

21<sup>st</sup> March 2005

## DEVELOPMENT SECURITIES PLC – PRELIMINARY RESULTS

Development Securities PLC, the leading property development and investment company, today announces profits before tax of £4.6 million and earnings per share of 12.5 pence per share for the year ended 31<sup>st</sup> December 2004, compared to £1.2 million and 4.2 pence per share for the previous year.

### Financial highlights

	31 Dec 2004	31 Dec 2003
Profit before tax	£4.6 million	£1.2 million
Earnings per share	12.5p	4.2p
Shareholders' funds	£171.0 million	£125.1 million
Net assets per share	466p	444p
Dividend per share	6.0p	5.4p
Net gearing*	18%	15%

As anticipated, the mainstream development business did not generate any appreciable earnings during the period under review. However, the property portfolio contributed a revaluation surplus of £15 million as it continued to deliver enhanced investment returns, outperforming the market for the fourth successive year.

There were also exceptionally good returns at Stead & Simpson, the specialist footwear retailer in which the Company has held a long-term 38% interest. Development Securities' share of attributable pre-tax profits rose to £3.3 million from £0.5 million in the previous year.

Stead & Simpson's recent announcement of the appointment of Clearwater Corporate Finance to explore options for the company in order to release existing shareholders' equity and to secure further funds for expansion of the business is consistent with Development Securities' stated objective of securing an orderly exit from the investment in the short to medium term.

### Development Portfolio

Since the Firm Placing and Placing and Open Offer in August 2004, when £28.3 million net proceeds were raised, a substantial amount of these funds have been allocated to new development projects.

#### PaddingtonCentral

The second phase of development moved closer with grant of planning permission; construction is expected to start later this year on 250,000 sq ft of office accommodation

The construction of the CrossRail deck commenced in January

The major Bishops Bridge Road improvement scheme is scheduled to complete in Spring 2006

Morley Fund Management take over as single development partner

#### CityPark, Manchester

This mixed-use development site was acquired from Crosby Homes for £3 million

CityPark has an outline planning consent for 177,000 sq ft of offices and 94,000 sq. ft. of hotel accommodation. A detailed planning application is to be submitted to Manchester City Council in the short term

#### Cavendish Walk, Huyton

This retail development site was acquired for £5 million in February 2005

A pre-let of the scheme's anchor store is already secured

This project is not scheduled to be retained long term in the property portfolio

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\* refer note (i)

Significant competition from property developers and institutional investors for Central London sites has tended to raise prices to levels which already discount significant future rental growth. Whilst still seeking new Central London projects, the Company will also compete for development opportunities in provincial markets, where its skills in complex regeneration schemes can be utilised.

By virtue of the London Plan, development in London outside the City now frequently requires an element of affordable housing. Accordingly, in September 2004, a joint venture with Genesis Housing Corporation was established to provide assistance with any affordable housing provision.

### **Property Investment Portfolio**

2004 represented a year of further advance as the investment portfolio continued to deliver enhanced returns which have outperformed the market. This was notwithstanding the continuing strong property investment market, which has made acquiring stock at realistic prices increasingly challenging. The market remains difficult to call and there is little doubt that it is in uncharted territory.

Total portfolio return of 23.0% achieved in 2004 compared to IPD total return of 18.3%.\*

### **Board composition**

In March 2004 Matthew Weiner and Paul Willis were appointed to the Board as Executive Directors.

With effect from today's date, Michael Marx becomes Executive Deputy Chairman and continues as Finance Director. Paul Willis is appointed to Joint Managing Director alongside Julian Barwick.

*Roy Dantzie, Chairman, Development Securities PLC, commented,*

"I am pleased to report a more profitable year, together with an increased uplift in shareholders' funds at the year end.

"2004, like 2003, was not an easy year for development-orientated businesses operating in our preferred sectors. However, like the previous year, we were able to benefit from improved returns deriving from a diversification of resources into our investment portfolio and elsewhere.

"Whilst it would not be prudent to expect these levels of performance to continue as a matter of course into 2005, we remain cautiously optimistic that sound contributions from all parts of our business will be achieved in the year ahead.

"With available cash resources of £35 million and £28 million of unutilised committed bank facilities, we remain well placed to capitalise on available opportunities."

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\* refer note (i)

## **Chairman's statement**

I am pleased to report a more profitable year for your Company, together with an increased uplift in shareholders' funds at the year-end.

For a year in which, much as anticipated, our mainstream development business did not generate any appreciable earnings for your Company, it is satisfying for me to report profits before tax for the year to 31<sup>st</sup> December 2004 of £4.6 million and earnings per share of 12.5 pence per share, compared to £1.2 million and 4.2 pence per share for the previous year.

