assets</b>	<b>231,413</b>	<b>187,508</b>
Equity		
Share capital	20,356	18,361
Share premium	108,850	87,635
Revaluation reserve	853	335
Other reserves	45,793	45,793
Retained earnings	55,561	35,384
<b>Equity attributable to equity shareholders of the parent</b>	<b>231,413</b>	<b>187,508</b>
Basic net assets per share	568p	510p
Diluted net assets per share	565p	507p
* refer note 2 (c)		

**Consolidated statement of recognised income and expense**For the year ended 31<sup>st</sup> December 2006

	2006	2005 restated*
	£'000	£'000
Gains on revaluation of operating properties	518	321
Deferred tax	(992)	-
Net (loss)/ income recognised directly in equity	(474)	321
Profit for the period	23,559	20,090
<b>Total recognised income for the year attributable to equity shareholders of the parent</b>	<b>23,085</b>	<b>20,411</b>
<b>Impact of adoption of IAS 32 and IAS 39 at 1<sup>st</sup> January 2005</b>	<b>-</b>	<b>15</b>

**Consolidated cash flow statement**For the year ended 31<sup>st</sup> December 2006

	2006	2005 restated*
	£'000	£'000
<b>Net cash flow from operating activities (refer note 5)</b>	<b>(17,977)</b>	<b>(32,261)</b>
<b>Investing activities:</b>		
Interest received	3,057	2,170
Dividends received from associated undertaking	-	149
Proceeds from sale of shares in associated undertaking	-	13,396
Proceeds from redemption of preference shares held in associated undertaking	-	1,500
Proceeds on disposal of property, plant and equipment	33	-
Proceeds on disposal of investment properties	45,076	30,078
Purchase of property, plant and equipment	(1,547)	(876)
Investment in participating loan	(5,000)	-
Purchase of investment properties	(6,928)	(11,945)
Purchase of investments	(20,190)	(1,165)
<b>Net cash from investing activities</b>	<b>14,501</b>	<b>33,307</b>
<b>Financing activities:</b>		
Dividends paid	(2,390)	(2,245)
Issue of new shares	23,210	245
Repayments of borrowings	(18,729)	(5,169)
New bank loans raised	11,973	25,830
Increase/(decrease) in bank overdrafts	4,854	(379)
<b>Net cash from financing activities</b>	<b>18,918</b>	<b>18,282</b>
<b>Net increase in short-term deposits</b>	<b>15,442</b>	<b>19,328</b>
Cash and short-term deposits at the beginning of the year	73,094	53,766
<b>Cash and short-term deposits at the end of the year</b>	<b>88,536</b>	<b>73,094</b>
<b>Cash and cash equivalents comprise:</b>		
Cash and short-term deposits at the end of the year	81,588	48,351
Pledged cash held as security against financial liabilities	6,948	24,743
Cash and short-term deposits	88,536	73,094
Bank overdrafts	(5,929)	(1,075)
<b>Cash and cash equivalents</b>	<b>82,607</b>	<b>72,019</b>

\* refer note 2 (c)

## **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 announcement does not constitute the Group's statutory accounts for the years ended 31<sup>st</sup> December 2006 or 2005.

The financial information for the year ended 31<sup>st</sup> December 2005 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 31<sup>st</sup> December 2006 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

### **2. ACCOUNTING POLICIES**

#### **a) Basis of accounting**

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31<sup>st</sup> December 2006 and applied in accordance with the Companies Act 1985.

#### **b) Basis of consolidation**

- i) The consolidated financial statements of the Group include the financial statements of Development Securities PLC ('the Company'), its subsidiaries and the Group's share of profits and losses and net assets of jointly controlled entities and associated undertakings.

Where necessary, adjustments have been made to the financial statements of subsidiaries, associates and jointly controlled entities to bring the accounting policies used into line with those used by other members of the Group.

Intra-group balances and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

- ii) The results of subsidiaries acquired during the year are included from the effective date of acquisition. Business combinations are accounted for under the acquisition method. Any excess of the purchase price of the business combination over the fair value of the assets and liabilities acquired is recognised as goodwill. Any discount received is credited to the income statement in the period of acquisition.

#### **c) Prior Year Restatement**

The Directors have made the following revisions to the prior year financial statements in respect of the following items:

### **Operating properties**

Comparative figures for the year ended 31<sup>st</sup> December 2005 have been restated to more accurately adopt IFRS requirements in respect of certain leasehold properties. The financial effect at 1<sup>st</sup> January 2005 is a reduction in the net asset value of Operating properties of £1,348,000, a reduction in Revaluation reserve of £1,673,000 and a revaluation surplus of £347,000. For the year ended 31<sup>st</sup> December 2005, the depreciation charge in respect of Operating properties was reduced by £58,000 and the Revaluation gain reduced by £104,000.

