

31 March 2003

## DEVELOPMENT SECURITIES PLC – PRELIMINARY RESULTS

**Profit before tax of £10.0 million**

**Net assets per share of 423p meets expectations**

**Earnings per share up 12% to 26.9 pence**

**Special Dividend of 28.5 pence per share**

Development Securities PLC today announced an increase in earnings per share of 12% to 26.9p for the year ended 31 December 2002 (2001: 24.0p). Profit before tax was consistent with the prior year at £10.0 million (2001: £10.2 million) and in line with Company expectations.

The Ordinary Dividend increased for the seventh successive year to 5.0p per share (2001: 4.5p). Together with the Special Dividend of 28.5p per share, the total distribution for the year is 33.5p per share.

### • Financial Highlights

	31 Dec 2002	31 Dec 2001
• Profit before tax	£10.0 million	£10.2 million
• Earnings per share	26.9p	24.0p
• Shareholders' funds	£121.5 million	£119.3 million
• Net assets per share	423p	423p
• Ordinary dividend	5.0p	4.5p
• Net gearing	Nil	24%

- **PaddingtonCentral** – All Phase One office space fully pre-let prior to completion at the end of 2002 at rents higher than initially anticipated. Planning consent for the initial 400,000 sq ft office building for Phase Two is expected soon.
- **Royals Business Park** – Completed agreement with Standard Life Investments and London Development Agency to develop Phase One of the 50-acre Business Park in London's Docklands. Construction commenced in late 2002.
- **333 Oxford Street** – Achieved practical completion in January 2003 on the 78,000 sq ft prime office and retail development. The 45% retail element was pre-let to Zara UK Limited.
- **Investment property portfolio** – Total investment return of 12.8% compared to 9.5% for the market, an out-performance of 35%.

## **Development Portfolio**

The Company's development activities focused mainly on the office market in London and the South East of England. Current projects under management comprise approximately one million sq ft, with an ultimate market value of in excess of £0.5 billion. There is close to an additional three million sq ft in the pipeline for future development.

Development Securities is able to focus its efforts on large and complex developments in which it has recognised expertise through forward-funding with leading financial institutions.

Forward-funding is also consistent with an emphasis on reducing risk that is at the heart of the Company's management philosophy and which helps to minimise Development Securities' exposure during a period of weakening tenant demand.

### **PaddingtonCentral**

Construction of the Phase One 330,000 sq ft office element achieved completion at the end of 2002, with all space having been pre-let to Visa International Service Association, The Prudential Assurance Company Limited, Kingfisher plc and WJB Chiltern plc. Of the 110,000 sq ft retail and leisure space, agreements to lease were signed with Cannons Group Limited and J Sainsbury Supermarkets Limited. Detailed planning consent is expected shortly in respect of the initial 400,000 sq ft office building for Phase Two.

### **The Royals Business Park**

In August 2002, Development Securities completed an agreement with joint development partners Standard Life Investments and London Development Agency for the development of the 237,000 sq ft first office phase. Construction has commenced and completion is planned for mid-2004. This phase marks the start of a £500 million, 50-acre regeneration project.

### **333 Oxford Street**

In January 2003, this prime development, located at the junction of Oxford Street and New Bond Street, achieved practical completion. In May 2002, the retail element was leased to Zara UK Limited, which began trading in October. The 43,000 sq ft office accommodation is currently being marketed.

### **Cambourne Business Park**

Despite the difficulties facing the out of London business park market, Cambourne Business Park attracted the two largest deals in the Cambridge area. In January 2002, Campbell Grocery Products signed an agreement to lease 19,000 sq ft of office space and in October Development Securities signed an agreement with South Cambridgeshire District Council for its new Headquarters building and civic centre, for which completion is expected in the second quarter of 2004. Also in October, Cambourne Business Park launched a new Research and Development phase, potentially providing 320,000 sq ft of high quality office and laboratory accommodation.

## **Broughton Park**

Following the success of the 298,000 sq ft Shopping Centre, demand by retailers for additional accommodation has resulted in Development Securities and development partner Pillar Property PLC submitting an outline planning application for a 126,500 sq ft extension as well as a 350,000 sq ft business park.

## **Investment Portfolio**

2002 saw the completion of the recent programme to restructure the investment portfolio, such that the Company now possesses a core investment portfolio capable of providing above-average performance over the medium-term. As in the prior year the Development Securities portfolio comfortably out-performed the market. The total investment return on the investment portfolio was 12.8%, comprising an income return of 7.7% and capital growth of 5.1%, including a revaluation surplus of £2.9 million. This compares to a market return, as measured by Investment Property Databank Limited, of 9.5%.