Shareholders' funds rose for the ninth successive year, reaching £171.0 million, equivalent to 466 pence per share. This compares with £125.1 million and 444 pence per share 12 months earlier. The revaluation uplift on our property portfolio of £15.1 million and the £28.3 million net proceeds from the August 2004 Firm Placing and Placing and Open Offer were clearly the main contributors to the increase.

In view of this improved positive performance and the Company's sound financial footing, the Board has resolved to recommend the payment of a final Ordinary dividend for the year of 4.0 pence per share, payable on 6th July 2005 to shareholders on the register on 10th June 2005. This brings the total Ordinary dividend for the year to 6.0 pence per share, an advance of 11 per cent over the previous year.

## **Strategy**

For over a decade now, we have consistently adhered to our business model of avoiding any significant development risk that was likely, or had the potential, to threaten our financial stability. This strategy enabled us to increase our shareholders' funds on an annual basis throughout the recent development downturn. In the light of current prospects for an improving occupier market in Central London, the South East of England and key provincial markets, we intend to invest funds raised from shareholders in 2004 as seed equity into various development projects.

Our first class track record in complex, mixed-use regeneration schemes will assist us in alternative marketplaces, as our CityPark site acquisition in Manchester last October clearly indicates. Since last year's equity issue, over a third of the funds so raised have been allocated to new development projects at CityPark, Manchester and Cavendish Walk, Huyton and the second phase at PaddingtonCentral.

Although two out of these three development projects are outside of Central London, early indicators of employment growth in the City of London were evident in 2004. We anticipate this positive trend strengthening in the next few years as activity in the Square Mile responds to continuing global and United Kingdom economic growth. The current comparative shortage of available prime office accommodation in London's West End augurs well for an earlier return to favourable market conditions, but this optimism in both the City of London and West End markets needs to be tempered in the face of strong competitive factors that currently exist in both the development and investment markets.

Yet again it is particularly pleasing for me to report the exceptional returns generated by our property investment portfolio, delivering a 23.0 per cent IPD Total Portfolio Return (refer note (i)), which compares favourably with an average of 18.3 per cent for the market. This was the fourth consecutive year in which the total return from our investment portfolio exceeded market performance. Broadly, one third of our return was generated by rental income arising from the properties themselves, with the balance contributed by realised gains from the disposal of property assets as well as from revaluation surpluses on those properties retained within the portfolio.

There were also exceptionally good returns at Stead & Simpson, the footwear retailer in whom we hold a 40 per cent equity interest. Your Company's share of attributable post-tax profits rose to £3.6 million from £0.5 million in the previous year. We continue to consider an orderly exit from this business in the short to medium term.

## **Outlook**

Our view remains that, as business moves into the next phase of the economic cycle, investor and occupier demand for high specification new mixed-use schemes will strengthen rather than diminish. Our target is the delivery of completed schemes into the latter part of this decade, coinciding with what we believe will be optimum market conditions. In addition, we will pursue other provincial, urban regeneration initiatives where appropriate. Our balance sheet is strong, especially after the successful issue of 8.3 million Ordinary shares at 360 pence per share in August last year. With available cash resources of £35 million and £28 million of unutilised committed bank facilities, we remain well placed to finance existing projects and to capitalise on available opportunities. Our net gearing, 18 per cent at the year-end (refer note (i)), is relatively low for the sector but this will inevitably increase once our available liquid resources are deployed into the market.

## **Board composition**

As shareholders will be aware, in March 2004 we welcomed the appointment of both Matthew Weiner and Paul Willis to our Board as Executive Directors. Matthew continues to be responsible for the investment portfolio which he has run with outstanding success for over four years. Paul, previously Head of Knight Frank's City of London office is spearheading the expansion of the development programme. Below Board level, the management teams of both activities was further strengthened by the appointment of six senior developers and investment professionals.

I am also pleased to inform you that, with effect from today's date, Michael Marx becomes our Executive Deputy Chairman and continues as Finance Director, with Paul Willis appointed to Joint Managing Director alongside Julian Barwick.

## **Conclusion**

2004, like 2003, was not an easy year for development-orientated businesses operating in our preferred sectors. However, like the previous year, we were able to benefit from improved returns deriving from a diversification of resources into our investment portfolio and elsewhere. Whilst it would not be prudent to expect these levels of performance to continue as a matter of course into 2005, we remain cautiously optimistic that sound contributions from all parts of our business will be achieved in the year ahead.

It remains for me to thank all our Directors, management and staff for their valued contributions to our endeavours. Their professionalism and standing in the marketplace has been the undoubted key feature of our success over many years.

Roy Dantzig  
Chairman  
21<sup>st</sup> March 2005

## **Review of Operations**

The contrast that featured through most of 2003 between the strength of the property investment market and the subdued levels of the occupier market in London and the South East continued throughout 2004.

