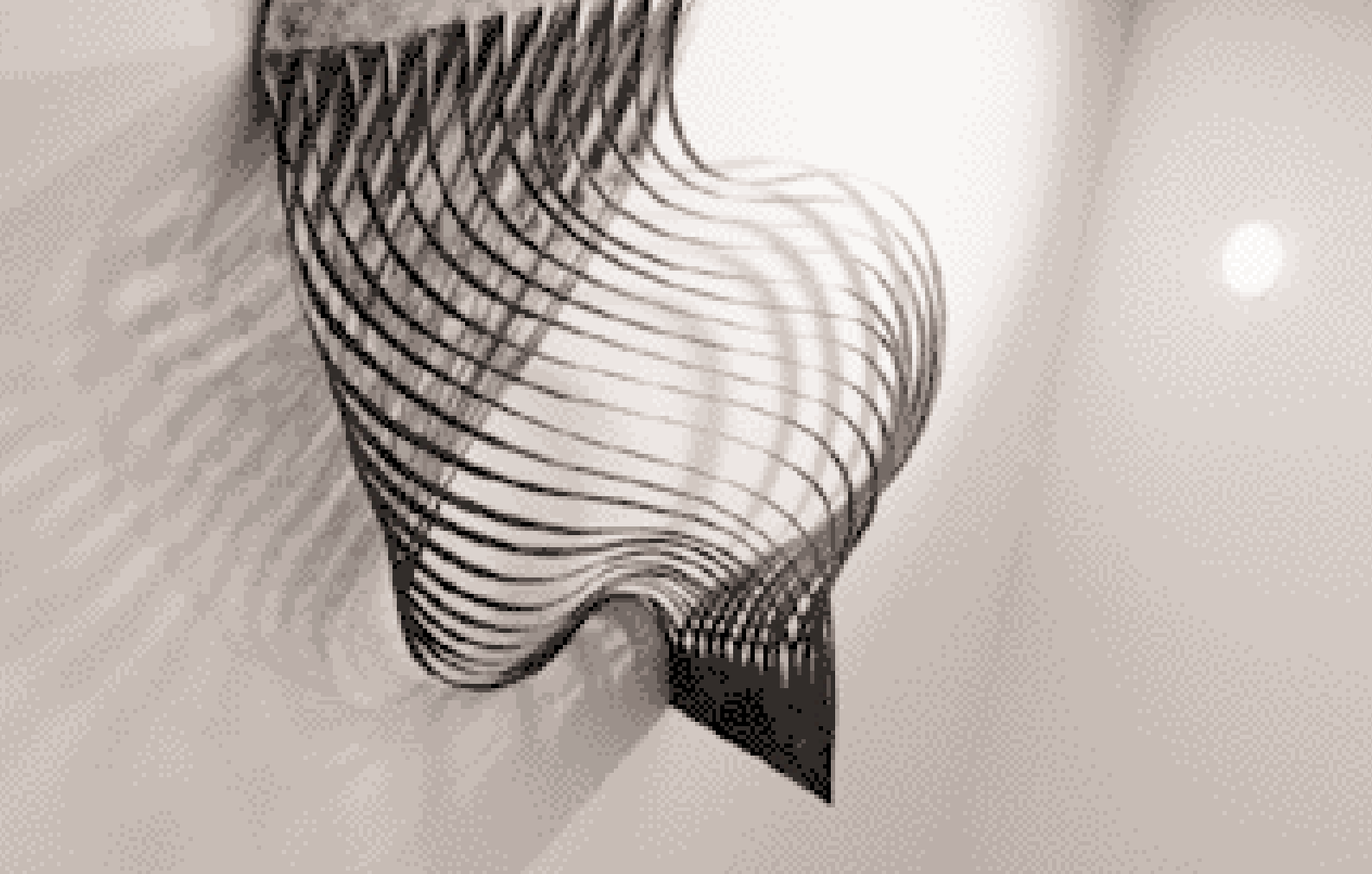




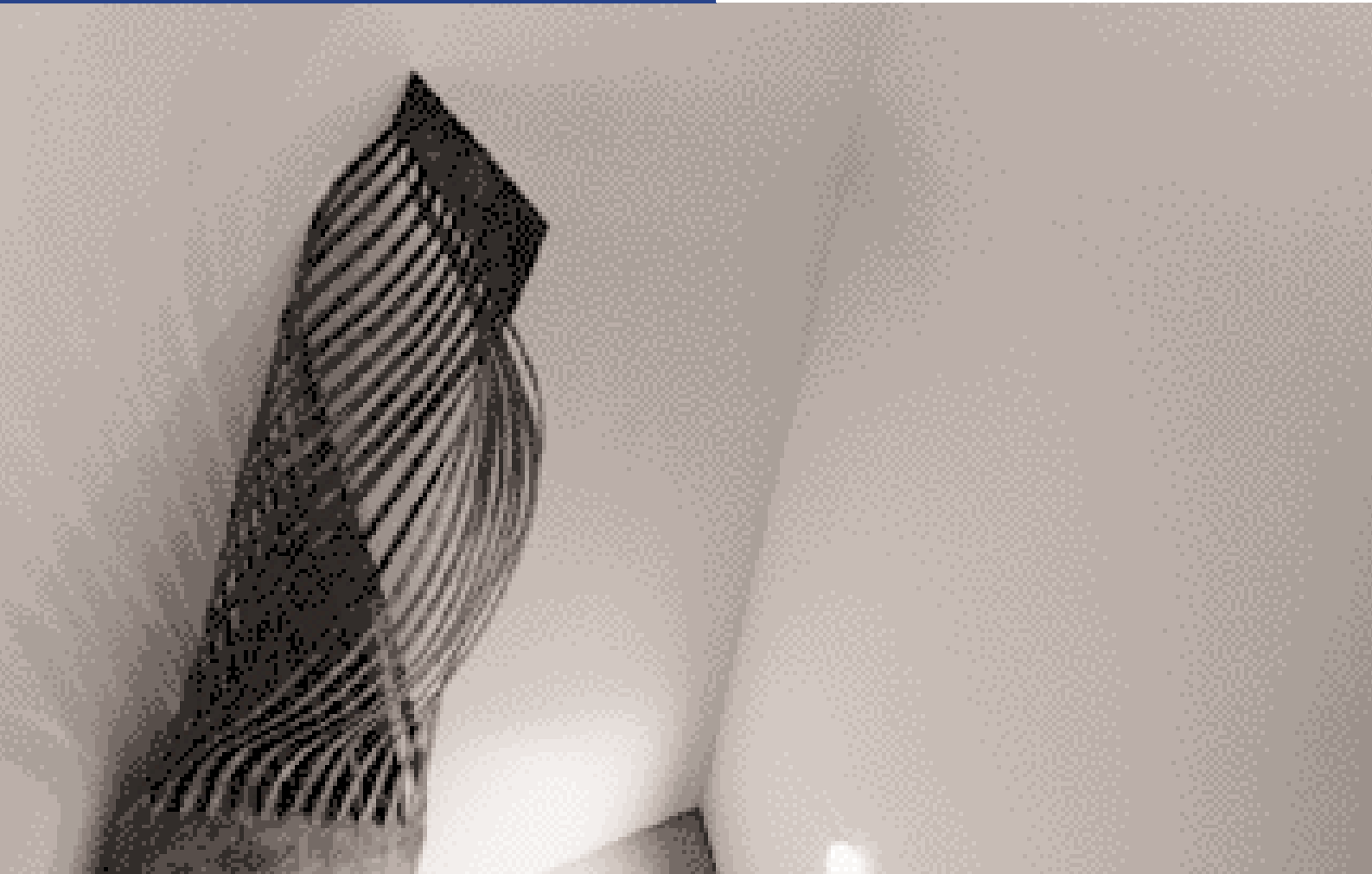
DEVELOPMENT SECURITIES PLC, PORTLAND HOUSE, STAG PLACE, LONDON SW1E 5DS



ANNUAL REPORT 2001



DEVELOPMENT
SECURITIES PLC



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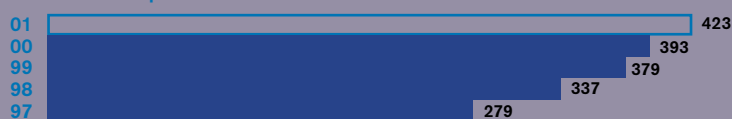
Development Securities PLC is a property development and investment company. Its principal objective is to carry out substantial, complex developments in a risk averse manner with a view to adding maximum value for its shareholders.

The achievements secured during 2001 confirm that your Company is now well established as a focused and successful property Group. This was a year in which the business attained a further level of maturity that should provide the impetus for improved shareholder returns in future years.

Financial highlights

	2001 £ million	2000 £ million
Results		
Turnover	35.8	39.1
Profit before tax	10.2	10.0
Balance sheet		
Investment properties and other fixed assets	130.3	96.9
Land, developments and trading properties	9.5	12.5
Net borrowings	(28.6)	(13.2)
Net assets	119.3	109.7
Statistics		
Earnings per share	24.0p	23.1p
Net assets per share	423p	393p
Annual dividend per share	4.5p	4.1p
Special dividend per share	-	5.0p

Net assets per share



Earnings per share



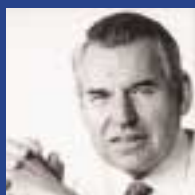
Dividends per share



* excludes special dividend of 5.0 pence

All stated in pence per share

Your Company delivered a good trading performance in 2001, as well as laying the foundations for the future growth of the business. I am pleased to be able to report a profit before taxation of £10.2 million for the year ended 31st December 2001, in line with our expectations and representing earnings per share of 24 pence.



A handwritten signature in blue ink that reads "H R Jenkins".

H R Jenkins CBE, Chairman
26th March 2002

Total shareholders' funds have continued to advance for a sixth consecutive year, to £119.3 million, equivalent to 423 pence per share, compared to £109.7 million and 393 pence per share at the previous year end.

Accordingly, the Board has resolved to recommend the payment of a final dividend of 3 pence per share payable on 3rd July 2002 to shareholders on the register on 31st May 2002.

Together with the increased interim dividend already paid, this brings the total distribution for the year to 4.5 pence per share, an advance of 9.8 per cent from the previous year, setting aside the 5 pence per share special dividend paid in 2001. Last year's special dividend was the first in your Company's history and represented an indication of future distribution policy, whereby we intend to return further amounts to shareholders in the future on a basis consistent with prudent financial management, either by way of enhanced dividend payment or by share buyback, whichever is more appropriate.

STRATEGY

As will be seen from the Review of operations, the achievements secured during 2001 confirm that your Company is now well established as a focused and successful property Group.