Development Securities now has 10% less office and London exposure than last year and 50% fewer assets in number. These strategic adjustments to the portfolio should serve to enhance performance over the coming year. The Company has no investment property exposure in the City of London and only 13%, by value, in the West End.

## **Hugh Jenkins CBE, Chairman of Development Securities PLC, commented:**

“This is a strong set of results and in line with City expectations. These results, combined with the Company’s sound financial position, have enabled us to recommend both a significant increase in the Ordinary Dividend as well as the recently announced Special Dividend.

“Our forward-funding strategy, a key part of our successful Business Model, has stood us in good stead to withstand the economic downturn and the current volatility leaves our balance sheet unscathed.

“The economic outlook remains uncertain and we do not foresee an early recovery in the main UK markets in which we operate. Our view continues to be one of prudence, further illustrated by the reduction in net gearing to nil. Despite the prevailing economic environment, we remain hopeful of maintaining good performance and improving our profile and financial strength. Our pipeline of projects provides us with a strong platform for the future.”

## **Enquiries:**

Michael Marx/Julian Barwick  
Development Securities PLC

Tel: 020 7828 4777

Daniel de Belder/Michael Holmes  
The Communication Group plc  
Or visit

Tel: 020 7630 1411  
[www.developmentsecurities.com](http://www.developmentsecurities.com)

## CHAIRMAN'S STATEMENT 2002

It is with satisfaction that I am again able to report strong financial results for your Company, in line with our expectations. Profit before tax for the year was £10.0 million, compared to £10.2 million in the previous year. Earnings per share increased by 12 per cent to 26.9 pence per share.

In view of these results and the Company's sound financial position, the Board has resolved to recommend the payment of a final ordinary dividend of 3.35 pence per share payable on 3<sup>rd</sup> July 2003 to shareholders on the register on 6<sup>th</sup> June 2003. This brings the total ordinary distribution for the year to 5.0 pence per share, an advance of 11.1 per cent over the previous year. Together with the special dividend of 28.5 pence per share, which we announced on 19<sup>th</sup> February 2003, the total distribution for the year is 33.5 pence per share.

**Shareholders' funds, prior to the special dividend, continued to advance for a seventh consecutive year, reaching £129.5 million, equivalent to 451 pence per share; this compares with £119.3 million and 423 pence per share 12 months earlier. After taking into account both the special dividend and the recommended final ordinary dividend in respect of 2002, shareholders' funds at 31<sup>st</sup> December 2002 stood at £121.5 million, equivalent to 423 pence per share.**

**The special dividend is the second we have declared, following the payment of 5.0 pence per share by your Company in 2001. These payments are consistent with our policy of recycling an element of our development gains to shareholders as long as such distribution remains consistent with prudent financial management. We see no reason to change this policy, although shareholders will recognise that future special distributions must await development successes. In addition to the latest special dividend, which represents a distribution to shareholders of £8.0 million, or six per cent of the Company's net assets, we also utilised £2.0 million in January 2003 to buy back, for cancellation, 640,000 of our ordinary shares at an average price of 314.7 pence per share. This has the effect of raising our balance sheet efficiency and increasing the net asset value per share by 2.8 pence.**

### **Strategy**

Our performance in 2002 in both of the key sectors in which we operate, property development in London and the South East of England and property investment portfolio management, is likely to exceed the industry norms. Future development phases of the substantial projects with which we are involved, for which each current phase is wholly or substantially forward-funded, offer some prospect of either escaping the more severe effects of the current economic slowdown, or are well positioned to capitalise on the next cyclical upswing. The majority of our pipeline of significant projects involves some degree of urban regeneration and that, we believe, offers a pointer for the future of development businesses such as ours. The two out-of-town exceptions are the greenfield development at Cambourne, near Cambridge, and the proposed second phase at Broughton Shopping Centre, near Chester. It is the responsibility of local and central Government to ensure that adequate infrastructure improvements are in place in our major cities to enable the efforts of private enterprise to

secure the upgrading and regeneration of the urban environment in which the majority of our population live and work.

In 2002, as with the previous year, our property investment portfolio achieved superior results; we delivered a 12.8 per cent total return, which compares favourably with an average of 9.5 per cent for the market. Important contributions to this consistent performance came from realised gains on property sold during the year and from revaluation surpluses arising on those properties held within the portfolio at the year-end. These were in addition to the rental income generated from the portfolio, which makes a significant contribution to meeting the cost of our annual, net operational expenses and net debt service costs each year.