### **Economic and business environment**

Whilst further yield compression, due to a favourable medium-term interest rate environment and increasing investor appetite, drove investment values higher than most market participants had imagined possible a year ago, the occupational markets continued largely to move sideways as businesses hesitated to commit to expansion. That hesitation, most discernible in the City of London in the early part of the year, gave way slightly towards a sense of forward momentum as the year progressed.

Alongside encouraging global growth, the United Kingdom economy grew at an above trend 3.2 per cent in 2004, with consumer demand strong and unemployment low. Global expansion is set to continue, albeit at a reduced pace, 2005 should still provide the opportunity for the United Kingdom economy to return another respectable year of growth in a low inflation environment. However, the potentially vulnerable housing market and the high level of personal debt remain a concern. Interest rates are likely to remain stable at or around current levels and occupational demand should increase as the year unfolds.

In the City of London, demand for development sites became increasingly competitive in anticipation of firm rental growth in the medium term. Availability of prime office space is likely to decline from current levels of 15 per cent; little further tenant space is coming onto the market and the existing development programme commenced some years ago is drawing to a close. These factors, combined with increasing occupier demand, should lead to a continued fall in availability and to rental growth.

### **Current development programme**

In the recent past, the principle focus of your Company's development activity has been the provision of large, high value office buildings in London and the South East, increasingly involving complex urban regeneration and mixed uses, such as residential and retail components. This is where our reputation and profile is the highest. By virtue of the London Plan, development in London outside the City now frequently requires an element of affordable housing. Accordingly, in September 2004, we established a joint venture with Genesis Housing Corporation to assist us in the affordable housing provision. Looking further ahead, mixed-use schemes in which we are involved may well include a leisure or hotel element, as well as private housing provision.

Significant competition from property developers and institutional investors for Central London sites has tended to raise prices to levels which already discount significant future rental growth. Whilst we are still seeking new Central London projects, we will continue to compete for developments in provincial markets as well as on the fringes of the City and West End.

We have provisionally allocated a minimum of £13 million of equity for the two new projects recently won at CityPark, Manchester and Cavendish Walk, Huyton, in addition to our likely commitment to the next phases of development at PaddingtonCentral. We are currently bidding for a number of mixed-use regeneration development projects in London and across the country.

### **PaddingtonCentral**

The first phase of the 1.75 million sq. ft. prime office, retail and leisure development was completed successfully in 2002. During 2004, significant milestones were reached as PaddingtonCentral moved closer to the beginning of the next phase of active development. Towards the end of 2004, Morley Fund Management became our sole partner on the remaining development site when they acquired the 50 per cent interest previously held by Equitable Life Assurance Society. With any uncertainty of

funding capacity for the next phase thus significantly reduced, we are now proceeding with the construction of the CrossRail deck. Since the entrance to the proposed CrossRail tunnel will lie immediately to the west of our PaddingtonCentral site, completion of the deck will allow future phases of our development to proceed independently of CrossRail. The deck will provide a horizontal separation between the planned CrossRail work area and the new PaddingtonCentral structures.

In November, the Government announced its intention to introduce a Bill in the present session of Parliament to promote the CrossRail scheme. CrossRail, which is set to provide a high-speed link to the City and beyond, will further improve Paddington's excellent transport connections.

Additionally, in January 2004, construction began on the widening of the adjacent Bishops Bridge Road from two to five lanes. This project, to be completed in March 2006, will not only significantly improve vehicular access to Paddington Station, but, perhaps more importantly for ourselves, will also provide the main road access to PaddingtonCentral itself, directly opposite to the new station entrance. By the time the new bridge is completed, we expect to have made a start on the next phase of development, which is likely to be a 250,000 sq. ft. office building, designed by Sheppard Robson, for which detailed planning permission has already been received. Whilst the rental and investment values anticipated at the outset of the project for the second phase now appeared to be conservative, the value improvement presently emerging at PaddingtonCentral carries with it additional costs associated with enhanced design. The next generation of buildings at PaddingtonCentral will be of significantly improved specification arising partly from legislation, partly from our sustainability policies and partly from the growing recognition that PaddingtonCentral is now a proven head office location.

### **Royal Business Park**

In July, we achieved practical completion of the 245,000 sq. ft. first phase of this planned £500 million, 50-acre business park. Marketing of the prime office accommodation to the occupational market has now begun in earnest and we are cautiously positive that some success will be achieved in 2005. The terms of the Development Agreement with our partner, Standard Life Investments, have enabled us to participate in cost savings arising out of value engineering initiatives and cost management which broadly correlate to our share of the profitability we had anticipated on this phase.