Geographically, our development business remains focused in the South East of England, with particular emphasis in Central London, where the size of the market is more likely to create

opportunities for our particular skills. In recent years, our considerable experience in Central London has seen an increasing specialisation in urban regeneration projects. Our recent nomination as the preferred developer at Slough Town Centre, when taken together with Paddington Central and the Royals Business Park, expands the pipeline of such work alone to more than four million sq. ft. These substantial schemes offer the prospect of a steady flow of phased development over many years, subject, as always, to the vagaries of the economic cycle. It would therefore seem that a development business can indeed be something other than a series of unconnected opportunities.

After several years of significant restructuring, the total returns from our investment portfolio during the year under review indicate that it will soon achieve the demanding standards that we have long sought and achieved from our mainstream development activities. Historically, net rental income generated from the property portfolio has gone a significant way to covering our net operational expenses and net debt service costs. The achievement of consistently superior total returns from the portfolio, which demonstrated significant capital growth in 2001, will presage a further improvement in its financial profile.

Led initially by the United States, 2001 saw the beginning of a global, economic slowdown that is likely to continue through the current year, eventually emerging only in 2003 into a

sustained period of stronger growth. The United Kingdom economy outperformed its major, global rivals last year and seems likely to repeat that success again in 2002, albeit that the industrial sector has been particularly badly hit, as have, to a lesser extent, the high-tech and financial services sectors. Given this weakening in the corporate balance sheet in the United Kingdom, rental growth has decelerated and, in some instances, turned negative in the face of declining business optimism and a prudent anxiety about what the future may hold. In this environment, only the better conceived property developments will show attractive returns and, like our PaddingtonCentral and Marlow projects, outperform market expectations.

BOARD COMPOSITION

In August, we were very pleased to appoint Paul Manduca as a Non-executive Director of your Company. Paul is currently Chief Executive of Rothschild Asset Management Limited and a Director of Henderson Smaller Companies Investment Trust PLC. We look forward to his further contributions to our Board deliberations.

Recently, Paul Willis has indicated that he wishes to step down from the Board at the end of his second three-year term and therefore will not be offering himself for re-election at this year's Annual General Meeting. On behalf of your Board, I would like to thank Paul most sincerely for his exceptional

contribution to the progress that Development Securities has made during this pivotal period.

CONCLUSION

2001 was a year in which the business attained a further level of maturity that should provide the impetus for improved shareholder returns in future years. The financial structure of the business is strong, having been significantly cash flow positive in recent years as development earnings crystallised and substantial disposals were made from the investment property portfolio. We expect 2002 to be another year of strong cash flow from our development operations as profitability is realised, in particular at the first phase of PaddingtonCentral. Our selection last year by the London Development Agency to develop the Royals Business Park in London's Docklands, the recent nomination as preferred developer of Slough Town Centre in the Thames Valley, as well as the next phases of PaddingtonCentral and Cambourne Business Park, augur well for the future.

Over a period of some years, we have assembled a talented, experienced and much respected executive management team, without whom none of our achievements would have been possible. On behalf of your Board, I would like to express my sincere appreciation to all our Directors, management and staff throughout the Group for their untiring efforts in advancing the prosperity and reputation of the Company.

These substantial schemes offer the prospect of a steady flow of phased development over many years, subject, as always, to the vagaries of the economic cycle. It would seem that a development business can indeed be something other than a series of unconnected opportunities.



**1.7 MILLION SQ. FT. DEVELOPMENT AT
PADDINGTONCENTRAL, LONDON W2**

A new London Central Business District located only one mile from Mayfair. With direct access to Paddington station, the travel time to London's Heathrow Airport is 15 minutes via the Heathrow Express. Phase one is due for completion in August 2002 with phase two targeted for completion by the end of 2004. The timing for phase three is not yet established.



**1.6 MILLION SQ. FT. DEVELOPMENT AT
THE ROYAL DOCKS, LONDON E16**

The 50-acre site, with a one-mile frontage onto the Royal Albert Dock, one of the most important regeneration areas in the UK, is located immediately opposite London City Airport. This business park scheme has direct road and rail access. Development is expected to extend over a seven-year period.



1.5 MILLION SQ. FT. DEVELOPMENT OF SLOUGH TOWN CENTRE

The 'Heart of Slough' initiative entails a potential 1.5 million sq. ft. urban regeneration scheme on a 29-acre site in the centre of Slough. The project is likely to stretch over many years once contractual arrangements have been finalised with the Local Authority and the further public consultation process is concluded.



750,000 SQ. FT. OFFICE DEVELOPMENT AT CAMBOURNE BUSINESS PARK

With a critical mass of 50 acres offering up to 750,000 sq. ft. of modern office space, Cambourne is already well established as one of the UK's leading business parks. The remaining phases of the park are planned for development over the next five years.

The year began much as the previous year had ended, with everything still seeming to go in our favour, courtesy of strong economic growth and with the market remaining constrained on the supply side, even in the face of strong tenant demand. However, early in the year, the tempo slowed as the previous excesses of US economic growth finally led to an inevitable change of pace that was to impact the European economies shortly thereafter. 2001 ended in a much-subdued atmosphere, as both investors and decision-makers for tenants and funding institutions either sat on the sidelines or took active steps to reduce their exposure to certain sectors of the marketplace.

The 440,000 sq. ft. first phase at PaddingtonCentral rises across Hyde Park in the West End of London, providing a graphic illustration of the scheme's strategic location in Central London.

Throughout the bull market of recent years, we remained within the guidelines of our operational strategy, whereby we carry out substantial, complex developments in a risk averse manner by forward funding our major schemes with institutional partners. Occasionally, at smaller or phased developments such as Cambourne and initially at Black Friars Court, we were prepared to accept a degree of equity risk in order to achieve an element of control. Whilst this undeniably cautious strategy is sometimes less easy to appreciate in a strong market, it has clear attractions when sentiment and economic activity change direction. That is the most critical moment in the trading cycle of any property company, especially for those engaged in property development activity. We are satisfied with the risk profile of your Company through this current, subdued phase of the economic cycle.

Our development activities remain focused on prime offices and business parks in the South East of England with particular emphasis on Central London.

DEVELOPMENT – PADDINGTONCENTRAL

Excellent progress at the upper end of our expectations has been achieved on the first phase of PaddingtonCentral, where the estimated investment value on completion of this 1.7 million sq. ft. mixed use urban regeneration scheme is in excess of £750 million. The 11-acre site is immediately adjacent to Paddington Railway Station on the western boundary of London's West End.

The marketing campaign for the initial phase of 330,000 sq. ft. of prime office accommodation and 110,000 sq. ft. of retail and leisure space commenced in early 2001 and has yielded strong results, with all of the available office space now pre-let. In October, Visa International Service Association signed an agreement to lease 193,000 sq. ft. on a 20-year term at an average annual rent of £38.50 per sq. ft. This followed the agreement to lease 51,000 sq. ft. on a 20-year term to WJB Chiltern Group. Early in 2002, we concluded the letting of the office accommodation by signing an agreement to lease 54,000 sq. ft. to Kingfisher plc, also on a 20-year term at an average rent of £42 per sq. ft. and an agreement to lease 39,000 sq. ft. to The Prudential Assurance Company Limited for a term certain of 10 years at a further improved average rent per sq. ft. Marketing of the 110,000 sq. ft. of retail and leisure space has already resulted in the signing of an agreement to lease 25,000 sq. ft. to Cannons Group Limited for an initial period of 25 years in respect of the health and leisure unit.

Practical completion of this first phase, funded by Norwich Union Life and Pensions Limited and The Equitable Life Assurance Society, is scheduled for the summer of 2002, following which we expect the development leases to be taken up on the terms contracted, thus releasing to us an entitlement to our profit participation on this first phase. Due to our success at PaddingtonCentral, as well as progress achieved by others at adjoining sites, there is little doubt that Paddington has now





Black Friars Court, the 106,000 sq. ft. prime office development in the City of London, was pre-let prior to completion in April 2001.

secured its place as London's newest business district, able to offer substantial headquarters buildings with large, well-configured floors.

DEVELOPMENT – BLACK FRIARS COURT

This prime 106,000 sq. ft. office development was brought to a successful conclusion during the year, both for ourselves and our funding partner, Deutsche Grundbesitz Investmentgesellschaft, with the letting in March 2001 of 49,000 sq. ft. to Bechtel Limited on a 25-year term. The balance of the office space had been pre-let to Rowe & Maw simultaneously with the forward funding of the development in 1999.

DEVELOPMENT – 333 OXFORD STREET

Construction is well under way on this 78,000 sq. ft. development to provide 35,000 sq. ft. of prime retail space and 43,000 sq. ft. of prime office space, with practical completion scheduled for December 2002. Together with our funding partners, DEKA Immobilien Investment GmbH, we acquired the site from Sears Group Properties for £38 million in April 2001. Marketing of the retail component of this development, which is located on the corner of New Bond Street and Oxford Street in the heart of London's West End, commenced during the year and has been well received.

DEVELOPMENT – ROYALS BUSINESS PARK

The pipeline of future projects available to your Company extended considerably when, in August, we completed the long-term, performance-related development agreement with the London Development Agency in respect of the 50-acre Royals Business Park site in London's Docklands. This park forms part of the Royal Docks, one of the most important regeneration areas in the UK, which includes the London City Airport and the new ExCel Exhibition Centre. Occupying a one-mile waterside frontage, it is expected to attract high quality tenants drawn by its strategic location and proximity to the City and Canary Wharf, as well as its excellent communication links.

We will be developing a business park of at least 1.6 million sq. ft. of first-class offices, for which outline planning consent already exists, with an estimated investment value on completion of some £500 million. In December, detailed planning consent was obtained for the first phase, which comprises a 250,000 sq. ft. office building, thus enabling us to re-approach the funding market to secure finance. We remain cautiously optimistic that sentiment in the institutional markets will improve later this year as the UK economy emerges from its present, somewhat uncertain phase.



The completed first and second phases at Cambourne Business Park are located alongside the 3,000-home new settlement of Cambourne, to the west of Cambridge and only a few miles from the M11 motorway.