Our confidence in the prospects for the global economy has weakened further since I reported to you 12 months ago. The outlook for the US economy, the engine of world growth through many cycles, remains uncertain with little tangible prospect of a sustainable upturn in 2003. The economies of mainland Europe are similarly anaemic. Business confidence, the key driver of the next cyclical upswing, remains absent in most of the important world markets with the strength of consumer demand a likely insecure cornerstone of the weak economic outlook. We do not foresee an early recovery in the main UK markets in which we operate. For some time, our posture against the likelihood of such an economic environment has been to reduce the level of net debt to which we are exposed. Shareholders will be pleased to note that your Company had no net debt at 31<sup>st</sup> December 2002. Gearing is one of the main levers of our business model and is available to management to regulate the Company's exposure to risk. Our view continues to be one of prudence.

### **Board composition**

In August 2002, we appointed Victoria Mitchell and Michael Soames to the Board of your Company as Non-executive Directors, also serving on the Audit and Remuneration Committees of the Board. Victoria and Michael have extensive experience and expertise, as well as current involvement, in the property industry, and they are already making a valuable contribution to the continuing success of your Company.

At the end of the year, in line with original expectations, Martin Landau stood down from the Board as a Non-executive Director after nearly ten years of service both in that capacity and, prior thereto, as Executive Deputy Chairman. Martin, the original proponent of risk-averse large-scale development that is now so embedded in our culture, will be missed. We wish him well in his other continuing activities.

### **Conclusion**

This is my last annual statement as your Chairman, as I am retiring from the Board at the end of 2003. I believe that your Board has a right to be proud of what has been achieved in recent years and, after four years of service on your behalf, I feel it is now time for me to hand over the Chair. The Nominations Committee is currently giving consideration to the appointment of a successor.

We remain hopeful of maintaining good performance, although given the prevailing economic environment it is not surprising that the prospects for your Company in the current year are perhaps less certain than those at the commencement of previous years. Nevertheless, I am confident that our profile, financial strength and pipeline of projects could hardly be a stronger platform from which to approach the challenging years ahead.

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

H R Jenkins CBE  
Chairman  
31<sup>st</sup> March 2003

## **Review of operations**

**The market trend is clear. 2002 began in a much subdued atmosphere compared to the bullish tone of early 2001. The continued slow down of economic activity in the US throughout 2002 fed into the European economies in a way that has marked previous world wide recessionary trends.**

### **Economic overview**

Weakening business confidence in the UK became more apparent as the year unfolded; the economy outperformed its major, global rivals in 2001 and looks set to have done so again in the year under review. However, the cautionary tone, already established by the significant weakening of certain sectors of the information technology and high-tech industries, was reinforced by downward pressure on the global investment banking community in the City of London which responded by significantly reducing its workforce. Simultaneously, the UK manufacturing sector continued, without much success, to struggle against the strength of sterling and again looks likely to contribute negatively to overall GDP growth. A number of contrasting factors have emerged to influence the direction of the economy:

the strength of consumer demand, established in recent years on the back of relatively full employment and rising house prices, is likely to weaken as the economic fundamentals reassert themselves during 2003;

public sector investment has grown strongly in recent years and is likely to continue to do so in the medium-term as the Government addresses the apparent historic under-investment in infrastructure for transport and communication, health and education; and

the weakening inflationary threat that has characterised recent years of low interest rates is likely to diminish further until an effective rebalancing of economic activity has been achieved.

The next few years will be challenging for Development Securities as we implement our strategy to exploit those niches that become apparent within our areas of expertise. We believe we are well positioned to capitalise on these opportunities.

First and foremost, we entered these uncertain times in a strong condition; having long pursued a consistent, risk-averse strategy in most aspects of our business. The manner in which we carry out substantial, complex developments by forward-funding with institutional partners is key. This technique has ensured that our balance sheet is largely bereft of substantial, loss-making development projects that could represent a drain on future cash flow. We continue to believe that this is an appropriate risk profile.

### **Current development programme**

In 2002, our development activities remained focussed on the office sector in the South East of England, with particular emphasis on Central London.