### **Deferred tax**

The Directors have corrected an error in the computation of deferred tax in respect of the revaluation gain of an Operating property. Accordingly, at 31<sup>st</sup> December 2005, deferred tax liabilities have been restated and increased by £2,900,000, with a corresponding reduction in Retained reserves. The impact on the deferred tax charge for the year ended 31<sup>st</sup> December 2005 was a decrease of £300,000.

## **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 and development profits; 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 £1,394,000 (2005: £1,727,000), which are located in France and The Netherlands. Accordingly no secondary segmental information is shown.

All revenue arises from continuing operations.

Year ended 31<sup>st</sup> December 2006

**3. SEGMENTAL  
ANALYSIS (continued)**

	Investment £'000	Trading and development £'000	Operating £'000	Total £'000
<b>Segment revenue</b>	<b>8,995</b>	<b>34,675</b>	<b>5,057</b>	<b>48,727</b>
Direct costs	(1,601)	(26,195)	(4,980)	(32,776)
<b>Segment result</b>	<b>7,394</b>	<b>8,480</b>	<b>77</b>	<b>15,951</b>
Unallocated operating costs				(10,257)
Loss on disposal of investment properties	(97)	–	–	(97)
Net gain/(loss) on revaluation of property portfolio	21,821	–	(475)	21,346
<b>Operating profit</b>				<b>26,943</b>
Share of results of associates and joint ventures				151
Income from financial assets				63
<b>Profit before interest and taxation</b>				<b>27,157</b>
Finance income				2,954
Finance costs				(7,321)
<b>Profit before taxation</b>				<b>22,790</b>
Taxation				769
<b>Profit after taxation attributable to equity shareholders of the parent</b>				<b>23,559</b>
<b>Assets and liabilities</b>				
Segment assets	205,723	100,006	13,911	319,640
Unallocated assets				44,146
<b>Total assets</b>				<b>363,786</b>
Segment liabilities	(83,771)	(31,104)	(2,593)	(117,468)
Unallocated liabilities				(14,905)
<b>Total liabilities</b>				<b>(132,373)</b>

### 3. SEGMENTAL ANALYSIS (continued)

	Year ended 31 <sup>st</sup> December 2006			
	Investment £'000	Trading and development £'000	Operating £'000	Total £'000
<b>Other segment information</b>				
Capital expenditure	7,047	-	1,305	8,352
Unallocated capital expenditure				242
Depreciation			982	982
Unallocated depreciation				146
<b>Revenue</b>				
Rental income	8,700	124	-	8,824
Operating property income	-	-	5,057	5,057
Project management fees	-	587	-	587
Trading property sales	-	25,800	-	25,800
Development profits	-	8,164	-	8,164
Other income	295	-	-	295
	8,995	34,675	5,057	48,727

### 4. FIXED RATE DEBT

The notional fair value adjustment at 31<sup>st</sup> December 2006 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 £11,900,000 (2005: £15,100,000) equivalent to a decrease in net assets of 20.5 pence per share after tax (2005: 28.8 pence per share).

### 5. NOTE TO THE CASH FLOW STATEMENT

	2006 £'000	2005 restated* £'000
<b>Operating profit</b>	26,943	21,294
<b>Adjustments for:</b>		
Loss/(gain) on disposal of property, plant and equipment	97	(3,728)
Net gain on revaluation of investment and operating properties	(21,346)	(17,854)
Share based payments	142	110
Depreciation of property, plant and equipment	1,128	1,149
<b>Operating cash flows before movements in working capital</b>	6,964	971
Increase in developments	(3,587)	(996)
Increase in trading properties	(14,975)	(34,248)
(Increase)/decrease in receivables	(182)	7,702
Increase in payables	1,253	1,509
<b>Cash generated by operations</b>	(10,527)	(25,062)
Capitalised interest charged to direct costs	1,145	181
Income taxes paid received	(473)	(906)
Interest paid	(8,122)	(6,474)
<b>Net cash from operating activities</b>	<b>(17,977)</b>	<b>(32,261)</b>

\* refer note 2 (c)

## 6. 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.

**IPD Initial Yield:** annualised current passing rent expressed as a percentage of the property valuation.

**Total Shareholder Return:** dividends plus annual growth in net assets.

**Gearing:** expressed as a percentage, is measured as net debt divided by total shareholders' funds.