

23 March 2004

DEVELOPMENT SECURITIES PLC – PRELIMINARY RESULTS

Net assets per share of 444p exceeds expectations
Strong 2nd half performance
Ordinary Dividend increase of 8%

Development Securities PLC today announces a rise in net assets per share of 5% to 444p (2002: 423p) and a profit before tax for the year ended 31 December 2003 of £1.2 million (2002: £10.0 million).

The total Ordinary Dividend¹ increased for the eighth successive year to 5.4 pence per share (2002: 5.0p), an increase of 8%. During the year, the Company also bought back for cancellation 640,000 of the Company's ordinary shares at an average price of 314.7 pence per share, generating an increase of 2.8 pence per share in net asset value.

These results follow the recent announcement on 18 March that Development Securities has strengthened its management team with the appointments of Paul Willis and Matthew Weiner as Executive Directors.

Financial Highlights

	31 Dec 2003	31 Dec 2002
Profit before tax	£1.2 million	£10.0 million
Earnings per share	4.20p	26.9p
Shareholders' funds	£125.1 million	£121.5 million
Net assets per share	444p	423p
Ordinary Dividend	5.4p	5.0p

Although profit before tax is lower than the previous year, with the benefit of realised property surpluses and the much improved financial condition of Stead & Simpson, Development Securities has turned a 2003 half year loss before tax of £1.5 million into a full year pre-tax profit. The risk-averse business model adopted by the Company has largely immunised it from the recent downturn in its main central London markets.

The 5% increase, after the £2.0 million share buy back, in net assets per share, a more salient indicator for Development Securities, demonstrates the strength of the Company's balance sheet. With gearing at the year end remaining low at just 15%, the Company is well positioned to benefit from the predicted upturn in the market.

Development Portfolio

¹ Refer note (i)

In 2003, the Company's development activities were relatively subdued, reflecting the weak occupational office market. Accordingly, the level of new business activity was low. Development Securities continues to believe that significant diversification away from Central London would not be in the Company's best interests, preferring instead to await the return of more positive market conditions in its core business market.

PaddingtonCentral

Following the success of the first phase, detailed planning approval was obtained for the next two office buildings to be constructed on this 1.7 million sq ft prime office, retail and leisure development site. In due course, the next phases will provide 400,000 sq ft of predominantly office space in a striking landmark building, designed by Kohn Pederson Fox, followed by a 250,000 sq ft office building designed by Sheppard Robson.

The Royals Business Park

The first phase of this 50-acre regeneration project, comprising a prime 237,000 sq ft development incorporating two buildings linked by a spectacular winter garden, is scheduled for completion in June 2004.

Cambourne Business Park

Practical completion is imminent on the turnkey 60,000 sq ft headquarters building and civic centre for South Cambridgeshire District Council. Elsewhere on the 750,000 sq ft business park scheme, leasing activity has been slow and 82,000 sq ft of Phase Two remains unlet. Occupier interest remains subdued.

Broughton Park

Progress is being made on negotiations regarding the significant extension to the 298,000 sq ft shopping centre in Broughton Park, near Chester, following the outline planning application submitted in 2002 for a 126,000 sq ft extension, together with a 350,000 sq ft business park and an extensive highways improvement programme. It is intended that a revised retail planning application will be submitted within the next few months, followed shortly thereafter by an application for 28 acres of residential development.

Investment Portfolio

At the year end, the portfolio, including freehold land, was valued at £115.4 million. The IPD Total Portfolio Return achieved on the investment property portfolio in 2003 was 16.9%², which comprised an income return of 7.5% and capital growth of 9.4%. This compares favourably to the IPD market return of 10.7%. Over a 3-year period, the average annual investment return on the portfolio was 13.6%, reflecting a significant out-performance of 4.5% against the market. It is Development Securities' belief that the investment portfolio now comprises assets capable of providing above average performance over the medium-term. Out-performance of the market has been achieved through a careful stock-selection process, by which additional property assets, which offer further opportunities for value creation, have been acquired.

Having already exited the City of London office market in 2002, the Company has further reduced its portfolio exposure to Central London and office markets through disposals and has targeted reinvestment into the convenience retail sector. Significant acquisitions in 2003 include a £10.8 million portfolio of retail warehouses and the Furlong Centre in Ringwood for £9.1 million. Since the year end, the addition of a shopping centre in Dewsbury for £20.2 million has further increased exposure to this retail sub-sector.

Stead & Simpson

Indications of excellent 2003 trading results at Stead & Simpson, the retailing operation in which the Company holds an increased 38% equity interest, have enabled Development Securities to release provisions of £1.5 million against its preference share investment in that company and £0.5 million against loan monies. In addition, the equity investment now qualifies to be treated as an associate, and the Company was able to benefit from £0.5 million of attributable profit and £0.5m of cumulative preference redemption premium.