#### **PaddingtonCentral**

A satisfactory conclusion has been attained at the first phase of our flagship PaddingtonCentral project, the 11-acre site immediately adjacent to Paddington Railway Station. This major, mixed-use regenerative development in the centre of our capital city will ultimately provide 1.7 million sq. ft. of prime office, retail and leisure accommodation and 0.2 million sq. ft. of

residential apartments. The entire 330,000 sq. ft. office component of the first phase was fully pre-let prior to completion at the end of 2002 to Visa International Service Association, The Prudential Assurance Company Limited, Kingfisher PLC and WJB Chiltern Group on long lease terms ranging from £35 per sq. ft. initially up to £45 per sq. ft. in respect of the final letting. Of the 110,000 sq. ft. retail and leisure space in the same phase, agreements to lease were signed with Cannons Group Limited for the 25,000 sq. ft. health and leisure unit and with J Sainsbury Supermarkets Limited for the 7,250 sq. ft. food retail unit. It is expected that the remaining accommodation will be taken up once the 210 residential units, being constructed by a third-party developer, are completed. The early letting of the office accommodation at rents significantly above initial expectations has enabled us both to agree and receive the bulk of our profit entitlement, with the retained balance to be released as outstanding accounts from suppliers are settled.

With the approval of our joint forward-funding partners, Morley Fund Management and The Equitable Life Assurance Society, work on future aspects of the scheme has continued during the year. Detailed planning consent is anticipated shortly in respect of the initial 400,000 sq. ft. office building for the second phase. However, engineering and costing preparations have largely been finalised for the extensive piling and decking of the remainder of the site, where construction is expected to begin during 2003. This latter work is extensive and is required to be completed by the end of 2005, not only as a pre-requisite for allowing construction on the adjacent Crossrail project to commence shortly thereafter, but also for continued development of most of the future phases of PaddingtonCentral. Present, softer letting market conditions suggest that funding of a wholly speculative development of the next phase will be delayed somewhat and, accordingly, we do not anticipate that construction work on the first building of phase two at PaddingtonCentral will commence before the end of 2003.

Paddington's strategic location as a major, new West End business district has been established, not only by our success, but also by the progress achieved by other development activity on nearby sites. Regeneration of this long-neglected area of Central London is now well underway.

### **333 Oxford Street**

In January 2003, this strategically located 78,000 sq. ft. development at the junction of Oxford Street and New Bond Street in London's West End, achieved practical completion. The site was jointly acquired with our funding partner DEKA Immobilien GmbH from Sears Group Properties for £38 million in April 2001. Zara UK Limited, to whom the 35,000 sq. ft. retail unit was pre-let in May 2002, began trading from the lower ground, ground and first floors well ahead of the key Christmas shopping season. Marketing of the remaining 43,000 sq. ft. of prime office accommodation, configured over four floors has now begun.

### **Broughton Park**

The success of the 298,000 sq. ft. Shopping Centre developed by ourselves at Broughton Park, near Chester, has led to demand by retailers for additional accommodation in the area. Accordingly, in May 2002, together with Pillar Property PLC, we submitted an outline planning application for a 126,500 sq. ft. extension to the retail park together with an outline planning application for a 350,000 sq. ft. business park and an extensive highways improvement programme. Having completed the appropriate retail and environmental impact studies, we hope to receive planning consent in the second quarter of this year.

### **Slough Town Centre**

Working with our partner, Berkeley Homes, good progress has been made on this long-term regeneration scheme to transform the centre of Slough. A framework agreement is in the final stages of being negotiated with Slough Borough Council that will secure our exclusive position on the site and prepare the way for an environmental impact assessment and outline planning application for the overall development, which consists of 1.4 million sq. ft. split almost equally between office and residential accommodation. In addition, there will be some 200,000 sq. ft. of public accommodation for the Council, including a new library. Building work is not expected to commence on this long-term project until 2004 at the earliest.

### **Cambourne Business Park**

The inherent flexibility of site configuration and layout as well as the unrestricted planning consent at the 750,000 sq. ft. business park at Cambourne, near Cambridge has provided some welcome relief from the difficulties of the out-of-London office market caused by the current economic slowdown. In October 2002, we signed an agreement with South Cambridgeshire District Council for the development of its new headquarters and civic centre, which will provide the business park with an enhanced profile and status in the region. Construction has already commenced on the new building, which is being acquired by the local authority on a freehold basis. Completion is expected in the second quarter of 2004. Also in October, we announced the launch of a new Research and Development phase at Cambourne, which could ultimately provide some 320,000 sq. ft. of high-quality office and laboratory accommodation developed over three phases. The first of these is planned to comprise 125,000 sq. ft. in three or four buildings, targeted at the various requirements of the biotechnology industry based in and around Cambridge.

Elsewhere on the Park, leasing activity on the 64,000 sq. ft. of unlet office accommodation on the completed second phase of 132,000 sq. ft., funded with Morley Fund Management, has slowed significantly since the letting, early in 2002, of 19,000 sq. ft. to Campbell Grocery Products. We remain cautiously optimistic that the quality of location, design and environment will ultimately prove attractive to the market.