### **CityPark, Manchester**

In November 2004, we acquired for £3.0 million a 999-year leasehold interest in CityPark, a 290,000 sq. ft. mixed-use development, from Crosby Homes. The development is the commercial element of Greenquarter, a mixed-use, one million sq. ft. development in the northern quadrant of Manchester City Centre. CityPark, located immediately to the North East of Victoria Station, opposite the Manchester Evening News Arena, has an outline planning consent for 177,000 sq. ft. of offices and 94,000 sq. ft. of hotel accommodation together with associated car parking. A detailed planning application is to be submitted to Manchester City Council shortly.

### **Heart of Slough**

This project took a significant step forward in 2004 with a commitment by English Partnerships to finance infrastructure works at a cost in excess of £15 million. English Partnerships will also fund the necessary environmental impact assessments. An ongoing review of the Heart of Slough masterplan has generated a revised road layout, resulting in some changes to the individual development plots. This, together with the continuing weakness of the Slough office market, has led to a reduction in the proposed office content, albeit with the flexibility to increase again if market conditions justify. The 'bus station' site, over which the Company will have exclusive development rights, can accommodate approximately 300,000 sq. ft. of floor space, together with associated car parking.

### **Cambourne Business Park**

The status of our 750,000 sq. ft. business park was significantly improved by the completion, in May 2004, of the 60,000 sq. ft. Headquarters and Civic Centre for South Cambridgeshire District Council. Road infrastructure improvements, in particular along the adjacent A428, have enhanced accessibility to the business park and helped to raise its profile even further in the Cambridge occupational market. The Civic Centre, designed by Aukett Europe, has achieved high sustainability recognition, winning top BREEM and Environmental Performance Index Ratings. Whilst further lettings were achieved in

2004 with Bovis Limited and Cambridge Display Technologies Limited, the occupational market for office accommodation remains challenging, with 47,000 sq. ft. of accommodation still available on the second phase of this development.

### **Broughton**

In June 2004, together with Hercules Unit Trust, we submitted a joint planning application for a new 90,000 sq. ft. Marks & Spencer store and a 26,000 sq. ft. extension for Tesco, an existing tenant of the first phase of this development, together with a 54,000 sq. ft. of new retail space and additional car parking, landscaping, road improvements and cycle routes. This application is under active consideration by Flintshire County Council, who are awaiting the results of both the Transport Impact and Retail Impact Studies, which they commissioned recently.

In July, we submitted a planning application in respect of 27.7 acres of our own land for a residential development. This site, a short walk from the retail park, the British Aerospace facility and adjacent to existing housing developments, was designated by Flintshire County Council as land suitable for housing in their 2003 Draft Urban Development Plan. In September, we entered into a contract to dispose of this land to Westbury Homes, conditional upon the resolution of a satisfactory planning consent and associated matters.

Notwithstanding some remaining local issues, we are hopeful that planning consent will be achieved in 2005 with regard to both planning applications. Shareholders will appreciate the complexities and uncertainties often associated with the planning application process and its related timing.

### **Lancaster**

Your Company, together with CTP Limited, has been selected as preferred developer for a 16-acre regeneration project on the western side of Lancaster. There is much to be done before a start on site can be envisaged. In the meantime, we will work in close partnership with Lancaster City Council to complete the land assembly and remediation strategy prior to commencing the new riverside quarter of 350 homes, 90,000 sq. ft. of commercial space and a 2.5-acre urban park. English Partnerships, the North West Development Agency and the European Regional Development Fund will provide some of the funding to facilitate the redevelopment.

## Property Portfolio

2004 represented a year of further advance within our investment portfolio as we continued to deliver enhanced investment returns, out-performing the market in the process. Our investment team has moved further away from simple, long-leased property towards assets which contain an element of increased risk and, consequently, an additional return.

Having recently strengthened the management team, we have the internal expertise and resources to evaluate these risks and, through this process, secure further opportunities for value creation.

This was notwithstanding the continuing strong property investment market, which has made acquiring stock at realistic prices increasingly challenging. The market remains difficult to call and there is little doubt that it is in uncharted territory. Never before have we seen such a prolonged period of rising capital values whilst the occupier market, the long-term driver of performance, remains subdued at best. The total 2004 investment return on our portfolio totalled 23.0 per cent compared to the market return as measured by IPD of 18.3 per cent. The portfolio has now out-performed the market over a three-year period by 4.7 per cent and is ranked on the fifth percentile over this period. The 2004 total return includes an income return of 6.3 per cent and capital growth of 16.7 per cent.