DEVELOPMENT – CAMBOURNE BUSINESS PARK

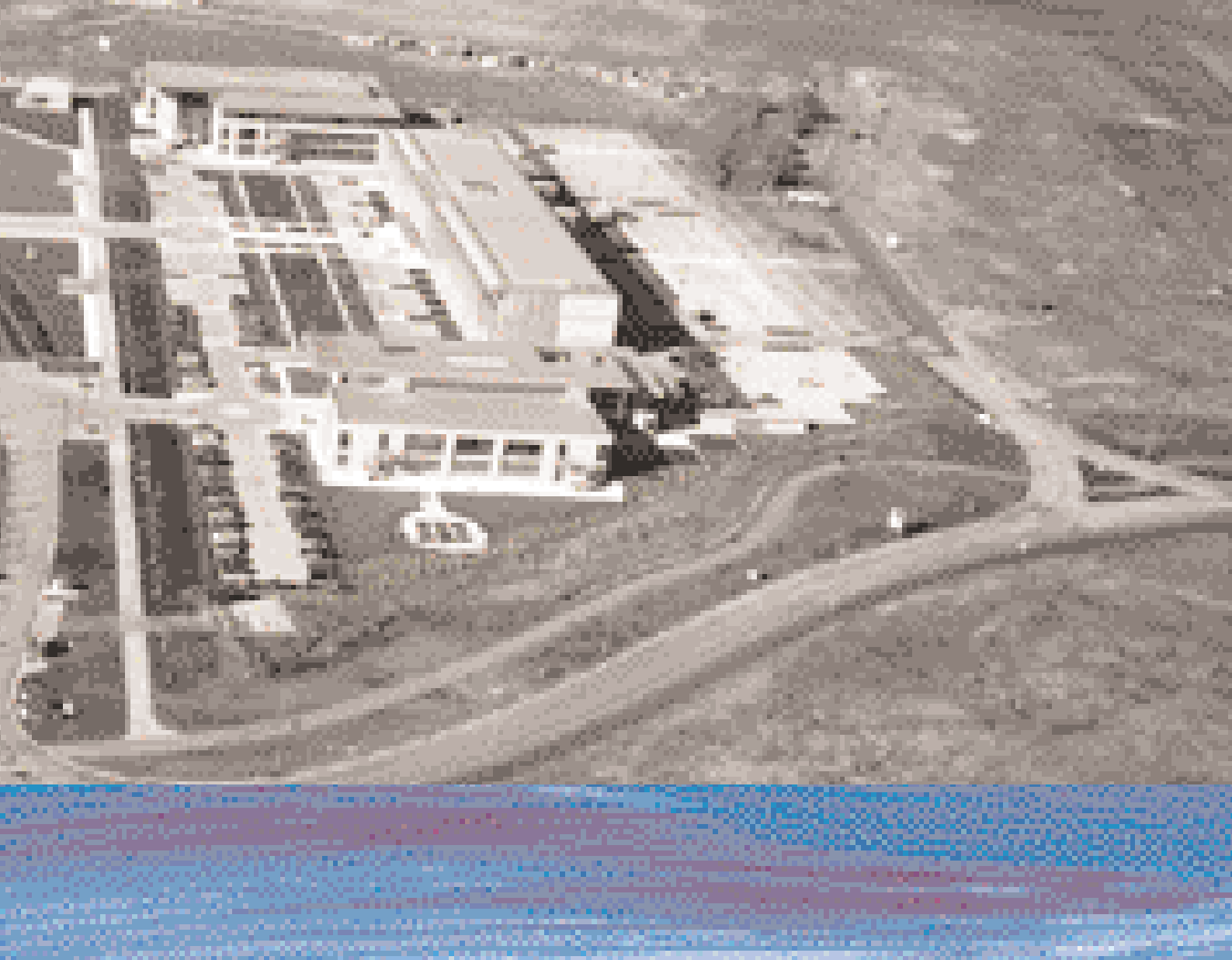
Activity at our 50-acre Cambourne Business Park site, near Cambridge, was strongest in the early part of the year under review when, in January, together with our funding partners, Morley Fund Management, we commenced construction of the entire 132,000 sq. ft., £37 million second phase. Since the first building of 31,000 sq. ft. was pre-let earlier to Geneva Technology Limited, we were able to reach practical completion of that unit in May, leaving two further units to be constructed on a speculative basis. Marketing activity is now under way on these buildings, where practical completion was achieved at the turn of the year and, notwithstanding the noticeable slowdown in market momentum, we believe that the quality of product and location will prove attractive.

In October, South Cambridgeshire District Council ratified its decision to relocate its headquarters and Council Chamber, currently in Cambridge city centre, to Cambourne Business Park. Construction of this 50,000 sq. ft. building is anticipated to commence later this year, subject to the fulfilment of certain contractual preconditions. It is testament to the maturity of Cambourne that it is to become the administrative centre for this local authority.

DEVELOPMENT – GLOBESIDE BUSINESS PARK

At Globeside Business Park, near Marlow, in the Thames Valley, the first phase of 115,000 sq. ft. reached practical completion in April 2001. In spite of the apparent slowdown in tenant demand during the year, we are pleased to have maintained a consistent degree of success in our letting programme on this speculative development. In the summer, 24,000 sq. ft. was let to BT Cellnet on a 16-year term followed shortly by a letting to Icon (UK) Limited for a prime 33,000 sq. ft. building at £30 per sq. ft. In December, BYK UK Limited, a subsidiary of the German pharmaceutical group Altana, signed a 20-year lease at £30 per sq. ft. in respect of the 22,000 sq. ft. office unit, leaving only one unit at this scheme remaining to be let.

The 11-acre site was acquired in August 1999 in partnership with The Equitable Life Assurance Society and will ultimately provide 200,000 sq. ft. of first-class office and light industrial accommodation. The second phase will commence in a few years' time when vacant possession of that element of the development is secured.



DEVELOPMENT – BIRMINGHAM INTERNATIONAL PARK

The successful pre-letting activity at the end of 2000 enabled us to complete, in the following February, the forward funding of the £10 million, 120,000 sq. ft. industrial phase with Legal & General Assurance Society. Practical completion of this phase was achieved in November, with only one of the three units now remaining to be let.

Practical completion of the current 69,000 sq. ft. office phase, forward funded with The Prudential Assurance Company Limited, was achieved earlier in the year and there, too, only one building, Washington House, remains to be let. Tenant demand in this micro market has also slowed considerably since early 2001, but we remain hopeful that the quality of the development will generate the results we are seeking.

The final unit under construction at Birmingham International Park is a 24,000 sq. ft. office building, pre-let to our serviced office provider, Executive Communication Centres Limited. Practical completion of this unit, forward funded in October with United Bank of Kuwait, is scheduled for May 2002.

DEVELOPMENT – FRIMLEY BUSINESS PARK

With detailed planning consent obtained in January 2001, construction is proceeding on schedule at this 200,000 sq. ft. prime office campus located near junction 4 of the M3 Motorway, 45 minutes from the centre of London. This development, funded in partnership with The Equitable Life Assurance Society, will comprise four prime office buildings. Marketing of the accommodation will commence closer to the anticipated practical completion date in the summer of this year, although here again, tenant demand has noticeably weakened since the spring of 2001.

DEVELOPMENT – SLOUGH TOWN CENTRE

In December, Development Securities, in partnership with Berkeley Homes, was chosen as the preferred development partner for the regeneration of Slough Town Centre. The initiative, called 'Heart of Slough', entails a potential 1.5 million sq. ft. development on the 29-acre site in the centre of the town. The project will include a mix of housing, office accommodation, library, performance area, enterprise hub and retail space. Once the final contract with Slough Borough Council is executed, a further public consultation process will commence, with the final design of the scheme likely to be the subject of an international architectural design competition.

INVESTMENT AND OPERATING PROPERTY PORTFOLIO

2001 saw an acceleration in the continued restructuring of the portfolio. Capital values increased by £3.2 million overall, which represented an uplift of 2.8 per cent. At the year-end, the initial yield on the investment portfolio was 6.9 per cent rising to 9.2 per cent on reversion to rack rental values. In addition, the valuation uplift of land held for future development amounted to £0.6 million.

The portfolio has increasingly been focused to ensure exposure to those sectors offering outperformance potential. The average number of properties is consistently being reduced to allow increased management emphasis on key assets and to enable easier repositioning through the market cycle. The 46 properties currently held represent a decrease of nearly 50 per cent from three years ago. During 2001, 10 properties were sold for £9.3 million, in line with book values and six properties were acquired for an aggregate consideration of £32.7 million, reflecting an initial yield of 7.25 per cent. By themselves, these purchases generated a net surplus, after costs of acquisition, of £0.6 million. The void rate in the portfolio was reduced to 6 per cent by the end of the financial year.

Three investment properties held at the beginning of the year accounted for £2.3 million of value creation through active

disposals of those properties with limited performance potential and of a small lot size should be expected in the near term. The investment market in 2002 is expected to be challenging, with capital values tending downwards as rental growth cools and, in certain locations, becomes negative. However, any possible decline in capital values will be partially underpinned by the availability of low cost finance. Accordingly, we anticipate that income return will be the main driver in 2002, but we continue to seek new acquisitions with the potential to improve value through further active management. We believe that the market still offers opportunities, but pricing does need to be realistic.

EXECUTIVE COMMUNICATION CENTRES

Executive Communication Centres Limited, our serviced office operation, is establishing itself as a separate profit centre within our Group, contributing £0.25 million profit for 2001. With its own management structure based in Vienna House, adjacent to Birmingham International Airport, it now operates five business units, of which two have achieved maturity.

Its operational strategy distinguishes itself from the major market players in this sector in a number of significant ways. Its target market is just below the top line serviced office providers, offering a four rather than five-star product in centres

management. At Ulster Terrace, London NW1, we took a surrender of the existing lease and simultaneously re-let the accommodation to the Alliance & Leicester for a 19-year term, at a rent over 50 per cent higher than the previous passing rent, achieving 43 per cent capital growth for this particular asset. The Great West Trading Estate, Brentford, acquired in the previous financial year, generated capital growth of 7.5 per cent, equating to £0.7 million. 2001 saw the re-letting of two units on this trading estate at rents over 15 per cent above December 2000 rental values. Finally, at 131 Broadway, Bexleyheath, we completed the letting of the car park to NCP and achieved favourable rent review settlements on the retail units, thereby creating additional value of £0.7 million in 2001.

Our single largest acquisition during the year for £10 million was a 95,000 sq. ft. multi-let office building at the Genesis Centre, Warrington, offering a high income return and considerable lease re-structuring opportunities. We are undertaking a rolling refurbishment programme as accommodation becomes vacant in order to secure re-lettings at improved rental levels.

Last year, we increased our focus on the creation of a portfolio capable of providing above-average performance. There is still work required before this process is finalised and further

that average only 20,000 sq. ft. Consequently, its clients are smaller business concerns that possibly offer more stability of income together with a broader target market, rather than large, multinational organisations amongst whom demand is less easy to predict and risk exposure to any single tenant is possibly greater. The desire to avoid volatility and competitive pressures led Executive Communication Centres to eschew the London market, where the initial excitement was greatest as the sector began to receive a higher profile within the industry.

The rate of growth has been deliberately constrained to one or two centres each year to maximise operational control and limit exposures in this emerging sector. We plan to add a few more centres to the operation as the existing units reach maturity and have no intention at this stage of increasing our exposure to this sector to more than 10 centres. Our experience to date indicates that this business fits well with our core development and investment activities.