Roy Dantzic, Chairman of Development Securities PLC, commented:

“These results are most satisfying, particularly given the soft nature of the South East of England office occupational market, the area of our core business activity, over the past 18 months. Notwithstanding these conditions, we have returned a profit, increased our net assets per share and recommended an increased final Ordinary Dividend* of 3.6 pence per share.

“Not only has our forward-funding strategy, a key element of our business model, protected us against the weak occupational markets of the last few years, but the excellent performance of our property investment portfolio has enabled us to exceed our own expectations.

“In recognition of his contribution to the business over the last three years, we recently announced Matthew Weiner's appointment as an Executive Director of the Company with continuing responsibility for maintaining our investment portfolio performance. In anticipation of an improving market outlook in our core business activity, we are also very pleased to welcome Paul Willis to the Board, who brings with him over 20 years of experience in major office developments and finance in Central London.”

² Refer note (i)

Enquiries:

Michael Marx/Julian Barwick
Development Securities PLC

Tel: 020 7828 4777

Daniel de Belder/Richard Evans
The Communication Group plc

Tel: 020 7630 1411

Or visit

www.developmentsecurities.com

Chairman's statement 2003

In this, my first statement to shareholders, I am pleased to report a profitable year for your Company, together with a respectable uplift in shareholders' funds at the year end. In spite of 2003 representing what we hope will prove ultimately to be the low point of the current cycle for the main markets in which our development business operates, we generated profit before tax for the year to 31st December of £1.2 million, and earnings of 4.20 pence per share, compared to £10.0 million and 26.9 pence per share for the previous year.

Shareholders' funds increased for an eighth consecutive year, reaching £125.1 million, equivalent to 444 pence per share, after the £2.0 million share buy-back programme completed in early 2003. This compares with £121.5 million and 423 pence per share 12 months earlier.

Reflecting this positive performance and the Company's continuing sound financial footing, the Board has resolved to recommend the payment of a final Ordinary Dividend³ of 3.6 pence per share, payable on 6th July 2004 to shareholders on the register on 4th June 2004. This brings the total Ordinary Dividend for the year to 5.4 pence per share, an advance of eight per cent over the previous year. In the prior year, an additional special dividend of 28.5 pence per share was declared, which was paid to shareholders on 28th March 2003. In January 2003, the Company bought back, for cancellation, 640,000 of the Company's ordinary shares at an average price of 314.7 pence per share, generating an increase of 2.8 pence per share in net asset value.

Strategy

Our rigorous business model has distanced us from the severe cyclical downturn in Central London development markets. Thus the year under review saw your Company maintaining its risk-averse profile in a development market place where activity continued to be restrained, both by ourselves and most other Central London market participants. Rather than committing fresh equity to the supply of new office accommodation that the market does not yet require, we concentrated on building out our existing projects. Against this background, we were pleased to generate a profit from our development operations, albeit below the level of the previous year. However, since the turn of the year, an improvement in business confidence has become increasingly apparent, offering the prospect of an end to the current decline in occupational markets. We are cautiously optimistic that 2004 could represent a turning point in the cyclical recovery of the London office market. Shareholders will be aware that this comparative optimism should be tempered with the knowledge that, given the time scales involved, it is likely to take several years for any new, large-scale development project to generate profitable returns for your Company.

It is particularly pleasing to report that our property investment portfolio has again achieved superior results, delivering a 16.9 per cent IPD (Investment Property Databank Limited) Total Portfolio Return⁴, which compares favourably with an IPD average of 10.7 per cent for the market. This was the third consecutive year in which the total returns from our investment portfolio exceeded market performance. Broadly, half of our return was generated by the rental income arising from the properties themselves, with the balance contributed by realised gains from disposals of trading and investment properties as well as from revaluation surpluses on those properties retained within the portfolio. Our property investment business, which is quite separate from, but complementary to, our development operations, is a key component of our business model, providing a steady flow of income to contribute to overheads. This is particularly important during cyclical downturns in the development market.

³ Refer note (i)

⁴ Refer note (i)

Outlook

We sense a return of business confidence in the occupier market for office accommodation. Whilst we are likely to see a modest steepening of the yield curve as the economic cycle moves into its next phase, we do not expect to see any material reduction in investor demand for high specification, well-let new office buildings. Whilst we will still exercise caution, our recent defensive posture has left us with a relatively ungeared balance sheet. With available cash resources of £56 million and £44 million of unutilised committed facilities from our relationship bankers, we are strongly placed to capitalise on any improvement in our markets. It is likely, therefore, that our level of debt will gradually increase over the next 12 months.

Board composition

I joined your Board on 21st May 2003 and was appointed Chairman on 17th September upon Hugh Jenkins' retirement. Hugh has enjoyed a glittering career in public and business life and we were undoubtedly privileged to have benefited from his experience, sound judgement and good humour over recent years. We all thank him for his immense contribution to your Company and wish him well in his retirement.