We remain committed to our three key investment principles of sector rotation, stock selection and proactive management. This led, during the course of the year, to a further reduction of 20 per cent in our exposure to the office sector where the impact of the downturn in occupational demand has been most keenly felt and where we believe the investment market is over-pricing the emerging signs of rental recovery. We believe that the office sector will offer investment opportunities as the bottom of the cycle has been reached, but we are cautious about the pace of recovery in the occupier market. A careful return to the office investment market may be made over the next 12 months.

The incorporation of a further tactical element to our investment strategy, namely the acceptance of a marginally higher degree of certain categories of risk within the investment portfolio, reflects increasing confidence in both our stock selection ability and a recognition that we possess the core skills to successfully capitalise on these opportunities.

We have continued to increase exposure to certain parts of the retail sector. We do not discount the impact of the probable slowdown in consumer expenditure on the retail market, but believe that our investment properties attract convenience and not comparison expenditure, enabling us to benefit from its inherently solid demand characteristics.

The strategic decision made some years ago to increase the retail asset weighting has proved to be good as the gains seen on the investments acquired in the retail sector since 2001 have evidenced capital growth of 12 per cent during this year.

Transaction activity during 2004, with acquisitions outweighing disposals, totalled £71.2 million. In total, nine properties were sold for £33.8 million, generating a 15 per cent net surplus over book value. We perceived there to be an asset pricing bubble and subsequently moved to crystallise significant valuation surpluses on certain assets.

Most notably we took the decision to offer our two West End holdings to the investment market and secured the disposals of both buildings, on sub-six per cent yields, for a combined surplus of £3.1 million, some 23 per cent above book value. By way of comparison, the office market showed 8.6 per cent capital growth over 2004.

The sale of Lowesmoor Trading Estate, Worcester, generated a net surplus of £0.6 million. The estate formed a small part of a complex redevelopment project being undertaken by a local developer. We also secured the disposal for £5.5 million of a further three units from the Carpetworld portfolio acquired in 2003. Prices achieved reflected a further 10 per cent capital gain over book values, realising a 20 per cent gain on these assets since acquisition. Since the year-end, we have acquired two further Carpetworld units by way of sale and leaseback from the vendor at an 8.0 per cent initial yield.

In 2004, £45.0 million was invested through a combination of capital expenditure on the existing portfolio and on five purchases. The largest acquisition was the Princess of Wales Centre, Dewsbury for £20.2 million. The Centre comprises the dominant retail offer within the town and provides a solid income return with attractive asset management opportunities to drive rental values higher. We are hopeful of receiving an offer for a unit in the scheme at a level which would set a new rental tone, some six per cent higher than has been achieved to date. At the year-end, the Centre had already increased in value by 14 per cent, driven by yield compression. If rental levels improve further, enhanced investment performance should be realised.

In May 2004, we acquired a site in Liverpool for £2.8 million with planning permission for either a food store or a non-food retail offer. Having determined a strategy to secure an improved planning consent for a non-food retail warehouse scheme and then develop the site, we obtained a revised planning consent in September. Almost immediately thereafter, we accepted an unconditional offer for the site from ASDA which allowed us to realise the majority of the potential development profit without any of the associated risks. We crystallised a net surplus of over £1.0 million, representing a return of 34 per cent over the six-month period of ownership.

In October, we acquired Swanley Shopping Centre for £13.9 million. The property has outstanding asset management opportunities, having been in a relatively inactive single ownership since 1989. We are currently formulating our asset management plan, which will incorporate redevelopment of existing units to increase density as well as re-positioning the retail offer. We believe the rental tone, ranging from £25 to £35 Zone A, offers significant potential for improvement.

Our existing holdings now include over £65 million invested in convenience and food based shopping centre assets. Additionally, in early 2005, the Company acquired a £5 million site for a retail development project to be known as Cavendish Walk, Huyton. This is a new 105,000 sq. ft. retail development, where we are working with a local development company. A pre-let of the scheme's anchor store to Wilkinson Hardware is already secured, representing 15 per cent of the scheme's rent roll. Occupier interest in the remaining accommodation is strong and we hope to have achieved a high level of pre-letting prior to practical completion in the first quarter of 2006. In the medium-term, we intend to secure additional projects of this type as we seek to capitalise on our internal investment and development skills.

Other acquisitions during 2004 illustrate our willingness to accept different categories of risk. At Vector Point, Redditch, a vacant 110,000 sq. ft. warehouse, we took void risk, and having refurbished the unit, are now offering it for re-letting. Once let, we expect the property to achieve an attractive yield in excess of 10 per cent on cost.

At Austen House, Fleet, a primarily retail property acquired for £2.1 million in October, we accepted planning risk in seeking a conversion of the vacant office upper parts to residential use and residential market and construction risk in the disposal of these units. We hope that this venture, which was undertaken with a smaller developer, will lead to the location of similar opportunities during the course of 2005.