The properties occupied by Executive Communication Centres, together with one other property generating license fee income, have been reclassified as operating properties at the year-end with an aggregate value of £9.7 million.



The 200,000 sq. ft. first phase of this prime office development, at Globeside Business Park, Marlow, where three of the four buildings were let and the scheme reached practical completion in 2001.

STEAD & SIMPSON

One of the final challenges inherited from Clayform Properties PLC, the name under which your Company traded for so many years prior to 1993, was its association with Stead & Simpson Limited. This footwear retailing business was formerly a wholly-owned subsidiary of the Group which had traded at significant losses in the first half of the 1990's. In spite of severe competition in this retail sector in recent years, which has witnessed a number of high profile casualties, Stead & Simpson has succeeded, under new management, in arresting its previously declining fortunes and has traded at a breakeven level for the last four years. However, it has become clear that disposal of our remaining interests will take a while to accomplish until that company completes its return to full profitability, enabling our investment to become income-producing. Accordingly, we have made a £3 million provision against our minority, equity interest and loans totalling a combined £3.9 million.

FINANCE

Our financial condition remained strong as gearing levels were increased to a modest 24 per cent by the year-end in anticipation of a general slowdown in economic activity. Resources are available to capitalise on appropriate investment or development acquisitions that might arise. Relationships with our sources of bank finance are sound and maturities in respect of two, largely unutilised, committed lines of credit for £25 million each with HSBC Property Finance and Barclays Bank PLC were extended until 2007 and 2008 respectively. We are cautiously optimistic that cash flow from our development activities will strengthen significantly in 2002 as further development profits are crystallised.



C J Barwick
26th March 2002



M H Marx

PROPERTY PORTFOLIO ANALYSIS

Tenant profile

Government	7.9%
FTSE 100	8.1%
PLC/Nationals	50.3%
Regional Multiples	23.2%
Local Traders	10.5%

Lease profile

0 – 5 years	26.3%
5 – 10 years	19.6%
10 – 15 years	24.7%
15 – 20 years	21.0%
20 years +	8.4%

Location profile

London	20.2%
City	9.1%
West End	13.6%
South East	26.1%
Midlands	1.4%
North	28.4%
Scotland & Wales	1.2%

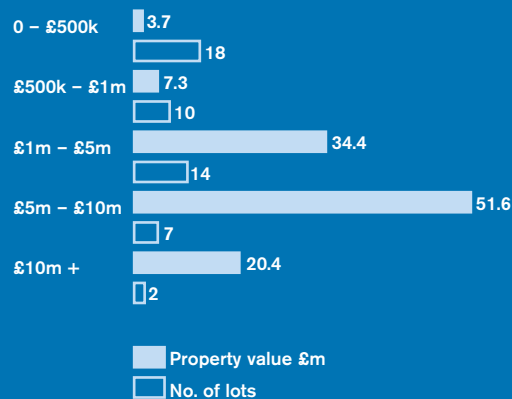
Sector analysis

Office	64.7%
Retail	23.1%
Industrial	12.2%

Tenure profile

Freehold	77.1%
900 years +	1.7%
100 years +	6.3%
0-99 years	14.9%

Lot size



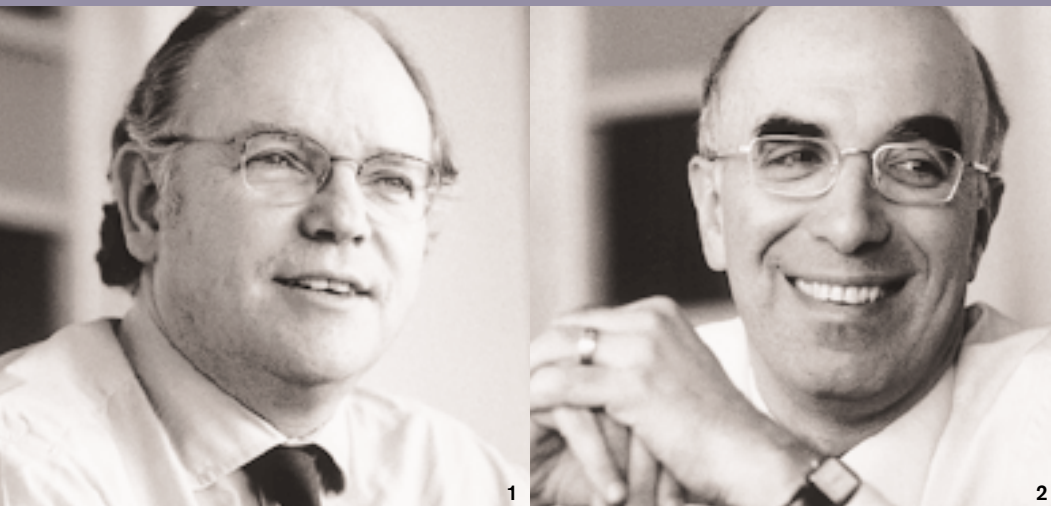
DEBT ANALYSIS

Debt maturity

0-5 years	16.6%
5-10 years	22.7%
10+ years	60.7%

Interest sensitivity

Floating rate	13.2%
Fixed rate	86.8%



1 C J BARWICK

(Aged 48) A Fellow of the Royal Institution of Chartered Surveyors. Joined the Board in May 1998 and was appointed Joint Managing Director in June 2000. Property advisor to the Bedford Estate and Chairman of the Paddington Regeneration Partnership. A member of the Board of Management of the British Council of Offices.

2 M H MARX

(Aged 54) Joint Managing Director and Finance Director. Appointed to the Board in September 1994. A Fellow of the Institute of Chartered Accountants in England and Wales. Non-executive Director of FIBI Bank (UK) PLC. Formerly Finance Director and Commercial Director of Heron International PLC from 1981 to 1994.



3



5



4



6



3 H R JENKINS CBE

(Aged 68) Appointed Chairman in June 1999. Previously Chairman of Thorn PLC. From 1989 to 1995 was an Executive Director of the Prudential Corporation and Chairman and Chief Executive of Prudential Portfolio Managers Limited. Until 1998, was Chairman of the Department of the Environment's Property Advisory Group. Currently a Non-executive Director of EMI Group PLC, Johnson Matthey PLC and Gartmore European Investment Trust PLC.

4 M R LANDAU

(Aged 64) Fellow of the Institute of Chartered Accountants in England and Wales. Following the merger of City Merchant Developers PLC and Imry International PLC in 1988, he became Executive Deputy Chairman of the enlarged Group, until its sale in 1990. From 1993 to 1999 was Executive Deputy Chairman of Development Securities PLC. Currently Non-executive Director of Wilson Connolly Holdings PLC, Managing Director of Continental Estates Corporation BV and a member of the Supervisory Board of MAB Groep BV. In 2000 was co-opted as a Special Trustee to St Bartholomew's Hospital, London.

5 P J WILLIS

(Aged 48) Appointed in May 1995. A senior partner at Knight Frank, being partner in charge of the City Office. Chairman of Knight Frank Continental Group Operations. A Fellow of the Royal Institution of Chartered Surveyors and a Member of the Royal Town Planning Institute.

6 W GRANT

(Aged 64) Appointed in January 1997. Former Partner of the international law firm, Linklaters & Paines. Previously, a Non-executive Director of Development Securities (Investments) PLC.

7 P V S MANDUCA

(Aged 50) Appointed on 1st August 2001. Currently Chief Executive of Rothschild Asset Management Limited. Founding CEO of Threadneedle Asset Management Limited 1995 to 1999 and a Director of Allied Dunbar Assurance Company PLC and Eagle Star Holdings PLC during the same period. Former Director of MEPC PLC 1999 to 2000. A Director of Henderson Smaller Companies Investment Trust PLC and other companies.

The Directors present their annual report and the financial statements of the Group for the year ended 31st December 2001.

PRINCIPAL ACTIVITIES

The principal activities of the Group during the year were property development, investment and trading.

REVIEW OF THE BUSINESS

A review of the Group's operations, the current state of the business and future prospects are contained in the Chairman's statement and Review of operations.

RESULTS AND DIVIDENDS

The profit for the financial year attributable to shareholders amounted to £6,767,000 (2000: £6,464,000). An interim dividend of £423,312 representing 1.5 pence per ordinary share has been paid. The Board recommends a final dividend of 3.0 pence per ordinary share amounting to £846,625 be paid on 3rd July 2002 to shareholders on the register on 31st May 2002.

GROUP STRUCTURE

Details of principal subsidiary undertakings are disclosed on page 38.

SHARE CAPITAL

Three resolutions relating to share capital will be proposed as Special Business at the forthcoming Annual General Meeting. The full text of the resolutions can be found in the enclosed Notice of Annual General Meeting.

Special Resolution 8: The current authority for the Company to purchase its own shares expires at the conclusion of the forthcoming Annual General Meeting. A special resolution is to be proposed at the Annual General Meeting to authorise the purchase of up to 4,205,000 ordinary 50 pence shares, representing approximately 14.9 per cent of the Company's issued share capital. The Directors have no present intention of making any additional market purchases of the Company's shares, but if they considered such action would enhance net assets or earnings per share, they would consider exercising this authority. As at 31st December 2001, the Company has an unexpired authority to repurchase 4,197,000 ordinary shares.

Special Resolution 9: The Directors will seek authority to allot relevant securities pursuant to Section 80 of the Companies Act 1985 up to a maximum aggregate nominal value of £5,329,000 being equal to one-third of the issued ordinary share capital of the Company, together with the number of share options outstanding.

Special Resolution 10: The Directors seek authority to renew the disapplication of shareholders' pre-emptive rights under Section 89 of the Companies Act 1985 up to an aggregate nominal value of £705,521 being equal to 5 per cent of the issued ordinary share capital of the Company.

SHARE OPTION SCHEMES

During the year, options over 183,651 shares were granted under the Executive Share Option Scheme 1995. Further details of the Share Option Schemes are contained on page 43 and in the Remuneration report on pages 47 to 51.

DIRECTORS

The Directors during the year were as follows:

Hugh Royston Jenkins CBE

Michael Henry Marx

Charles Julian Barwick

Martin Richard Landau

Lord Gowrie PC – resigned 19th June 2001

Michael Derek Wigley – resigned 19th June 2001

Paul James Willis

William Grant

Paul Victor Sant Manduca – appointed 1st August 2001

The Directors retiring by rotation at the Annual General Meeting are H R Jenkins and C J Barwick who, being eligible, offer themselves for re-election. P V S Manduca, who joined as a member of the Board during the year, offers himself for election. P J Willis will be stepping down as a Non-executive Director at the Annual General Meeting on 20th May 2002.