In March this year, we welcomed the announcement of two Executive Director appointments. Matthew Weiner, who has run our investment property portfolio for more than three years with such success, continues to be directly responsible for this important aspect of our business. Paul Willis, Head of Knight Frank's City of London office and formerly a Non-executive Director of your Company between 1995 and 2002, will re-join the Board in May this year as an Executive Director to spearhead expansion of the development programme. We have every confidence that both Paul and Matthew will contribute significantly to our endeavours in the years ahead.

Conclusion

In my short time on the Board, I have been most impressed by the level of management expertise and experience in your Company. I am confident that we will maintain the high standards that have established Development Securities as a pre-eminent participant in major urban development projects as well as a direct investor of some repute in the investment property market. Whilst we will continue to exercise prudence in all our activities, we feel that the dark clouds that had gathered over Central London office market in recent years are gradually beginning to disperse. I am pleased to thank, on your behalf, all of the management and staff of Development Securities for their untiring efforts, commitment and professionalism in supporting the strategic objectives that we have set and to achieving positive results against the background of a difficult year.

Roy Dantzic
Chairman
23rd March 2004

Review of Operations

Whilst the level of new business in 2003 was subdued in most development markets and virtually non-existent in the Central London office market, the main area of our own activities, we are encouraged to note that 2004 has started with a more positive tone. The background to this improving sentiment probably arises from the increasing level of United Kingdom GDP growth, which has picked up from 1.7 per cent in 2002 to 2.1 per cent in 2003 and is projected by most economic forecasting houses to show further uplift, approaching or exceeding its trend rate of 2.75 per cent in 2004. Inflation and interest rates continued at low levels throughout 2003, whilst the consumer continued to keep spending growth in positive territory. On the negative side, exports and manufacturing industry remain weak and increasing public spending may lead to higher taxation and, possibly, continue upward pressure on United Kingdom interest rates. The potentially vulnerable housing market and the high level of personal debt could still threaten consumer demand and destabilise the long overdue rebalancing of the economy.

In the City of London, the recession in the investment banking community that began some two or three years ago continued throughout 2003 as the industry struggled to adjust its cost base in the face of collapsing revenues. The dominant influence of this activity on the fortunes of the City was reflected in a further weakening of the occupational market; rental levels fell to new

lows and vacancy levels rose to new highs for this economic cycle. There are signs in 2004 that this trend may be reversing, since some recovery may be discernible as employment growth show signs of picking up alongside some recovery in financial markets.

Current development programme

In 2003, we continued to monitor the office sector in the South East of England, with particular emphasis on Central London. We remain committed to the view that a diversification away from our core areas of expertise and markets would not be in the Company's best interests. A reduction of focus within our small management team, change in geographical considerations, or possible brand name dilution and high costs of entry into new markets have each determined that we should stay with what we do best.

Royals Business Park

The 50-acre Royals Business Park regeneration project will be the capital's largest office park with 1.6 million sq. ft. of offices and 100,000 sq. ft. of ancillary retail and leisure accommodation. The first phase, which comprises a prime 237,000 sq. ft. development incorporating two buildings linked by a spectacular winter garden, is scheduled for completion in Summer 2004. Overlooking the Royal Albert Dock and London City Airport, the buildings are also only 40 metres from the Royal Albert Docklands Light Railway station. This is the first major speculative office building in the Royal Docks, complementing ExCel, London's new exhibition centre, London City Airport and the now substantial, existing residential buildings, such as Barrier Point. The Royals and the wider Thames Gateway could well benefit from a number of significant initiatives, including London's bid for the 2012 Olympic Games.

10 St Bride Street, London EC4

Early in 2003, we completed terms for an option to acquire 10 St Bride Street in the City of London at any time within the next four-year period. Whilst the building is presently vacant, planning permission exists for a new development to include 53,000 sq. ft. of office space and 3,000 sq. ft. of restaurant space. The option arrangement provides us with the flexibility to purchase the site when we feel that market conditions are appropriate.

Heart of Slough

We have continued to work with our partners, Slough Borough Council and Berkeley Homes, to progress the long-term regeneration scheme for Slough Town Centre. The local authority has been in negotiation with public sector regeneration agencies for assistance with infrastructure costs and it appears likely that the necessary funding will be made available, paving the way for completion of the framework agreement between the parties. This will confirm the developers' exclusive position, define the content of the scheme and set out a timetable for obtaining planning permission.

Work has begun on the traffic study, the first stage of the environmental impact assessment that will accompany the planning application. Subject to completion of the framework agreement, we expect to have completed the assessment by Autumn 2004 and to have submitted an outline planning application by the end of this year. This is likely to include approximately 1.4 million sq. ft. divided equally between offices and residential accommodation plus a further 200,000 sq.ft. of public uses, including a new performance centre, library and museum.

The public uses, together with a proportion of the residential accommodation, will be housed in a landmark building that will be the focal point of the scheme. Slough Borough Council has recently completed the first stage of a competitive selection process for the appointment of an architect to design this building.