The Company also acquired 1/9 Caroline Street, Bridgend, during 2004. This is a more defensive acquisition in that it comprises a block of good secondary retail units with the majority of the income let to national multiples. The seven per cent income return represents good value and we are pleased to report a valuation uplift of seven per cent at year-end.

Further proactive management accounted for significant value creation on two investment properties acquired in previous years. At The Furlong Centre, Ringwood, we have seen the culmination of several initiatives, most notably the agreement with Waitrose to extend their food store anchor by 15,000 sq. ft. and simultaneously restructure their lease to a new 20-year term at an enhanced rental level. Development works are well underway, with practical completion scheduled for May 2005. This extended store will also improve the potential of the adjacent retail units. We have already seen an improvement in the rental tone of the Centre with the arrival of certain new national multiple occupiers, most importantly the women's fashion retailer Hobbs. The value creation has been £2.3 million over two years.

At our 94,000 sq. ft. Genesis Centre in Warrington, we introduced a more proactive and responsive marketing strategy, emphasising the flexibility of the building and offering a semi-serviced offer for the

price of traditional leased office accommodation. This initiative, together with refurbishment of the reception area, enabled us to lease 10,000 sq. ft. of void space during 2004, contributing to the asset's £1.2 million increase in capital value during the year.

We have now achieved four consecutive years of strong performance from the investment portfolio, and leveraging from this base, will now give serious consideration to utilising shareholders' funds more efficiently, in partnership with others, to expand the quantum of assets under management. Our objective is to create a more significant financial presence in a marketplace increasingly dominated by a small number of larger, financially robust participants.

### **Stead & Simpson**

Increased revenues and improved margins at Stead & Simpson, the footwear retailer in which we hold a 40 per cent investment, resulted in pre-tax profitability of £8.9 million, increased from £4.5 million in the previous year. This excellent trading performance enabled us to incorporate £3.6 million of this post-tax profit within our 2004 results. In March 2005, the shareholders of Stead & Simpson resolved to explore options for the company, in order to realise existing shareholders' equity and to secure further funds for expansion of the business.

Julian Barwick  
Joint Managing Director  
21st March 2005

**Consolidated profit and loss account  
for the year ended 31st December 2004 (audited)**

	Notes	Total 2004 £'000	Total 2003 £'000
<b>Turnover</b>	(a,b)	<b>23,598</b>	32,237
<b>Direct Costs</b>	(a,b)	<b>(14,236)</b>	(22,862)
<b>Gross Profit</b>	(a,b)	<b>9,362</b>	9,375
Operating expenses	(c)	<b>(8,386)</b>	(7,792)
Exceptional item	(e)	-	2,000
Total operating expenses		<b>(8,386)</b>	(5,792)
<b>Operating profit</b>	(c)	<b>976</b>	3,583
Share of operating profit of associate	(f)	<b>4,223</b>	537
Income from other fixed asset investments	(f)	<b>125</b>	495
Profit on disposal of fixed assets		<b>4,057</b>	1,214
<b>Profit on ordinary activities before interest</b>		<b>9,381</b>	5,829
Net interest payable		<b>(4,796)</b>	(4,649)
<b>Profit on ordinary activities before taxation</b>		<b>4,585</b>	1,180
Tax on profit on ordinary activities		<b>(347)</b>	-
<b>Profit on ordinary activities after taxation</b>		<b>4,238</b>	1,180
Dividends on equity shares		<b>(2,025)</b>	(1,520)
<b>Retained profit/(loss) for the year</b>		<b>2,213</b>	(340)
<b>Earnings per share</b>		<b>12.45p</b>	4.20p
<b>Diluted earnings per share</b>		<b>12.42p</b>	4.19p

All turnover and profits derive from continuing operations.

**Consolidated balance sheet**  
**31st December 2004 (audited)**

	Note	£'000	2004 £'000	£'000	2003 £'000
<b>Fixed assets</b>					
Investment properties	(h)	156,572		115,355	
Operating properties		10,573		6,991	
Other tangible assets		3,793		3,745	
Investments		7,704		3,104	
			<b>178,642</b>		129,195
<b>Current assets</b>					
Land, developments and trading properties		21,235		15,318	
Debtors		18,029		13,863	
Cash at bank and in hand		53,766		56,339	
		<b>93,030</b>		<b>85,520</b>	
<b>Creditors:</b> amounts falling due within one year		<b>(17,853)</b>		<b>(14,703)</b>	
<b>Net current assets</b>	(d)		<b>75,177</b>		70,817
<b>Total assets less current liabilities</b>			<b>253,819</b>		200,012
<b>Creditors:</b> amounts falling due after more than one year			<b>(82,829)</b>		(74,950)
<b>Net assets</b>			<b>170,990</b>		125,062
<b>Financed by:</b>					
<b>Capital and reserves</b>					
Called up share capital			18,334		14,091
Share premium account			87,417		63,016
Revaluation reserves			22,538		6,048
Other reserves			45,619		45,619
Profit and loss account - deficit			(2,918)		(3,712)
<b>Total equity shareholders' funds</b>			<b>170,990</b>		125,062
<b>Net assets per share</b>			<b>466p</b>		444p
<b>Diluted net assets per share</b>			<b>463p</b>		441p