### **Other Business Parks**

Following the successful letting of three units at the first phase of 115,000 sq. ft. on Globeside Business Park, in 2001, only one unit of 38,500 sq. ft. remains to be let. Interest at this 11-acre scheme, near Marlow in the Thames Valley, is not strong and the timing of the 85,000 sq. ft. second phase is under review with The Equitable Life Assurance Society, with whom we acquired the site in August 1999. Meanwhile the second phase site is income producing on a short-term basis.

It is disappointing to report that letting prospects are equally soft at our 180,000 sq. ft. Frimley Square business park in Surrey where practical completion was achieved in the summer of 2002. This scheme, also forward-funded in partnership with The Equitable Life Assurance Society, is configured over four office buildings on a 7.6-acre, landscaped site.

Development activity has been concluded at our 43-acre site at Birmingham International Park, adjacent to Birmingham International Airport. This follows the completion in May 2002 of the 24,000 sq. ft. office building pre-let to our Executive Communication Centres business. The

building was forward-funded in 2001 with United Bank of Kuwait. Only one building now remains materially unoccupied on this business park, a 45,000 sq. ft. industrial unit forward-funded with The Legal & General Assurance Society. We continue to believe that the quality of the product will prove attractive, although current letting conditions remain challenging.

### **Royals Business Park**

The £500 million, 50-acre Royals Business Park is the second of our major regeneration projects in London and is ideally located on the Royal Albert Dock opposite London City Airport. With phased development planned over a seven-year period, this site will eventually comprise 1.6 million sq. ft. of office accommodation and 100,000 sq. ft. of ancillary and leisure accommodation, for which outline planning consent already exists. When complete, it will be East London's leading business park.

In August 2002, we completed an agreement with our joint development partners, Standard Life Investments and the London Development Agency, for the development of the 237,000 sq. ft. first office phase comprising two buildings, both designed by Aukett Europe, linked by an internal winter garden. Construction has commenced and completion is planned for the second quarter of 2004.

The Royals Business Park has a one-mile waterside frontage and is expected to secure high-quality tenants attracted by its cost-effective and strategic location so close to the City, as well as its excellent road links to the M11 and M25 motorways.

## Investment property portfolio

**We continue to base our investment strategy for out-performance on three key principles: sector rotation, stock selection and proactive management. We target assets with a core income return and the potential to improve value through active management.**

2002 saw the completion of the recent programme to restructure the investment portfolio, such that the Company now possesses a core portfolio capable of providing above-average performance over the medium-term.

During 2002 the total investment return of the investment portfolio was 12.8 per cent, comprising an income return of 7.7 per cent and capital growth of 5.1 per cent. This compares to a market return, as measured by Investment Property Databank Limited, of 9.5 per cent, following our returns in 2001 of 11.5 per cent against 7.0 per cent market return, representing another year of significant out-performance.

We now have ten percent less office and London exposure and fifty per cent fewer assets in number. These strategic adjustments to the portfolio should serve to enhance performance over the coming year. The focus of the strategy on building specification and location over lease length and covenant should, in the medium-term, provide out-performance potential.

We continue to base our investment strategy on three key principles:

proactive management of the portfolio by rotating between sectors, to maximise exposure to growth stock. This has led, during the course of the year, to a reduction in the Company's office holdings, most notably in Central London, and an increase in retail and industrial assets, where performance remains satisfactory;

the average number of properties has been significantly reduced and will now be kept at these levels to facilitate repositioning through the market cycle and to allow management focus on key assets. During 2002, the number of assets within the portfolio was reduced from 46 to 23 with the average lot size increasing from £2.4 million to £4.1 million; and

a preference for multi-let assets where value can be added through lease restructuring and limited refurbishment. During 2002, a number of single-let "dry" assets were disposed of. We continue to seek opportunities which allow active management on the occupational profile to generate performance.

Transaction activity during 2002 was focused primarily on disposals, as advantage was taken of what transpired to be a strong investment market to complete the final stage of the portfolio restructuring. In addition, we acted upon what we perceived to be an asset pricing "bubble" to crystallise significant valuation surpluses on assets which we felt did not meet our performance objectives. In total, 26 properties were sold for £34.7 million, generating a 6.1 per cent surplus of £2.1 million. The sale of Fetter Lane, London EC3 was a notable success, achieving a gain of 12.5 per cent at a time when property market indices showed negative capital growth in the City of London sub-market. We no longer have any investment property exposure in the City market.