This is a long-term project in which the Company's financial exposure is relatively limited in the early stages. Although the office market in the M4 corridor west of London remains over-supplied, it is likely to be at least two or three years before detailed planning permission has been obtained and the necessary infrastructure works completed. It is our belief that, as the M4 market recovers, the Heart of Slough offices, with their excellent location adjacent to the railway station and main bus station and within a short walk of the town centre, will be among the first to benefit.

PaddingtonCentral

During 2003, we obtained detailed approval for the next two office buildings to be constructed on this 1.7 million sq. ft. prime office, retail and leisure development site; the first phase, which comprised 440,000 sq. ft. was completed successfully in 2002. The next phase will provide 400,000 sq.ft. net of predominantly office space in a striking landmark building designed by Kohn Pedersen Fox. This will be followed by a building designed by Sheppard Robson providing 250,000 sq. ft. of office space.

Working closely with our funding partners, Morley Fund Management and Insight Investment, formerly Equitable Life Assurance Society, we continue to monitor market conditions and will commence construction when conditions are judged to be right, or if a significant pre-letting is secured.

We are encouragingly close to concluding an agreement with Cross London Rail Links, the Government agency responsible for promoting the Crossrail scheme. This agreement will sanction the erection of a structural deck over that part of the site that is subject to a Safeguarding Direction to protect the Crossrail project. The entrance to the proposed Crossrail tunnel will lie immediately to the west of the PaddingtonCentral site. Construction of the deck

will allow development to proceed on this part of our site without interfering with construction of the tunnel.

We welcome the Government's announcement that it will introduce a Bill in the next session of Parliament to promote the Crossrail scheme. Although significant financing issues remain to be resolved, Crossrail will further enhance Paddington's excellent transport connections in the medium term, effectively providing a high speed link to the City and beyond.

A further important infrastructure project was initiated adjacent to our site in January 2004 with the start of the reconstruction of Bishops Bridge. Scheduled for completion in Spring 2006, the new bridge will carry six lanes of traffic over the canal and railway lines out of Paddington Station. This will facilitate vehicle access to the northern entrance to Paddington Station and also allow traffic to flow directly to the doorsteps of the new PaddingtonCentral offices and homes.

The completed first phase of the PaddingtonCentral scheme has benefited from the opening of the 25,000 sq. ft. Cannon's health and fitness club. Whilst two further retailers have opened for trading, the letting of the remaining shop and restaurant units is slow. This reflects, in part, the difficult trading conditions that retailers generally have been experiencing and also the delayed completion by a third party developer of the residential buildings at PaddingtonCentral. A further factor has been the delayed occupation of the office buildings on the adjacent Paddington Basin development. There are now signs of increased interest from potential tenants.

333 Oxford Street, London W1

As indicated in our 2003 Interim Report, we no longer have any prospect of generating profits from this 78,000 sq. ft. development in London's West End. The good news was that practical completion was achieved in January 2003, with the 35,000 sq. ft. retail unit having been successfully pre-let in the previous year to Zara UK Limited. Unfortunately, the occupational office market in the West End continued to weaken throughout 2003 driving rental levels well below those required to enable the development to be brought to a profitable conclusion.

Cambourne Business Park

Practical completion is imminent on our turnkey project, whereby we are delivering to South Cambridgeshire District Council their new 60,000 sq. ft. headquarters and civic centre. Elsewhere on this 750,000 sq. ft. business park scheme near Cambridge, the challenge is for us to let the balance of the completed 82,000 sq. ft. of the second phase of this business park, which we completed in 2002.

In the summer of 2003, the A428 dual carriageway road improvement around Cambourne was completed. As a consequence, the interim ceiling on the amount of accommodation that could be developed on the park was removed. The A428 will benefit further from a two-year improvement programme along the same arterial road. Located nine miles from Cambridge

City centre, Cambourne Business Park forms an integral part of the three villages that the Cambourne Settlement comprises; including 3,300 houses with a 120-room four star hotel, civic and leisure facilities and a 60,000 sq. ft. Morrisons supermarket.

Other business parks

At Globeside Business Park, Marlow, only one unit of 38,500 sq. ft. remains to be let. At Frimley Square Business Park, Frimley, the soft letting conditions in the occupier market around London are generating only tentative interest from prospective tenants. Both of these business parks were acquired in forward-funded partnership with Insight Investments.

Broughton

Progress is being made on the various negotiations connected with the development of a significant extension to the 298,000 sq. ft. shopping centre which we developed some years ago at Broughton Park, near Chester. Dialogue is continuing with Flintshire County Council in respect of the outline planning application submitted in 2002 for a 126,000 sq. ft. extension, together with a 350,000 sq. ft. business park and an extensive highways improvement programme. Together with Pillar Property PLC, with whom we forward-funded the original scheme, we are giving careful consideration to increasing the proposed size of the extension. In addition, we are studying in detail the recent designation by the local authority in their draft Urban Development Plan of 28 acres of our land as being suitable for residential use. It was this land which formed the basis for our initial planning application for the business park.