Approved by the Board of Directors on 21<sup>st</sup> March 2005  
and signed on its behalf

M H Marx  
Director

**Consolidated cash flow statement  
for the year ended 31st December 2004 (audited)**

	<b>2004</b>	2003
	<b>£'000</b>	£'000
<b>Cash (outflow)/inflow from operating activities</b>	<b>(9,210)</b>	773
Returns on investment and servicing of finance	<b>(5,240)</b>	(5,245)
Taxation	<b>1,088</b>	716
Capital expenditure and financial investment	<b>(25,578)</b>	(4,068)
Equity dividends paid	<b>(1,574)</b>	(9,443)
<b>Cash outflow before financing</b>	<b>(40,514)</b>	(17,267)
Financing:		
Purchase of own shares	-	(2,029)
Issue of new shares	<b>28,644</b>	295
Repayment of debt	<b>(7,227)</b>	(17,384)
Proceeds from new borrowings	<b>15,169</b>	7,644
(Increase)/decrease in pledged cash	<b>(10,191)</b>	18,579
<b>Decrease in cash in the year</b>	<b>(14,119)</b>	(10,162)

**Reconciliation of consolidated net cash flow to movement in net debt  
for the year ended 31st December 2004 (audited)**

	<b>2004</b>	2003
	<b>£'000</b>	£'000
<b>Decrease in cash in the year</b>	<b>(14,119)</b>	(10,162)
Cash outflow from reduction in debt	<b>7,227</b>	17,135
Cash inflow from new borrowings	<b>(15,169)</b>	(7,644)
Cash outflow/(inflow) from movement in pledged cash	<b>10,191</b>	(18,579)
<b>Movement in net debt in the year</b>	<b>(11,870)</b>	(19,250)
<b>Net (debt)/funds at 1 January</b>	<b>(18,918)</b>	332
<b>Net debt at 31 December</b>	<b>(30,788)</b>	(18,918)

**Reconciliation of operating profit to net cash inflow from operating activities  
for the year ended 31st December 2004 (audited)**

	<b>2004</b>	2003
	<b>£'000</b>	£'000
Operating profit	<b>976</b>	3,583
Release of provision against preference shares and loans in associated undertaking (refer note (e))	<b>-</b>	(2,000)
(Profit)/loss on disposal of tangible fixed assets	<b>(5)</b>	180
Capitalised interest charged to direct costs	<b>71</b>	250
Increase in developments and trading properties	<b>(5,736)</b>	(5,034)
(Increase)/decrease in debtors	<b>(4,378)</b>	8,076
Decrease in creditors	<b>(1,112)</b>	(5,170)
Depreciation charges	<b>974</b>	888
	<b>(9,210)</b>	773

**Analysis of net debt  
for the year ended 31st December 2004 (audited)**

	Balance at 1 January 2004 £'000	Cash flow £'000	Other non-cash changes £'000	Balance at 31 December 2004 £'000
Cash in hand, at bank	47,409	(12,764)	-	34,645
Bank overdraft	(99)	(1,355)	-	(1,454)
		(14,119)		
Debt falling due within one year	(208)	208	(271)	(271)
Debt falling due after more than one year	(74,950)	(8,150)	271	(82,829)
Pledged cash	8,930	10,191	-	19,121
		2,249		
	(18,918)	(11,870)	-	(30,788)

**Consolidated statement of total recognised gains and losses  
for the year ended 31st December 2004 (audited)**

	2004 £'000	2003 £'000
Profit on ordinary activities after taxation	4,238	1,180
Unrealised surplus on revaluation of property portfolio	15,071	5,618
<b>Total recognised gains and losses for the financial year</b>	<b>19,309</b>	<b>6,798</b>

**Reconciliation of movement in consolidated total equity shareholders' funds  
for the year ended 31st December 2004 (audited)**

	2004 £'000	2003 £'000
Profit on ordinary activities after taxation	4,238	1,180
Dividends on equity shares	(2,025)	(1,520)
Retained profit/(loss) for the financial year	2,213	(340)
Net proceeds of issue of new shares	28,644	295
Purchase and cancellation of own shares	-	(2,029)
Net surplus on revaluation of property portfolio	15,071	5,618
<b>Net movement in equity shareholders' funds</b>	<b>45,928</b>	<b>3,544</b>
Opening total equity shareholders' funds	125,062	121,518
<b>Closing total equity shareholders' funds</b>	<b>170,990</b>	<b>125,062</b>

**Development Securities PLC**  
**Notes**  
**for the year ended 31st December 2004 (audited)**

**Turnover, profits and net assets**

**a) Analysis of turnover and gross profit**

All turnover and profits derive from continuing property operations in the United Kingdom.