The effective de-gearing of the portfolio means that we are well placed to take advantage of acquisition opportunities as they arise.

Since the year-end, a further two properties have been sold for £3.8 million, in line with book values, serving to further reduce our London office weighting and marking the completion of the disposals programme. Moving forward, sales will be considered in accordance with market conditions and the completion of asset initiatives.

In 2002, more than £14.0 million was invested through a combination of capital expenditure on the existing portfolio and, more significantly, on three acquisitions. At £6.3million, the largest single acquisition was the Kingsland Shopping Centre, Thatcham, a district shopping scheme anchored by a Waitrose supermarket. The property achieves significant capital growth over the course of the year, and offers a combination of a solid income return and active management opportunities. Further asset-management initiatives currently underway should generate additional capital uplifts.

Since the year-end, a further shopping centre asset, with similar performance characteristics to our Thatcham centre, was purchased for £9.0 million. It is intended to target such assets for further investment acquisitions.

Proactive management accounted for £1.5million of value creation on three investment properties held throughout the course of the year. At Great West Trading Estate, Brentford we achieved lease renewals on 4 units at improved rental values, incorporating Landlord's opportunities for redevelopment in 2006. The impact of these renewals was an increase in capital value of £0.7million. At The Genesis Centre, Warrington, a combination of lease restructuring and re-lettings at improved rental values has led to an uplift in capital value of £0.4million, despite an overall increase in the level of void accommodation. Finally, at 1/5 New Street, Huddersfield, we took a surrender of the existing lease and simultaneously re-let the accommodation at an increased rent, achieving 35 per cent capital growth of £0.4 million for that particular asset.

As we move into a period of limited market growth in rental values, the process of letting up voids and securing reversions at rent review will continue to significantly enhance future capital uplifts.

In 2001, we embarked on a strategy of purchasing assets with short-term reversionary potential or vacant elements. Notwithstanding the declines in rental values seen, particularly in Central London, in the last 12 months, we believe that the portfolio remains well positioned to benefit from the completion of these initiatives and this was, to some extent, borne out by the increases achieved in the portfolio valuation at the year-end. The current portfolio void rate of ten per cent is at its upper limit, although just under half of this space is currently under offer. We intend to be rigorous in the application of the asset management skills required to capture value.

Looking forward, 2003 will see the continued, selective, reinvestment of the cash generated from disposals. Given limited rental growth prospects, where capital values are likely to come under pressure, we will target acquisitions that are not dependent on market momentum to deliver attractive returns, preferring assets with a core income return and the potential to

improve value through active management. Stock selection on acquisitions will continue to be a principal driver of future performance.

We have now achieved two, consecutive years of strong performance from the investment portfolio and, leveraging from this base, we will start to explore methods for utilising shareholders' funds more efficiently, in partnership, thus increasing the value of funds under management. The objective, apart from improving our overall performance, is to establish an enhanced financial presence in a market dominated by a small number of larger, financially robust participants.

### **Other activities**

The net income of £0.3million from our operational properties relates to both the Executive Communication Centres serviced office business and the indoor retail licensee operation at Blackpool. This result was achieved after making appropriate allowances for start up and refurbishment activity of approximately £0.2 million at one serviced office centre and an operating loss of £0.1 million in respect of the now closed centre at Sheffield. We are hopeful that Executive Communications Centres should achieve break even in the current year from its five operational units, notwithstanding the weak market conditions prevailing in this sector.

### **Finance**

Part of our strategy in recent years has been to reduce significantly our level of net indebtedness in anticipation of a degree of economic and market uncertainty; it is pleasing therefore that net debt at the year-end was nil. In addition to cash balances of £85.1 million held at the year-end, we had £34.5 million of unutilised, medium-term, committed facilities with HSBC Property Finance and Barclays Bank PLC. For a company with our modest balance sheet size, the existing financial resources available to us are more than adequate to capitalise on appropriate investment or development acquisitions that might arise. Your Company has experienced strong, positive cash flow in recent years, derived from both the major development projects in which we have been involved and the exercise to re-structure our investment property portfolio. Whilst we are unlikely to witness a repeat of these exceptionally strong cash flows in the near-term, we are cautiously optimistic that the next phases of our existing, large-scale schemes, together with additional projects, will lead to similar returns for shareholders as have been achieved in recent years.