An additional five acres of our land have also been designated as land suitable for non-retail use in the draft Urban Development Plan.

We know from experience that it is unwise to predict the timing of the planning process, but we intend to submit our revised retail planning application within the next few months, followed shortly thereafter by an application in respect of the 28 acres for residential development. We also continue to monitor the deliberations over the highway improvement programme, currently involving both the local authority and the Welsh Assembly.

Investment property portfolio

The year under review saw our team of investment specialists capitalising on the significant progress made in recent years with the successful culmination of several transactions where real value was added from the active management of our asset portfolio. This encompassed lettings, refurbishments, lease restructuring and disposals. At the year end, the investment property portfolio, including freehold land, was valued at £115.4 million.

During the year, through a careful stock selection process, we were able to acquire additional property assets that offered further opportunities for value creation. This was achieved notwithstanding a continuing strong market for property investment, which made the acquisition of stock at realistic prices increasingly difficult.

The IPD Total Portfolio Return achieved on the investment property portfolio in 2003 was 16.9 per cent⁵, which comprises an income return of 7.5 per cent and capital growth of 9.4 per cent. This result compares favourably with the IPD market return of 10.7 per cent. The Company's three-year return of 13.6 per cent reflects out-performance of 4.5 per cent against the market. It is our belief that the investment portfolio now comprises assets capable of providing above average performance over the medium-term and we hope to build on this in 2004.

Investment strategy

In 2002, we exited the City of London office market and, in 2003, we further reduced our Central London office exposure through disposal and by targeting reinvestment into the convenience retail sector. This has proved to be the appropriate strategy, and, whilst our West End office properties produced a valuation decline of 7.3 per cent, the impact in portfolio terms was limited. These declines were more than offset by the gains seen on the retail investments acquired in the last three years, where capital growth was 12.8 per cent in the current the year.

By way of example, the Kingsland Shopping Centre, Thatcham, acquired in 2001, showed capital growth over the year of 16 per cent and a total of 30 per cent since acquisition, emphasising the importance of stock selection in the investment process.

We continue to base our investment strategy on a number of key principles. Firstly, the proactive management of the portfolio, rotating between sectors to maximise exposure to growth stock. The year saw a 9 per cent reduction in office exposure, which should serve us well over the next 12 months, and an increase in retail exposure. Our strategy will continue to focus on the specification and location of buildings over lease length and covenant. We believe that this focus should, in the medium-term, provide further out performance for the portfolio.

Secondly, the number of properties in the portfolio has been significantly reduced over recent years and will now be held at these levels to facilitate repositioning through the market cycle and to increase management focus on key assets. Transactions in early 2004 have lifted the portfolio to 25 assets with an average lot size of £5 million.

Finally, there is a preference for multi-let assets where value can be added through lease restructuring and selective refurbishment. During 2003, we continued to dispose of "dry" assets and will continue to seek opportunities which allow active management of the occupational profile to generate performance.

⁵ Refer note (i)

Investment transaction activity

Transaction activity during 2003, with acquisitions slightly outweighing disposals, totalled £60 million. On the disposals side, we completed some portfolio rebalancing by disposing of assets that either did not meet our performance objectives or where asset initiatives had been completed. In total, 9 properties were sold for £29.8 million, generating a surplus of £2.9 million over book value, equal to 11 per cent net return.

The majority of asset disposals were of properties which the Company had purchased since the revised strategy referred to above was introduced in 2001. The sale of 9/11 The Quadrant, Richmond for £5.4 million was a notable success, achieving a £1.4 million gain, equal to a 39 per cent uplift over valuation and producing an annual return on equity over the period since 2001 of 44 per cent. It is a good illustration of the superior returns which can be achieved from our focus on well-located buildings offering added value potential; in this instance, through the refurbishment of previously derelict upper parts and favourably settling outstanding rent reviews.

The disposal of Phase II, The Beacons, Warrington for £5.1 million was a similar example, producing a return on equity since acquisition in 2001 of 25 per cent. This asset was acquired at a time when few could see potential in regional office markets and the recent onward sale indicates the importance of correctly reading market cycles.

Since the year end, we have completed two further disposals at book values, the most important being that at Grove House, Ashford, Middlesex. This substantially over-rented office investment was subject to a break option in 2005 by the tenant, who was not in occupation of the premises. The £4 million sale further reduces our office exposure and improves our lease expiry profile.

In 2003, £32 million was invested through a combination of capital expenditure on the existing portfolio and, more significantly, on four purchases. The largest acquisition, at £10.8 million, was a portfolio of eight retail warehouses by way of sale and leaseback to the occupier, Carpetworld. The portfolio offers a combination of short-term trading potential by disposal of individual units and interesting, modest development opportunities where the units form part of medium-term redevelopment sites. To date, the company has sold three of these units in the open market for a total of £4.2 million, achieving a satisfactory net gain on acquisition of 10 per cent, with the remaining portfolio seeing similar capital growth over the course of the year. The disposal of up to three further units should be expected during the course of 2004.