REMUNERATION POLICY

The Combined Code on Corporate Governance appended to the Listing Rules of the Financial Services Authority requires boards of companies to consider each year whether the Annual General Meeting should be invited to approve the remuneration policy as disclosed in section 1 of the Remuneration report, presented on pages 47 to 50. The Board has decided to invite shareholders to approve the policy.

DIRECTORS' SERVICE CONTRACTS AND INTERESTS IN THE COMPANY'S SHARES

The unexpired period of Directors' service contracts and the interests of the Directors who were in office as at 31st December 2001 are fully disclosed in the Remuneration report on pages 47 to 51.

OTHER SUBSTANTIAL INTERESTS

At the date of this report, the Directors have been notified of the following interests of 3 per cent or more of the Company's issued share capital:

	Number of Shares	%
Jupiter Asset Management Limited	3,037,839	10.76
Standard Life Group	1,981,217	7.02
T R Property Investment Trust PLC	1,675,000	5.94
Stichting Pensioenfonds ABP	1,305,000	4.62
Fidelity International Limited and Subsidiaries	1,160,746	4.11
Barclays Bank PLC	850,006	3.01
Family Assurance Friendly Society	845,524	3.00

CHARITABLE AND POLITICAL DONATIONS

Charitable donations during the year were £11,700 (2000: £11,800). No political donations were made during the year (2000: £nil).

DISABLED EMPLOYEES

It is the Group's policy to encourage good employment practices with regard to the disabled in accordance with Government recommended guidelines.

ENVIRONMENTAL POLICY

The Group recognises that its business activities, which consist principally of investing in and developing property in the United Kingdom, have both direct and indirect environmental impacts. The Group's aim is to reduce these to a minimum by good management and sound working practices and improve its environmental performance. In doing so, the Group will seek the active co-operation of designers, contractors, occupiers and other interested parties. The Group will implement this policy by identifying a set of key environmental objectives relevant to its activities, setting appropriate targets and conducting regular reviews of progress.

The Environmental Policy is reviewed annually and C J Barwick has overall responsibility for implementing the policy which is formally reported to the Board.

In conjunction with our consultants, Faber Maunsell, significant work has been undertaken during 2001 to review and refine our key environmental objectives, which are:

- to obtain from our principal suppliers their support for our environmental programme;
- to give our key staff all necessary training to deliver our environmental targets;
- to take environmental issues into account in the design and construction of our buildings, which include:
 - reducing energy use in the operation of our buildings whilst maintaining good working conditions for our occupiers;
 - reducing the use of raw materials and generation of waste;
- to address CO₂ emissions associated with travel to work; and
- to undertake development, having regard to local biodiversity.

We remain members of the Property Environmental Group, which annually audits our performance against the environmental targets set.

The 2001 review has demonstrated that we have made solid progress during the year and our overall performance now exceeds the average score for our peer group.

The challenge for 2002 is to consolidate the performance of last year by embedding the process into our day-to-day property activities.

PAYMENT POLICY

Amounts due to suppliers are settled promptly within their terms of payment, except in cases of dispute. The number of creditor days outstanding for the Company at 31st December 2001 was seven days (2000: four days).

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors to the Company and a resolution concerning their re-appointment and remuneration will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors

Signed on its behalf by:

S A Lanes
Secretary
26th March 2002

COMPLIANCE STATEMENT

The Company complied throughout the financial year with the Code provisions set out in section one of the Combined Code except that until 19th June 2001, one Non-executive Director remained unappointed for a fixed term. On this date the Director concerned stood down.

APPLIANCE STATEMENT

The Board, which met eight times during the year, currently consists of two Executive and five Non-executive Directors, the majority of whom are considered to be independent. H R Jenkins CBE, W Grant and P V S Manduca, represent a strong and independent element of the Board. All Directors have access to the services of the Company Secretary and may seek independent professional advice, as necessary, subject to the consent of the Chairman. Upon election, or re-election, Non-executives are invited to serve for three-year fixed terms. Directors may receive appropriate training on introduction and whilst in office. W Grant remained as the senior independent Director throughout the period.

The Board has established a number of Standing Committees, which operate within defined terms of reference laid down by the Board.

- The Audit Committee comprises H R Jenkins CBE as Chairman, M R Landau and W Grant. M D Wigley resigned as a member of the Committee on 19th June 2001.
- The Nominations Committee comprises H R Jenkins CBE as Chairman, W Grant and M H Marx.
- The Remuneration Committee comprises W Grant as Chairman and P V S Manduca. M D Wigley resigned from the Committee on 19th June 2001 and P V S Manduca was appointed on 1st August 2001. The Committee is authorised to determine remuneration policy, including the exercise of powers to grant options under the Group's option schemes to the Executive Directors and senior management and to determine the annual bonus, special discretionary bonus, ad hoc bonuses for exceptional contributions and awards under the Long Term Incentive Plan. The Remuneration report to shareholders can be found on pages 47 to 51.
- The Approvals Committee comprises M H Marx, C J Barwick and a minimum of any two Non-executive Directors. Its remit is to permit the approval of certain transactions below £5 million, which are then reported to the Board at its next meeting.

The Executive Directors have regular dialogue with institutional shareholders. The Company's Annual General Meeting provides an opportunity to respond to shareholders' appropriate questions. Directors are introduced to shareholders at the Annual General Meeting, including the identification of Non-executives and Committee Chairmen.

INTERNAL CONTROL

The Directors acknowledge their responsibility for the Group's system of internal control and for reviewing its effectiveness. The risk review process is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has conducted a review of the effectiveness of the system of internal control by means of a thorough risk assessment of the business, identifying risks, their potential impact, likelihood of occurrence, controls and mitigating actions, together with early warning systems and further actions which need to be implemented. The regular process of identifying, evaluating and managing the significant risks has been delegated by the Board to a Risk Committee, consisting of M H Marx as Chairman, C J Barwick and R H Pearse, the Managing Director of the Company's principal development subsidiary. The Committee met four times during the year to ensure that the risk control procedures are further embedded within the culture of the Company. The minutes of the Committee's deliberations are reviewed by the Board.

As a minimum, the Audit Committee meets twice during each financial period. It monitors the adequacy of the Group's internal controls, accounting policies and financial reporting and provides a forum through which the Group's external auditors report to the Non-executive Directors.

The Board has adopted a schedule of matters reserved for its decision which includes the level of individual transactions which are approved by the Board and those which may be delegated. The roles and remit of the Chairman and Joint Managing Directors are defined.

The Board has considered the need for an internal audit function, but has resolved that, due to the size of the Company, this cannot be justified at present. The Board will review this decision next year.

The Board has conducted a review of the effectiveness of the system of internal control for the year ended 31st December 2001 and to the date of this report and considers that there is an ongoing process in place for identifying, evaluating and managing the Group's significant risks, that it has operated for the year ended 31st December 2001 and up to the date of approval of these financial statements, that it is regularly reviewed by the Board and that it accords with the internal control guidance for Directors on the Combined Code.

GOING CONCERN

The Directors, having made enquiries, have a reasonable expectation that the Company and the Group have adequate resources to continue in operation for the foreseeable future, and that it is appropriate to adopt the going concern basis in preparing the financial statements. This statement also forms part of the Review of operations on pages 8 to 16.

Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that year. In preparing those financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Group and for the prevention and detection of fraud and other irregularities.

By order of the Board

S A Lanes
Secretary
26th March 2002

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS
OF DEVELOPMENT SECURITIES PLC

We have audited the financial statements of Development Securities PLC for the year ended 31st December 2001 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS
AND AUDITORS

As described in the Statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards, and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Directors' report and the other information contained in the Annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December 2001 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

DELOITTE & TOUCHE

Chartered Accountants and Registered Auditors
26th March 2002
Hill House
1 Little New Street
London EC4A 3TR

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Consolidated profit and loss account for the year ended 31st December 2001

	Notes	2001 £'000	2000 £'000
Turnover	2	35,849	39,145
Direct costs	2	(11,520)	(19,755)
Gross profit	2	24,329	19,390
Operating expenses	2	(7,200)	(7,225)
Exceptional item	2	(3,000)	–
Operating profit	2	14,129	12,165
(Loss)/profit on disposal of fixed assets		(110)	247
Profit on ordinary activities before interest		14,019	12,412
Net interest payable	4	(3,867)	(2,383)
Profit on ordinary activities before taxation		10,152	10,029
Tax on profit on ordinary activities	5	(3,385)	(3,565)
Profit on ordinary activities after taxation		6,767	6,464
Dividends on equity shares	6	(1,269)	(2,562)
Retained profit for the year	18	5,498	3,902
Earnings per share	7	24.0p	23.1p
Diluted earnings per share	7	23.6p	22.8p

All turnover and profits derive from continuing operations.

Consolidated balance sheet 31st December 2001

	Notes	£'000	2001 £'000	£'000	2000 £'000
Fixed assets					
Investment properties	8	115,311		91,092	
Operating properties	8	9,750		–	
Other tangible assets	9	4,237		3,804	
Investments	10	965		1,995	
			130,263		96,891
Current assets					
Land, developments and trading properties	11	9,512		12,509	
Debtors	12	35,992		26,409	
Cash at bank and in hand		45,197		52,630	
			90,701		91,548
Creditors: amounts falling due within one year	13	(29,703)		(14,944)	
Net current assets			60,998		76,604
Total assets less current liabilities			191,261		173,495
Creditors: amounts falling due after more than one year					
Borrowings	14		(71,996)		(63,820)
Net assets			119,265		109,675
Financed by:					
Capital and reserves					
Called up share capital	16		14,110		13,953
Share premium account	17		61,692		61,538
Revaluation reserve	17		1,959		(2,101)
Other reserves	17		45,299		45,299
Profit and loss account – deficit	18		(3,795)		(9,014)
Total equity shareholders' funds			119,265		109,675
Net assets per share	7		423p		393p
Diluted net assets per share	7		417p		384p

Approved by the Board of Directors on 26th March 2002
and signed on its behalf

M H Marx
Director

Balance sheet 31st December 2001

	Notes	£'000	2001 £'000	£'000	2000 £'000
Fixed assets					
Investment properties	8	2,941		1,900	
Other tangible assets	9	907		1,078	
Investments	10	55,183		56,213	
			59,031		59,191
Current assets					
Debtors	12	135,338		126,142	
Cash at bank and in hand		1,133		123	
		136,471		126,265	
Creditors: amounts falling due within one year	13	(99,399)		(94,198)	
Net current assets			37,072		32,067
Net assets			96,103		91,258
Financed by:					
Capital and reserves					
Called up share capital	16		14,110		13,953
Share premium account	17		61,692		61,538
Investment property revaluation reserve	17		730		(95)
Capital redemption reserve	17		1,111		1,111
Profit and loss account	18		18,460		14,751
Total equity shareholders' funds			96,103		91,258