C J Barwick  
31<sup>st</sup> March 2003

M H Marx

## Consolidated profit and loss account

for the year ended 31st December 2002 (unaudited)

	Note	2002 £'000	2001 £'000
<b>Turnover</b>		33,462	39,133
<b>Direct costs</b>		(12,648)	(14,804)
<b>Gross profit</b>		20,814	24,329
Operating expenses		(7,798)	(7,200)
Exceptional item	(d)	-	(3,000)
<b>Total operating expenses</b>		(7,798)	(10,200)
<b>Operating profit</b>		13,016	14,129
Profit/(loss) on disposal of fixed assets		1,767	(110)
<b>Profit on ordinary activities before interest</b>		14,783	14,019
Net interest payable		(4,768)	(3,867)
<b>Profit on ordinary activities before taxation</b>		10,015	10,152
Tax on profit on ordinary activities		(2,338)	(3,385)
<b>Profit on ordinary activities after taxation</b>		7,677	6,767
Dividends on equity shares		(9,425)	(1,269)
<b>Retained (loss)/profit for the year</b>		(1,748)	5,498
<b>Earnings per share</b>		26.9p	24.0p
<b>Diluted earnings per share</b>		26.7p	23.6p

All turnover, profits and losses derive from continuing operations

## Consolidated balance sheet

31st December 2002 (unaudited)

	2002	2001
	£'000	£'000
<b>Fixed assets</b>		
Investment properties	104,799	115,311
Operating properties	7,240	9,750
Other tangible assets	4,182	4,237
Investments	905	965
		130,263
	117,126	
<b>Current assets</b>		
Land, developments and trading properties	10,284	9,512
Debtors	22,411	35,992
Cash at bank and in hand	85,063	45,197
	117,758	90,701
<b>Creditors: amounts falling due within one year</b>	<b>(29,736)</b>	<b>(29,703)</b>
<b>Net current assets</b>	<b>88,022</b>	<b>60,998</b>
<b>Total assets less current liabilities</b>	<b>205,148</b>	<b>191,261</b>
<b>Creditors: amounts falling due after more than one year</b>		
Borrowings	<b>(83,630)</b>	<b>(71,996)</b>
<b>Net assets</b>	<b>121,518</b>	<b>119,265</b>
<b>Financed by:</b>		
<b>Capital and reserves</b>		
Called up share capital	14,353	14,110
Share premium account	62,779	61,692
Revaluation reserve	2,376	1,959
Other reserves	45,299	45,299
Profit and loss account - deficit	<b>(3,289)</b>	<b>(3,795)</b>
<b>Total equity shareholders' funds</b>	<b>121,518</b>	<b>119,265</b>
<b>Net assets per share</b>	<b>423p</b>	<b>423p</b>
<b>Diluted net assets per share</b>	<b>419p</b>	<b>417p</b>

Approved by the Board of Directors on 31<sup>st</sup> March 2003  
and signed on its behalf

M H Marx  
Director

**Consolidated cash flow statement**  
for the year ended 31st December 2002 (unaudited)

	2002 £'000	2001 £'000
<b>Cash inflow from operating activities</b>	22,215	25,988
Returns on investments and servicing of finance	(4,938)	(3,891)
Taxation	(4,815)	(4,030)
Capital expenditure and financial investment	16,748	(31,500)
Equity dividends paid	(1,333)	(2,606)
<b>Cash inflow/(outflow) before financing</b>	27,877	(16,039)
Financing:		
Issue of new shares	1,330	804
Repayment of debt	(1,246)	(1,284)
Proceeds from new borrowings	12,653	9,134
Increase/(decrease) in pledged cash	(5,920)	13,137
<b>Increase in cash in the year</b>	34,694	5,752

**Reconciliation of net cash flow to movement in net funds/(debt)**  
for the year ended 31st December 2002 (unaudited)

	2002 £'000	2001 £'000
<b>Increase in cash in the year</b>	34,694	5,752
Cash outflow from reduction in debt	1,016	1,284
Cash inflow from new borrowings	(12,653)	(9,134)
Cash outflow/(inflow) from movement in pledged cash	5,920	(13,137)
<b>Change in net debt resulting from cash flow</b>	28,997	(15,235)
<b>Non cash adjustment</b>	-	(193)
		(15,428)
<b>Movement in net funds/(debt) in the year</b>	28,977	
<b>Net debt at 1st January</b>	(28,645)	(13,217)
<b>Net funds/(debt) at 31st December</b>	332	(28,645)

## Reconciliation of operating profit to net cash inflow from operating activities

for the year ended 31st December 2002 (unaudited)