The Unicentre, Preston, was purchased in November 2003 for £9.5 million, with short-term leases on all of the accommodation. Simultaneously with the acquisition, we entered into negotiations which concluded with the principal occupier taking new, indexed-linked, 14-year leases. Shortly thereafter, we received an offer for the building at a level that we felt reflected much of this asset's anticipated future growth. Accordingly, a sale was completed prior to the year end, generating a net trading surplus after all costs of over £1 million.

The Furlong Centre, Ringwood, comprising a food store, let to Waitrose, and 22 retail units, was acquired in March 2003 for £9.1million. The property has outstanding asset management opportunities and, during 2003, terms were agreed with Waitrose to extend the food store by 15,000 sq.ft., whilst simultaneously restructuring their lease to a new 20-year term at a higher rental level. Planning consent for the extension should be obtained in Spring 2004 and site enabling work is already underway. This extended store will improve the potential of the adjacent retail units. Indeed, we are already some way towards our target, with both an improvement in the rental tone of 30 per cent and with the arrival of certain new national multiple occupiers to the centre. It is hoped that further current asset management and development opportunities will generate additional capital uplifts.

Thatcham, Ringwood and our Bexleyheath property now represent £26 million invested in the convenience shopping centre sector at 31st December 2003 and it is our intention to target this asset class for further investment. Since the year end, we have completed the acquisition of another similar centre for £20.2 million. This asset offers a combination of a solid income return, with 82 per cent let to national multiples, and active management opportunities. Whilst this centre would be the largest single asset in the portfolio, it is possible to reconfigure the asset into smaller lots with a view to a partial disposal to reduce the overall lot size exposure.

Proactive management accounted for £2.4 million of value creation on three investment properties held throughout the course of the year. £1.6m of this was attributable to Milton House, Sheffield, where we completed the letting of the final three floors to the Home Office at a rent equating to £14.50 per sq.ft. Whilst the lease is subject to a mutual three-year break option, we feel that there is a reasonable prospect of the tenant agreeing a lease extension during the course of 2004. This letting brought to completion this city centre regeneration project, providing a grade A building in a market which has historically been poorly supplied.

At Great West Trading Estate, Brentford we accepted a surrender of the principal leases from a weakening covenant. Simultaneously to the surrender, we re-let 50 per cent of the accommodation to a self-storage company on a 25-year lease at a rental 50 per cent in excess of that passing previously. The impact of this re-letting was an increase of £0.7 million in capital value. Since the year end, we have put the remaining units under offer at acceptable rental levels, which should provide further enhancement of value in 2004.

As the market moves into a period of limited rental growth, the leasing of voids and the securing of reversions at rent review will contribute significantly to future capital uplifts. 2003 witnessed continuing success in leasing vacant accommodation with over 52,500 sq.ft. let during the year. We believe that a modest, selective acquisition of void premises is a proven technique to assist out-performance. The year end portfolio void rate of 6.8 per cent is somewhat lower than the optimum level we believe is desirable and, since then, we have put a

further 42,300 sq.ft. under offer reducing the void rate to 3.1 per cent. Accordingly, in February 2004, we completed the purchase of a vacant 110,000 sq.ft. warehouse in Redditch. The unit will be refurbished and offered for re-letting. Once let, we believe that the property will achieve a yield on cost in excess of 10 per cent, an attractive income return in the current market.

Looking forward, 2004 will see the selective reinvestment of the funds released from disposals during 2003. Given limited rental growth prospects and modestly rising interest rates, we will target acquisitions that are not dependent on market momentum to deliver attractive returns, preferring to select assets with a core income return and the potential to improve value through active management. Stock selection will continue to be a principal driver of future performance.

We have now achieved three consecutive years of strong performance from the investment portfolio and building from this base, we will explore methods of utilising shareholders' funds even more efficiently, in partnership, to expand the total assets under management. The objective will be to create a more significant financial presence in a marketplace increasingly dominated by a small number of larger, financially robust participants.

Stead & Simpson

Shareholders will recall that we have long held a 19.9 per cent equity stake in this privately owned UK shoe retailer together with £1.5 million of preference shares; both holdings were recorded in our accounts at nil book value at 31st December 2002. In December 2003, we acquired a further 18 per cent of the ordinary shares at a total cost of £212,000, having recognised Stead & Simpson Group Limited as an associate from November 2003.

Unaudited results for the year ended 31st December 2003 indicate that Stead & Simpson will report profit before tax of £4.5 million on turnover of £130 million, compared to profit before tax of £2.25 million in 2002. Our attributable share of these profits for 2003 is £0.5 million. On the back of this strong performance, our own results have benefited from the release of the provision of £1.5 million previously held against the preference shares, as well as taking credit for £0.5 million of the redemption premium that has accrued to date on these shares.