Approved by the Board of Directors on 26th March 2002
and signed on its behalf

M H Marx
Director

Consolidated cash flow statement for the year ended 31st December 2001

	Notes	2001 £'000	2000 £'000
Cash inflow/(outflow) from operating activities	22	25,988	(6,218)
Returns on investment and servicing of finance	23	(3,891)	(3,416)
Taxation		(4,030)	(3,643)
Capital expenditure and financial investment	23	(31,500)	32,003
Equity dividends paid		(2,606)	(1,071)
Cash (outflow)/inflow before financing		(16,039)	17,655
Financing:	23		
Issue of new shares		804	464
Repayment of debt		(1,284)	(7,843)
Proceeds from new borrowings		9,134	–
Decrease/(increase) in pledged cash		13,137	(29,332)
Increase/(decrease) in cash in the year	24	5,752	(19,056)

Reconciliation of net cash flow to movement in net debt for the year ended 31st December 2001

	Notes	2001 £'000	2000 £'000
Increase/(decrease) in cash in the year		5,752	(19,056)
Cash outflow from reduction in debt		1,284	7,843
Cash inflow from new borrowings		(9,134)	–
Cash (inflow)/outflow from movement in pledged cash		(13,137)	29,332
Change in net debt resulting from cash flow		(15,235)	18,119
Non cash adjustment		(193)	–
Movement in net debt in the year		(15,428)	18,119
Net debt at 1st January		(13,217)	(31,336)
Net debt at 31st December	24	(28,645)	(13,217)

Statement of total recognised gains and losses for the year ended 31st December 2001

	2001 £'000	2000 £'000
Profit on ordinary activities after taxation	6,767	6,464
Unrealised surplus on revaluation of property portfolio	3,781	45
Total recognised gains for the financial year	10,548	6,509

Note of historical cost profits and losses for the year ended 31st December 2001

	2001 £'000	2000 £'000
Profit on ordinary activities before taxation as reported	10,152	10,029
Revaluation deficit realised on disposals	(279)	(5,976)
Historical cost profit on ordinary activities before taxation	9,873	4,053
Historical cost profit/(loss) for the year after taxation and dividends	5,219	(2,074)

Reconciliation of movement in total equity shareholders' funds for the year ended 31st December 2001

	2001 £'000	2000 £'000
Profit on ordinary activities after taxation	6,767	6,464
Dividends on equity shares	(1,269)	(2,562)
Retained profit for the financial year	5,498	3,902
Purchase of own shares	–	(902)
Issue of new shares	311	773
Surplus on revaluation of property portfolio	3,781	45
Net movement in total equity shareholders' funds	9,590	3,818
Opening total equity shareholders' funds	109,675	105,857
Closing total equity shareholders' funds	119,265	109,675

1. ACCOUNTING POLICIES

a) Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention as modified by the revaluation of the investment property portfolio and certain other properties.

b) Basis of consolidation

The consolidated financial statements comprise those of the Company and its subsidiaries. The results of subsidiaries acquired during the year are included from the effective date of acquisition. Goodwill arising on the acquisition of subsidiaries before 1998 was written off directly against reserves in the year of acquisition.

c) Turnover

Turnover, which excludes value added tax, represents:

- i) the sale proceeds of trading properties, undeveloped land and buildings units sold during the year;
- ii) rental income from investment and operating properties;
- iii) development profits; and
- iv) project management fee income.

d) Joint arrangements and joint ventures

A joint venture is defined as an undertaking other than a subsidiary or associated undertaking in which the Group has significant influence and which is jointly controlled by joint venturers. The Group's share of the post acquisition results of joint ventures is shown in the consolidated profit and loss account. Investments in joint ventures are included in the consolidated balance sheet at cost plus the appropriate share of post-acquisition results and reserves as disclosed in the latest available financial information. The Group accounts for its joint arrangements by including its share of individual items of assets, liabilities and cash flows according to the terms of the agreement governing those arrangements.

e) Investment properties

- i) Investment properties are revalued each year by independent professional valuers on the basis of an open market valuation. Any surpluses and deficits are transferred directly to revaluation reserve. Impairments to investment properties are charged to the profit and loss account.
- ii) Profits and losses on disposal of investment properties are calculated by reference to book value.
- iii) In the light of the policy on revaluations no depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years to run. This treatment, as regards certain of the Group's investment properties, may be a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the Directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the accounts to give a true and fair view. Depreciation or amortisation is only one of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.
- iv) Investment properties in the course of development are stated at cost less provisions for any foreseeable losses. Cost includes capitalised net outgoings, including interest, up to the date of completion.

f) Operating properties

Operating properties are those properties classified as being held for business purposes rather than for investment. These properties are revalued each year by independent, professional valuers on the basis of Existing Use Value. Surpluses and deficits are transferred directly to revaluation reserve. Depreciation is provided where material. Impairments to operating properties are charged to the profit and loss account.

g) Depreciation of fixed assets

Depreciation is provided so as to write off the cost less estimated residual value of fixed assets over their expected useful lives.

The principal annual rates used for this purpose are as follows:

Operating properties	–	4%
Fixtures and fittings	–	10% to 33%
Motor vehicles	–	20%

h) Land, developments in progress and trading properties

Land, developments in progress and properties held as trading assets, are valued at the lower of cost and estimated net realisable value. The cost of property developments includes net outgoings and attributable interest, up to the date of completion, where the development period exceeds one year, or where financing costs represent a substantial element of the eventual cost of sale.

No profit on long-term developments is recognised until the development is substantially complete and profit is recognised only where the outcome of the development can be determined with reasonable certainty. Full provision is made for foreseeable losses as soon as such losses are identified.

i) Deferred tax

Provision is made on the liability method for deferred tax resulting from short-term timing differences between profits computed for tax purposes and those computed for accounts purposes. Provision is made for other timing differences only where a liability is expected to arise in the foreseeable future.

j) Investment in subsidiaries

The shares in subsidiaries shown as fixed assets in the balance sheet of the Company are included at cost, less any deficits arising from diminutions considered to be permanent, which are charged to the profit and loss account. Where subsidiaries are held for resale, they are classified as current asset investments and are stated at the lower of cost and net realisable value.

k) Pension schemes

The charge to the profit and loss account in the period represents the actual amount paid to the scheme.

l) Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Exchange movements are dealt with in the profit and loss account.

2. 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 turnover of £707,000 (2000: £nil) and direct costs of £838,000 (2000: £197,000) in respect of a development property in France.

b) Analysis of gross profit

	Turnover £'000	Direct costs £'000	2001 Gross profit £'000	Turnover £'000	Direct costs £'000	2000 Gross profit £'000
Rental income	9,174	(2,235)	6,939	7,606	(1,885)	5,721
Project management fee income	1,681	–	1,681	1,354	–	1,354
Land, developments and trading properties	24,994	(9,285)	15,709	30,185	(17,870)	12,315
	35,849	(11,520)	24,329	39,145	(19,755)	19,390

c) Operating profit

	2001 £'000	2000 £'000
The operating profit is stated after charging:		
Depreciation	588	483
Impairment	1,000	500
– equity investment		
– loans	2,000	–
Operating leases in respect of land and buildings	309	226
Auditors' remuneration	101	100
– current year		
– prior year	35	–

Auditors' remuneration in respect of non-audit work amounted to £88,000 (2000: £94,500).

d) Exceptional item

The exceptional item of £3,000,000 represents an impairment in the book value of the equity investment in, and the majority of the loans to, Stead & Simpson Group Limited, arising from a Directors' evaluation of the amounts recoverable from this investment and associated loans which, prior to such provision for impairment, were stated at an aggregate of £3,883,000. The taxation effect of the exceptional item, included in the tax on profit on ordinary activities for the year, is a credit of £300,000.

e) Analysis of net assets

	2001 £'000	2000 £'000
Property	119,265	109,675

Net assets are all in the United Kingdom except £1,021,000 (2000: £1,786,000) in respect of a development property in France and £915,000 (2000: £985,000) in respect of an associated company incorporated and registered in the Netherlands (refer note 10(b)).

3. EMPLOYEE INFORMATION**Staff costs including Directors:**

	2001 £'000	2000 £'000
Wages and salaries	3,845	3,585
Social security	464	427
Other pension costs	313	283
	4,622	4,295

Average weekly number of employees, including Directors, during the year:

	2001 Number	2000 Number
Property development and investment	37	33
Serviced office and license fee operations	36	23
	73	56

Details of Directors' remuneration, share options and pension contributions are set out in the Remuneration report and form part of the audited financial statements.

4. NET INTEREST PAYABLE

	2001 £'000	2000 £'000
Interest on bank loans and other borrowings	4,829	4,796
Other loans and overdrafts	2,200	2,200
Share of interest payable in joint venture	70	40
Capitalised interest	(776)	(1,202)
	6,323	5,834
Interest receivable	(2,456)	(3,451)
	3,867	2,383

Capitalised interest in the amount of £1,216,000 (2000: £1,589,000) was written off in the year against gross profit.

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2001 £'000	2000 £'000
Corporation tax on income at 30% (2000: 30%)	3,540	2,932
Adjustment in respect of prior years	145	–
Deferred taxation	(300)	633
	3,385	3,565

6. DIVIDENDS

	2001 £'000	2000 £'000
Interim paid: 1.5p per share (2000: 1.35p)	423	378
Proposed final: 3.0p per share (2000: 2.75p)	846	775
Special dividend: nil per share (2000: 5.0p)	–	1,409
	1,269	2,562

7. EARNINGS AND NET ASSETS PER SHARE

a) Earnings per share and diluted earnings per share, based on the profit on ordinary activities after taxation of £6,767,000 (2000: £6,464,000), have been calculated as follows:

	Earnings £'000	Weighted average no. '000	2001 Earnings per share pence	Earnings £'000	Weighted average no. '000	2000 Earnings per share pence
Basic	6,767	28,186	24.0	6,464	27,994	23.1
Effect of dilutive shares	–	393	–	–	364	–
Diluted	6,767	28,579	23.6	6,464	28,358	22.8

b) Net assets per share and diluted net assets per share have been calculated as follows:

	Net assets £'000	No. of shares '000	2001 Net assets per share pence	Net assets £'000	No. of shares '000	2000 Net assets per share pence
Net assets	119,265	28,221	423.0	109,675	27,906	393.0
Effect of dilutive shares	3,683	1,251	–	5,170	2,035	–
Diluted	122,948	29,472	417.0	114,845	29,941	384.0