	2002 £'000	2001 £'000
Operating profit	13,016	14,129
Provision against investments and loans	-	3,000
Loss on disposal of tangible fixed assets	15	50
Capitalised interest charged to cost of sales	70	-
(Increase)/decrease in developments and trading properties	(772)	3,700
Decrease/(increase) in debtors	14,206	(12,264)
(Decrease)(increase) in creditors	(5,197)	16,733
Depreciation charges	877	588
Other items – non-cash	-	52
	<b>22,215</b>	<b>25,988</b>

## Analysis of net debt

for the year ended 31st December 2002 (unaudited)

	Balance at 1 January 2002 £'000	Cash flow £'000	Other non-cash changes £'000	Balance at 31 December 2002 £'000
Cash in hand, at bank	23,608	33,946	-	57,554
Bank overdraft	(830)	748	-	(82)
		34,694		
Debt falling due within one year	(1,016)	1,016	(1,019)	(1,019)
Debt falling due after more than one year	(71,996)	(12,653)	1,019	(83,630)
Pledged cash	21,589	5,920	-	27,509
		(5,717)		
	<b>(28,645)</b>	<b>28,977</b>	<b>-</b>	<b>332</b>

**Consolidated statement of total recognised gains and losses**  
for the year ended 31st December 2002 (unaudited)

	2002 £'000	2001 £'000
Profit on ordinary activities after taxation	7,677	6,767
Unrealised surplus on revaluation of property portfolio	2,671	3,781
<b>Total recognised gains for the financial year</b>	<b>10,348</b>	<b>10,548</b>

**Reconciliation of movements in total equity shareholders' funds**  
for the year ended 31st December 2002 (unaudited)

	2002 £'000	2001 £'000
Profit on ordinary activities after taxation	7,677	6,767
Dividends on equity shares	(9,425)	(1,269)
Retained (loss)/profit for the financial year	(1,748)	5,498
Net proceeds of issue of new shares	1,330	311
Surplus on revaluation of property portfolio	2,671	3,781
Net movement in total equity shareholders' funds	2,253	9,590
Opening total equity shareholders' funds	119,265	109,675
<b>Closing total equity shareholders' funds</b>	<b>121,518</b>	<b>119,265</b>

# Development Securities PLC

for the year ended 31st December 2002 (unaudited)

## 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 2001.

The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 31<sup>st</sup> December 2002 and 31<sup>st</sup> December 2001. The financial information for the year ended 31<sup>st</sup> December 2001 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 statutory accounts for the year ended 31<sup>st</sup> December 2002 will be finalised on the basis of the financial information presented by the Directors in this Preliminary Announcement and will be delivered to the Registrar of Companies following the Annual General Meeting.

## 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 £107,000 (2001: £838,000) included in direct costs in respect of a development property in France.

### (b) Analysis of gross profit

	Turnover	Direct costs	2002 Gross profit	Turnover	Direct costs	2001 Gross profit
	£'000	£'000	£'000	£'000	£'000	£'000
Rental income	9,164	(1,832)	7,332	8,307	(2,190)	6,117
Operating property income	4,539	(4,267)	272	4,151	(3,329)	822
Project management fee income	1,009	-	1,009	1,681	-	1,681
Land, developments and trading properties	18,750	(6,549)	12,201	24,994	(9,285)	15,709
	<b>33,462</b>	<b>(12,648)</b>	<b>20,814</b>	<b>39,133</b>	<b>(14,804)</b>	<b>24,329</b>

### c) Operating profit

	2002 £'000	2001 £'000
The operating profit is stated after charging/(crediting):		
Depreciation	877	588
Impairment (credit)/charge - equity investment (refer note (d))	-	1,000
- loans (refer note (d))	(500)	2,000
Operating leases in respect of land and buildings	577	309
Auditors' remuneration in respect of audit work		

- current year	103	101
- prior year	-	35

---

Auditors' remuneration in respect of non-audit work amounted to £109,000 (2001: £88,000).

**d) Investments**

The exceptional item in 2001 represents an impairment in the book value of the Group's equity investment in, and the majority of loans to, Stead & Simpson Group Limited, arising from the Directors' evaluation of the amounts recoverable from the investment and associated loans. A provision of £0.5m against the loans to Stead & Simpson Group Limited was released in 2002.

**e) Fixed rate debt**

The fair value adjustment at 31<sup>st</sup> December 2002 in respect of the Group's fixed rate debt, calculated on a replacement basis, taking into account the differences between fixed interest rates of the Group's borrowings and the market value and prevailing interest rates of appropriate debt instruments, was £15.9m (2001: £11.9m), equivalent to a decrease in net assets of 38.8 pence after tax (2001: 29.6 pence).