Additionally, we were able to release £0.5 million of provisions in respect of loan monies. We are not planning to increase our stake in Stead & Simpson any further and the improved profile of the company should assist our orderly exit from this business in the medium term.

C J Barwick
23rd March 2004

M H Marx

**Consolidated profit and loss account
for the year ended 31st December 2003 (audited)**

	Note	Total 2003 £'000	Total 2002 £'000
Turnover	(a,b)	32,237	33,462
Direct costs	(a,b)	(22,862)	(12,648)
Gross profit	(a,b)	9,375	20,814

Operating expenses	(c)	(7,792)	(8,298)
Exceptional items	(e)	2,000	500
Total operating expenses		(5,792)	(7,798)
Operating profit	(c)	3,583	13,016
Share of operating profit in associate	(f)	537	-
Income from other fixed asset investments	(f)	495	-
Profit on disposal of fixed assets		1,214	1,767
Profit on ordinary activities before interest		5,829	14,783
Net interest payable		(4,649)	(4,768)
Profit on ordinary activities before taxation		1,180	10,015
Tax on profit on ordinary activities		-	(2,338)
Profit on ordinary activities after taxation		1,180	7,677
Dividends on equity shares		(1,520)	(9,425)
Retained loss for the year		(340)	(1,748)
Earnings per share		4.20p	26.9p
Diluted earnings per share		4.19p	26.7p

All turnover and profits derive from continuing operations

Consolidated balance sheet
31st December 2003 (audited)

	Note	£'000	2003 £'000	2002 £'000
Fixed Assets				
Investment properties	(h)	115,355		104,799
Operating properties		6,991		7,240
Other tangible assets		3,745		4,182
Investments		3,104		905
			129,195	117,126
Current Assets				
Land, developments and trading				

properties	15,318	10,284
Debtors	13,863	22,411
Cash at bank and in hand	56,339	85,063
	85,520	117,758
Creditors: amounts falling due within one year	(14,703)	(29,736)
Net current assets	70,817	88,022
Total assets less current liabilities	200,012	205,148
Creditors: amounts falling due after more than one year	(74,950)	(83,630)
Net assets	125,062	121,518
Financed by:		
Capital and reserves		
Called up share capital	14,091	14,353
Share premium account	63,016	62,779
Revaluation reserves	6,048	2,376
Other reserves	45,619	45,299
Profit and loss account – deficit	(3,712)	(3,289)
Total equity shareholders' funds	125,062	121,518
Net assets per share	444p	423p
Diluted net assets per share	441p	419p

Approved by the Board of Directors on 23rd March 2004 and signed on its behalf

M H Marx

Director

**Consolidated cash flow statement
for the year ended 31st December 2003 (audited)**

	2003	2002
	£'000	£'000
Cash inflow from operating activities	773	22,215
Returns on investment and servicing of finance	(5,245)	(4,938)
Taxation	716	(4,815)
Capital expenditure and financial investment	(4,068)	16,748
Equity dividends paid	(9,443)	(1,333)
Cash (outflow)/inflow before financing	(17,267)	27,877
Financing:		

Purchase of own shares	(2,029)	-
Issue of new shares	295	1,330
Repayment of debt	(17,384)	(1,246)
Proceeds from new borrowings	7,644	12,653
Decrease/(increase) in pledged cash	18,579	(5,920)
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(Decrease)/increase in cash in the year	(10,162)	34,694
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Reconciliation of consolidated net cash flow to movement in net debt for the year ended 31st December 2003 (audited)

	2003	2002
	£'000	£'000
(Decrease)/increase in cash in the year	(10,162)	34,694
Cash outflow from reduction in debt	17,135	1,016
Cash inflow from new borrowings	(7,644)	(12,653)
Cash (inflow)/outflow from movement in pledged cash	(18,579)	5,920
<hr/>		
Movement in net debt in the year	(19,250)	28,977
Net funds/(debt) at 1 January	332	(28,645)
<hr/>		
Net (debt)/funds at 31 December	(18,918)	332
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Reconciliation of operating profit to net cash flow from operating activities for the year ended 31st December 2003 (audited)

	2003	2002
	£'000	£'000
Operating profit	3,583	13,016
Release of provision against preference shares and loans in associated undertaking (refer note 2(e))	(2,000)	(500)
Loss on disposal of tangible fixed assets	180	15
Capitalised interest charged to direct costs	250	70
Increase in developments and trading properties	(5,034)	(772)
Decrease in debtors	8,076	14,206
Decrease in creditors	(5,170)	(4,697)
Depreciation charges	888	877
<hr/>		
	773	22,215
<hr/>		

**Analysis of net funds/(debt)
for the year ended 31st December 2003 (audited)**

	Balance at 1 January 2003 £'000	Cash flow £'000	Other non-cash changes £'000	Balance at 31 December 2003 £'000
Cash at bank and in hand	57,554	(10,145)	-	47,409
Bank overdraft	(82)	(17)	-	(99)
		(10,162)		
Debt falling due within one year	(1,019)	1,019	(208)	(208)
Debt falling due after more than one year	(83,630)	8,472	208	(74,950)
Pledged cash	27,509	(18,579)	-	8,930
		(9,088)		
	332	(19,250)	-	(18,918)