8. INVESTMENT AND OPERATING PROPERTIES

a) Group – investment properties

	Freehold £'000	Long leasehold £'000	Total £'000
At valuation 1st January 2001	70,579	20,513	91,092
Additions	33,785	7,498	41,283
Disposals	(11,095)	–	(11,095)
Reclassification to operating properties	(8,870)	(1,500)	(10,370)
Surplus on revaluation	3,016	1,385	4,401
At valuation 31st December 2001	87,415	27,896	115,311
Original cost of investment properties	106,953	24,127	131,080

b) Group – operating properties

	Freehold £'000	Long leasehold £'000	Short leasehold £'000	Total £'000
Reclassification from investment properties	8,870	1,500	–	10,370
(Deficit)/surplus on revaluation	(1,970)	(150)	1,500	(620)
At valuation 31st December 2001	6,900	1,350	1,500	9,750
Original cost of operating properties	9,693	1,231	–	10,924

c) Company – investment properties

	Long leasehold £'000
At valuation 1st January 2001	1,900
Additions	216
Surplus on revaluation	825
At valuation 31st December 2001	2,941
Original cost of investment properties	2,211

The Group's investment properties include freehold land and developments in progress held at Directors' valuation in the amount of £11,042,000 (2000: £16,134,000) and capitalised interest of £2,144,000 (2000: £2,195,000). The investment properties have been valued as at 31st December 2001 by External Valuers: DTZ Debenham Tie Leung, Chartered Surveyors, and NAI Gooch Webster, Chartered Surveyors, on the basis of Open Market Value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

The Group's operating properties have been valued as at 31st December 2001 by External Valuers: DTZ Debenham Tie Leung, Chartered Surveyors, and NAI Gooch Webster, Chartered Surveyors, on the basis of Existing Use Value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

In view of the potential significance of the Group's serviced office provider, Executive Communication Centres Limited, certain properties have been reclassified as operating properties as at 31st December 2001. In addition, operating properties include a property generating license fee income. If this reclassification had been effected at 31st December 2000, £10,150,000 of investment properties would have been classified as operating properties at that date.

9. OTHER TANGIBLE ASSETS

a) Group

	Fixtures and fittings £'000	Motor vehicles and other tangible assets £'000	Total £'000
Cost:			
At 1st January 2001	4,241	857	5,098
Additions	1,157	140	1,297
Disposals	(217)	(243)	(460)
At 31st December 2001	5,181	754	5,935
Depreciation:			
At 1st January 2001	1,005	289	1,294
Charge for the year	475	113	588
Disposals	(60)	(124)	(184)
At 31st December 2001	1,420	278	1,698
Net book value 31st December 2001	3,761	476	4,237
Net book value 31st December 2000	3,236	568	3,804

b) Company

	Fixtures and fittings £'000	Motor vehicles and other tangible assets £'000	Total £'000
Cost:			
At 1st January 2001	1,184	614	1,798
Additions	68	140	208
Disposals	(32)	(243)	(275)
At 31st December 2001	1,220	511	1,731
Depreciation:			
At 1st January 2001	531	189	720
Charge for the year	133	113	246
Disposals	(18)	(124)	(142)
At 31st December 2001	646	178	824
Net book value 31st December 2001	574	333	907
Net book value 31st December 2000	653	425	1,078

10. INVESTMENTS**a) Group**

	Interests in joint ventures £'000	Other investments £'000	Total £'000
Cost and share of post acquisition reserves:			
At 1st January 2001	995	1,000	1,995
Additions	40	–	40
Impairment (refer note 2(d))	–	(1,000)	(1,000)
Share of loss in joint ventures	(70)	–	(70)
At 31st December 2001	965	–	965

b) Company

	Shares in subsidiary undertakings £'000	Interests in joint ventures £'000	Other investments £'000	Total investments £'000
Cost and share of post acquisition reserves:				
At valuation 1st January 2001	54,218	995	1,000	56,213
Additions	–	40	–	40
Impairment (refer note 2(d))	–	–	(1,000)	(1,000)
Share of loss in joint ventures	–	(70)	–	(70)
At 31st December 2001	54,218	965	–	55,183

Interests in joint ventures comprise £915,000 invested in the loan stock of Continental Estates Corporation BV, together with a 29 per cent interest in the equity of that company. The Directors consider that the Group's share of the assets and liabilities of that company is not material. Continental Estates Corporation BV is incorporated and registered in the Netherlands. The company's principal activity is currently as an investment holding company. The balance of interests in joint ventures of £50,000 comprises 50 per cent of the ordinary share capital of Re-gen.com, a company incorporated in Great Britain and registered in England and Wales. The company's principal activity is property investment and development.

The balance of other investments of the Group and the Company at 1st January 2001 represents 19.9 per cent of the ordinary share capital and 524,126 preference shares of £1 each in Stead & Simpson Group Limited, a company incorporated in Great Britain and registered in England and Wales (refer note 2(d)).

c) Principal subsidiary undertakings

The following principal subsidiary undertakings at 31st December 2001, which are incorporated in Great Britain, registered in England and Wales and operate in the United Kingdom are:

	% holding in ordinary shares at 31.12.01	Principal activity
Birmingham International Park (2000) Limited*	100	Property Development
Development Securities (Paddington) Limited*	100	Property Development
DS Property Developments Limited*	100	Property Development
Development Securities Estates PLC*	100	Property Investment
Development Securities (Investments) PLC	100	Property Investment

* indirectly held

11. LAND, DEVELOPMENTS AND TRADING PROPERTIES

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Land	–	–	–	–
Developments in progress	5,866	9,701	–	–
Trading properties	3,646	2,808	–	–
	9,512	12,509	–	–

Land, developments in progress and trading properties are stated at the lower of cost and estimated net realisable value. The total above includes interest capitalised in the amount of £ nil (2000: £1,664,000).

12. DEBTORS

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Trade debtors	16,250	2,963	66	31
Amounts owed by subsidiary undertakings	–	–	132,260	121,537
Other debtors	18,159	22,322	2,071	3,220
Other tax recoverable	–	–	–	914
Deferred tax	480	180	480	180
Prepayments	1,103	944	461	260
	35,992	26,409	135,338	126,142

Included within deferred tax is an asset of £300,000 (2000: £108,000), recoverable after more than one year, relating to a provision previously disallowed for tax purposes. Trade debtors include recoverable development expenditure of £12,300,000 (2000: £1,182,000). Other debtors includes accrued development profits of £8,372,000 (2000: £10,495,000).

13. CREDITORS: amounts falling due within one year

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Bank loans and overdrafts	1,830	2,011	94	257
Loan notes	16	16	16	16
Trade creditors	11,665	495	49	3
Amounts owed to subsidiary undertakings	–	–	96,432	89,716
Other creditors	1,585	1,061	234	10
Corporation tax	1,866	2,220	138	353
Other tax and social security	2,754	38	709	415
Accruals and deferred income	9,141	6,920	881	1,245
Proposed dividend	846	2,183	846	2,183
	29,703	14,944	99,399	94,198

Bank loans, loan notes and overdrafts are secured by way of mortgages and legal charges on certain properties and cash deposits owned by the Group. Trade creditors include recoverable development expenditure of £11,400,000 (2000: £437,000).

14. CREDITORS: amounts falling due after more than one year

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
First mortgage debenture 11% due 2016	20,000	20,000	–	–
Bank loans	51,996	43,820	–	–
	71,996	63,820	–	–

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

Bank loans, loan notes and overdrafts included in notes 13 and 14, totalling £9,730,000 (2000: £645,000), attract variable rates of interest based on LIBOR/base rate in the range +1.0 per cent to +1.1 per cent and £64,112,000 (2000: £65,202,000) attract fixed rates between 7.13 per cent and 11 per cent.

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Analysis of borrowings by date of repayment:				
Less than 1 year	1,846	2,027	110	273
Between 1 and 2 years	1,092	1,123	–	–
Between 2 and 5 years	10,611	11,582	–	–
After 5 years	60,293	51,115	–	–
	73,842	65,847	110	273

Cash in the amount of £21,589,000 (2000: £34,726,000) is held on deposit as security against the above borrowings and facilities. Borrowings due for repayment after five years include £10,542,000 (2000: £15,491,000) repayable by instalments.

FINANCE REVIEW**Summary**

The Group's financial instruments other than trade debtor and creditor balances arising from its operations comprise borrowings, cash resources and equity investments. Monetary assets and liabilities other than certain equity investments are denominated in sterling.

The Group's net borrowings at 31st December 2001 were £28,645,000 (2000: £13,217,000). Cash balances were £45,197,000 (2000: £52,630,000), of which £21,589,000 (£2000: £34,726,000) was pledged as security against those borrowings. Undrawn, committed revolving credit facilities were £48,866,000 (2000: £84,000,000).

The increase in net borrowings as at 31st December 2001 largely reflects net cash receipts from development projects less acquisition costs for investment properties.

Financing and interest rate strategy

The Group's investment portfolio is mainly financed with fixed-rate debt facilities, matching debt service costs with cash flow from rental income. Where appropriate, interest rate swaps have been used to hedge the Group's exposure to short-term fluctuations in interest rates on floating rate debt.

The Group seeks to pre-fund and pre-let appropriate projects in line with its risk averse development strategy. Elsewhere, the Group's own development project finance is arranged by way of internally generated cash resources and medium-term, revolving credit facilities which provide the necessary flexibility to draw down funds when required.

Fixed and floating rate liabilities and financial assets as at 31st December 2001 are analysed as:

	2001 £ million	Weighted average interest rate %	Weighted average debt maturity Years	2000 £ million	Weighted average interest rate %	Weighted average debt maturity Years
Fixed rate debt	64.1	9.2	11.9	65.2	9.1	11.5
Floating rate debt	9.7	5.0	5.6	0.6	7.0	–
Gross debt	73.8	8.7	11.3	65.8	9.0	11.5
Cash balances	(45.2)	4.0	–	(52.6)	5.7	–
Net debt	28.6	–	–	13.2	–	–
Undrawn facilities	48.9	5.3	6.1	84.0	7.0	4.4
	77.5	7.3	8.3	97.2	8.0	7.5

Valuation of financial assets and liabilities

A valuation was carried out as at 31st December 2001 by J C Rathbone Associates Limited, to calculate the market value of the Group's fixed-rate debt on a replacement basis, taking into account the difference between fixed interest rates for the Group's borrowings and the market value and prevailing interest rate of appropriate debt instruments as a fair value adjustment. Whilst the replacement basis provides a consistent method for valuation of fixed-rate debt, such financing facilities are in place to provide continuing funding for the Group's activities. The valuation is therefore only an indication of a notional effect on the net asset value of the Group as at 31st December 2001 and may be subject to daily fluctuations in line with money market movements.