**(b) Analysis of gross profit**

	<b>Turnover</b>	<b>Direct costs</b>	<b>2004 Gross profit</b>	<b>Turnover</b>	<b>Direct costs</b>	<b>2003 Gross profit</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Rental Income	<b>9,121</b>	<b>(1,790)</b>	<b>7,331</b>	8,732	(2,640)	6,092
Operating property income	<b>5,107</b>	<b>(4,802)</b>	<b>305</b>	4,817	(4,495)	322
Project management fee income	<b>496</b>	-	<b>496</b>	896	-	896
Land, developments and trading properties	<b>8,874</b>	<b>(7,644)</b>	<b>1,230</b>	17,792	(15,727)	2,065
	<b>23,598</b>	<b>(14,236)</b>	<b>9,362</b>	32,237	(22,862)	9,375

**c) Operating profit**

	<b>2004 £'000</b>	<b>2003 £'000</b>
The operating profit is stated after charging/(crediting):		
Depreciation	<b>974</b>	888
Reversal of impairment - investment (refer note (e))	-	(1,500)
- loans (refer note (e))	-	(500)
Operating leases in respect of land and buildings	<b>2,260</b>	2,765
Auditors' remuneration - audit	<b>119</b>	107
- audit related reporting	<b>15</b>	-
- other	<b>150</b>	113

Audit fees stated above include £77,000 in respect of the Company (2003: £70,000). During the year £55,000 was paid in respect of audit-related reporting in connection with the issues of new shares. This amount was charged to the share premium account.

Prior year figures shown above in respect of operating leases have been restated to aid comparability.

**d) Analysis of net assets**

	<b>2004 £'000</b>	<b>2003 £'000</b>
Property	<b>170,990</b>	125,062

Net assets are all in the United Kingdom except £1,021,000 (2003: £1,021,000) in respect of a development property in France and £755,000 (2003: £805,000) in respect of an associated company incorporated and registered in The Netherlands.

**e) Exceptional items**

The exceptional item in 2003 represented the release of provisions against the book value of the Group's investment in the preference shares of, and loans to, Stead & Simpson Group Limited, arising from the Directors' evaluation of the amounts recoverable from the investment and associated loans (refer note (f) below).

**f) Associated undertakings**

The Group held a 19.9 per cent interest in Stead & Simpson Group Limited ('Stead & Simpson') for a number of years, which was accounted for as a trade investment. In November 2003, Development Securities PLC entered into a conditional share purchase agreement, which went unconditional on 31<sup>st</sup> December 2003, whereby it increased its interest to 38 per cent. The Directors believe that Development Securities PLC began to exercise significant influence over Stead & Simpson, which therefore became an associate, in November 2003, and has accounted for its 19.9 per cent share of the profit after tax of Stead & Simpson from that date, and its increased share of profits from 1<sup>st</sup> January 2004. M H Marx was appointed to the Board of Stead & Simpson Group Limited on 1<sup>st</sup> December 2003. The Group acquired a further two per cent of the share capital of Stead & Simpson Group Limited in December 2004.

**g) Fixed rate debt**

The fair value adjustment at 31<sup>st</sup> December 2004 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 the prevailing interest rates of appropriate debt instruments, was £14.2 million (2003: £13.0 million), equivalent to a decrease in net assets of 27.1 pence per share after tax (2003: 32.3 pence per share).

**h) Investment portfolio analysis (as at 28<sup>th</sup> February 2005)**

Tenant profile		Lease profile	
Government	5%	0 – 5 years	29%
FTSE 100	1%	5 – 10 years	30%
PLC/nationals	59%	10 – 15 years	26%
Regional multiples	8%	15 – 20 years	8%
Local traders	27%	20 years +	7%
Location profile		Analysis by sector	
North	45%	Retail	63%
South East	37%	Office	20%
London	12%	Industrial	17%
Wales	3%		
Midlands	3%		

**i) Definitions and disclosure**

Total Portfolio Return: The 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.

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

**j) Basis of preparation**

This announcement is prepared on the basis of the accounting policies stated in the financial statements for the year ended 31<sup>st</sup> December 2004.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2004 or 2003, but is derived from those accounts. Statutory accounts for 2003 have been delivered to the Registrar of Companies and those for 2004 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under s237(2) or (3) Companies Act 1985.