**Consolidated statement of total recognised gains and losses
for the year ended 31st December 2003 (audited)**

	2003 £'000	2002 £'000
Profit on ordinary activities after taxation	1,180	7,677
Unrealised surplus on revaluation of property portfolio	5,618	2,671
Total recognised gains for the financial year	6,798	10,348

**Reconciliation of movement in consolidated total equity shareholders' funds
for the year ended 31st December 2003 (audited)**

	2003 £'000	2002 £'000
Profit on ordinary activities after taxation	1,180	7,677
Dividends on equity shares	(1,520)	(9,425)

Retained loss for the financial year	(340)	(1,748)
Net proceeds of issue of new shares	295	1,330
Purchase and cancellation of own shares	(2,029)	-
Net surplus on revaluation of property portfolio	5,618	2,671
<hr/>		
Net movement in equity shareholders' funds	3,544	2,253
Opening total equity shareholders' funds	121,518	119,265
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Closing total equity shareholders' funds	125,062	121,518
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Development Securities PLC
for the year ended 31st December 2003 (audited)

Basis of preparation

This announcement is prepared on the basis of the accounting policies stated in the financial statements for the year ended 31st December 2002. The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 31st December 2003 and 31st December 2002.

The financial information for the year ended 31st December 2002 is derived from the statutory accounts for that year, which have been delivered to the Registrar of Companies. The auditors reported on these accounts; their report was unqualified and did not contain a statement under Sections 237(2) or (3) of the Companies Act 1985.

The financial information for the year ended 31st December 2003, presented by the Directors in the Preliminary Announcement, is derived from the statutory accounts for that year, which will be delivered to the Registrar of Companies following the Annual General Meeting. The auditors reported on these accounts; their report was unqualified and did not contain a statement under Sections 237(2) or (3) of the Companies Act 1985.

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, except £nil (2002: £107,000) included in direct costs in respect of a development property in France.

b) Analysis of gross profit

	2003			2002		
	Turnover	Direct costs	Gross profit	Turnover	Direct costs	Gross profit
	£'000	£'000	£'000	£'000	£'000	£'000
Rental Income	8,732	(2,640)	6,092	9,164	(1,832)	7,332
Operating property income	4,817	(4,495)	322	4,539	(4,267)	272
Project management fee income	896	-	896	1,009	-	1,009
Land, developments and trading properties	17,792	(15,727)	2,065	18,750	(6,549)	12,201
	32,237	(22,862)	9,375	33,462	(12,648)	20,814

c) Operating profit

	2003	2002
	£'000	£'000
The operating profit is stated after charging/(crediting):		
Depreciation	888	877
Reversal of impairment - investment (refer note (e))	(1,500)	-
- loans (refer note (e))	(500)	(500)
Operating leases in respect of land and buildings	579	577
Auditors' remuneration - current year (Company £70,000 (2002: £70,000))	107	103

Auditors' remuneration in respect of non-audit work amounted to £113,000 (2002: £109,000) in relation to taxation compliance and advisory services.

d) Analysis of net assets

	2003	2002
	£'000	£'000
Property	125,062	121,518

Net assets are all in the United Kingdom except £1,021,000 (2002: £1,021,000) in respect of a development property in France and £805,000 (2002: £855,000) in respect of an associated company incorporated and registered in The Netherlands.

e) Exceptional items

The exceptional items in 2002 and 2003 represent 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. The exceptional item in 2002 was classified within operating expenses (refer note (f)).

f) Associated undertakings

The Group has 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 with Apax Ventures IV and Apax Ventures International Partners IV LP, who own the majority of the shares, and certain of the management of Stead & Simpson. Under the share purchase agreement, which went unconditional on 31st December 2003, Development Securities PLC 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. M H Marx was appointed to the Board of Stead & Simpson Group Limited on 1st December 2003.

g) Fixed rate debt

The fair value adjustment at 31st December 2003 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 £13.0 million (2002: £15.9 million), equivalent to a decrease in net assets of 32.3 pence per share after tax (2002: 38.8 pence per share).

h) Investment portfolio analysis

Tenant profile		Lease profile	
Government	5%	0 – 5 years	26%

FTSE 100	1%	5 – 10 years	25%
PLC/nationals	57%	10 – 15 years	33%
Regional multiples	13%	15 – 20 years	10%
Local Traders	24%	20 years +	6%

Location profile

North	39%
Midlands	1%
South East	32%
West End	12%
London	16%

Analysis by sector

Mixed	3%
Industrial	14%
Retail	43%
Office	40%

i) Definitions and disclosure

Ordinary Dividend: Dividends declared on ordinary shares, excluding special dividends (2002 special dividend: £8.0 million or 28.5 pence per share).

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.