The debt valuation as at 31st December 2001 is analysed as:

	Book value 31 December 2001 £'million	Fair value 31 December 2001 £'million	Fair value adjustment 31 December 2001 £'million	Fair value adjustment 28 February 2002 £'million
Fixed rate mortgage facilities	44.1	49.1	5.0	5.2
Interest rate swap	–	0.2	0.2	0.2
First mortgage debenture 11% due 2016	20.0	26.7	6.7	7.0
Total fixed-rate liabilities	64.1	76.0	11.9	12.4

The fair value adjustment of £11,938,000 at 31st December 2001 (2000: £13,100,000) represents 18.6 per cent of gross, fixed-rate borrowings (2000: 20.1 per cent). The effect on net assets per share after tax of this adjustment would be a decrease of 29.6 pence (2000: 32.9 pence). As at 28th February 2002, the fair value adjustment was £12,419,000, equivalent to a decrease in net assets per share of 30.8 pence after tax. The Directors consider that the fair value of other remaining financial assets and liabilities is not materially different to their book values as at 31st December 2001.

Debt maturity

The maturity profile of the Group's borrowings is set out above in this note. Of the total of £48,866,000 of currently undrawn credit facilities, £8,100,000 expire before 2006, with the remaining £40,766,000 in 2007 and 2008.

Gearing

Gearing, measured as net debt to shareholders' funds, has increased to 24.0 per cent (2000: 12.0 per cent) as at 31st December 2001.

Currency risk

The Group does not undertake significant trade overseas, but does hold certain investments denominated in foreign currencies. Details of these investments are set out in notes 2 and 10. The currency exposure arising from these investments is not considered to materially affect the Group's operations and is not subject to hedging arrangements.

15. PROVISIONS FOR LIABILITIES AND CHARGES

There are no unprovided deferred tax assets or liabilities in the Group. The deferred tax asset provided is analysed in note 12.

16. CALLED UP SHARE CAPITAL

	2001 £'000	2000 £'000
Authorised:		
37,000,000 ordinary shares of 50p (2000: 37,000,000 ordinary shares of 50p)	18,500	18,500
Issued, called up and fully paid:		
28,220,829 ordinary shares of 50p (2000: 27,905,829 ordinary shares of 50p)	14,110	13,953
		Number of shares
Shares in issue at the date of this report		28,220,829

During the year, £803,825 was received following the allotment of 315,000 ordinary shares as a consequence of the exercise of share options.

Share option schemes:

As at 31st December 2001 and at the date of this report the options outstanding under the Company's share option schemes were exercisable as follows (price stated in pence per share):

1985 Share option scheme:

Date of grant	Number 31.12.01	Number 26.03.02	Exercise dates	Price
7th April 1994	24,500	24,500	7th April 1997 to 6th April 2004	322.5
12th October 1994	216,000	216,000	12th October 1997 to 11th October 2004	250.0
	240,500	240,500		

Executive share option scheme 1995:

Date of grant	Number 31.12.01	Number 26.03.02	Exercise dates	Price
6th June 1996	30,000	30,000	6th June 1999 to 5th June 2006	190.5
19th May 1997	37,500	37,500	19th May 2000 to 18th May 2007	250.0
21st May 1998	70,000	70,000	21st May 2001 to 20th May 2008	328.5
26th May 1998	214,395	214,395	26th May 2001 to 25th May 2008	326.5
27th March 2001	58,651	58,651	27th March 2004 to 26th March 2011	341.0
30th April 2001	125,000	125,000	30th April 2004 to 29th April 2011	400.5
	535,546	535,546		

Savings related share option scheme 1995:

Date of grant	Number 31.12.01	Number 26.03.02	Exercise dates	Price
6th May 1997	33,970	33,970	1st June 2002 to 30th November 2002	196.0
7th June 1999	21,495	21,495	1st July 2002 to 31st December 2002	210.5
14th November 2000	28,317	28,317	1st December 2003 to 31st May 2004	233.5
	83,782	83,782		

Option scheme 1993:

Date of grant	Number 31.12.01	Number 26.03.02	Exercise dates	Price
26th November 1998	900†	900†	26th November 2001 to 25th November 2008	211.5

† with a cash bonus limit of £6,016

In addition the following have been granted outside of the share option schemes:

Date of grant	Number 31.12.01	Number 26.03.02	Exercise dates	Price
27th July 1993	140,000	140,000	27th July 1996 to 26th July 2003	350.0
10th April 1997	250,000	250,000	10th April 2000 to 9th April 2007	245.0
	390,000	390,000		

17. RESERVES**a) Group**

	Share premium account £'000	Investment property revaluation reserve £'000	Other property revaluation reserve £'000	Capital redemption reserve £'000	Capital reserve £'000
At 1st January 2001	61,538	(2,475)	374	1,111	44,188
Issue of new shares	646	–	–	–	–
Adjustment in respect of shares issued	(492)	–	–	–	–
Net surplus/(deficit) on revaluation of properties	–	3,801	(20)	–	–
Revaluation deficit realised on disposal of properties	–	279	–	–	–
At 31st December 2001	61,692	1,605	354	1,111	44,188

The cumulative goodwill written off at 31st December 2001 is £5,301,000 (2000: £5,301,000). This goodwill was eliminated against reserves in accordance with the Group's accounting policy prior to 1998.

b) Company

	Share premium account £'000	Investment property revaluation reserve £'000	Capital redemption reserve £'000
At 1st January 2001	61,538	(95)	1,111
Issue of new shares	646	–	–
Adjustment in respect of shares issued	(492)	–	–
Net surplus on revaluation of investment properties	–	825	–
At 31st December 2001	61,692	730	1,111

18. PROFIT AND LOSS ACCOUNT

	Group £'000	Company £'000
At 1st January 2001	(9,014)	14,751
Revaluation deficit realised on disposal of properties	(279)	–
Retained profit for the year	5,498	3,709
At 31st December 2001	(3,795)	18,460

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented.

The profit after tax of the Company was £4,978,000 (2000: £453,000).

19. FINANCIAL COMMITMENTS

Financial commitments authorised and commitments not provided for in these financial statements are estimated at:

	2001 £'000	2000 £'000
Financial commitments	15,723	16,728
Annual commitments in respect of operating leases expiring after more than five years	550	226

20. CONTINGENT LIABILITIES

Performance bonds of Group companies are guaranteed by banks in favour of third parties for a total of £429,935 (2000: £201,935). The due performance of obligations under various leases entered into by Group companies, expiring subsequent to 2015, amount to £1,757,000 per annum (2000: £1,743,000). The net present value after tax of estimated negative cash flows over the term of certain leases to Stead & Simpson Limited amounted to £2,800,000 at 31st December 2001. Obligations in respect of a guarantee for the provision of finance to Stead & Simpson Group Limited amounted to £2,118,000 (2000: £2,118,000) (refer note 10(b)).

21. PENSION SCHEME

The Company operates a defined contribution scheme for Directors and employees. Monthly premiums are invested in an independent insured fund. The amounts charged to the profit and loss account during the year are set out in note 3.

22. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 £'000	2000 £'000
Operating profit	14,129	12,165
Provision against investment and loans	3,000	–
Loss on disposal of tangible fixed assets	50	–
Decrease in developments and trading properties	3,700	2,076
Increase in debtors	(12,264)	(16,645)
Increase/(decrease) in creditors	16,733	(4,257)
Depreciation charges	588	483
Other items – non cash	52	(40)
	25,988	(6,218)

23. ANALYSIS OF CASH FLOW FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	2001 £'000	2001 £'000	2000 £'000	2000 £'000
Returns on investment and servicing of finance				
Interest received	3,068		3,098	
Interest paid	(6,959)		(6,514)	
Net cash outflow for returns on investment and servicing of finance		(3,891)		(3,416)
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(1,448)		(1,728)	
Receipts from sale of tangible fixed assets	113		–	
Receipts from sale of investment properties	9,827		49,043	
Purchase of investment properties	(39,992)		(15,312)	
Net cash (outflow)/inflow from capital expenditure and financial investment		(31,500)		32,003
Financing				
Issue of shares	804		464	
Debt due within one year				
– repayment of secured loan	(1,284)		(387)	
– decrease/(increase) in pledged cash	13,137		(29,332)	
Debt due beyond one year				
– new secured loan repayable in 2007	9,134		–	
– repayment of secured loan	–		(7,430)	
Capital element of finance lease payments	–		(26)	
Net cash inflow/(outflow) from financing		21,791		(36,711)

24. ANALYSIS OF NET DEBT

	Balance at 1 January 2001 £'000	Cash flow £'000	Other non-cash changes £'000	Balance at 31 December 2001 £'000
Cash at bank and in hand	17,904	5,704	–	23,608
Bank overdraft	(878)	48	–	(830)
		5,752		
Debt falling due within one year	(1,149)	1,284	(1,151)	(1,016)
Debt falling due after more than one year	(63,820)	(9,134)	958	(71,996)
Pledged cash	34,726	(13,137)	–	21,589
		(20,987)		
	(13,217)	(15,235)	(193)	(28,645)

Remuneration report

The Remuneration Committee, as constituted by the Board, is responsible for the determination of the remuneration policy for Development Securities' Executive Directors and employees and to ensure that the remuneration of senior executives is consistent with the Company's remuneration philosophy. The Committee, which met once during the year, comprises W Grant as Chairman and P V S Manduca. M D Wigley resigned as a member of the Committee on 19th June 2001 and P V S Manduca was appointed on 1st August 2001. Both members of the Committee are considered independent Non-executive Directors of the Company. No member has any personal financial interest in the matters to be decided.

The Committee's principal role is to determine the total remuneration of the Executive Directors and to ensure that senior management remuneration is consistent with corporate policy. Apart from the support of the Executive Directors and the Company Secretary, the Committee has access to the Company's legal and other external advisors.

This report sets out the Committee's existing policy and disclosures on Executive Directors' and senior executives' pay and also outlines the several incentive plans and option schemes in operation by the Company. The Company has complied throughout the period with section 1 of the best practice provisions of The Combined Code for Directors' remuneration annexed to the Listing Rules of the Financial Services Authority and this report contains the appropriate information detailed in Schedule B thereto.

1. REMUNERATION POLICY

The objective of Development Securities' remuneration policy is to ensure that Executive Directors and senior executives are rewarded in a way that attracts, retains, motivates and rewards management of the highest quality. The long term incentive plan, together with the various option schemes, are designed to encourage Executive Directors and senior executives to align their long-term career aspirations with the long-term interests of the Group, promoting both individual and corporate achievements against performance criteria.

a) Salary

The salaries of the Executive Directors are reviewed each year and are determined by reference to individual performance and in relation to comparable companies of similar size in the same business sector.

b) Annual bonus

The non-pensionable annual bonus is based on the performance of the Company during the year, team achievements and the specific contribution of the individuals concerned. The maximum amount which any individual will be awarded will normally be limited to 75 per cent of salary (at the rate payable at the time the award is granted) for Executive Directors, 50 per cent for executives and 25 per cent for other staff. In addition to the annual bonus, unless a special discretionary bonus is awarded, a similar amount to the annual bonus will form the basis of the award under the Long Term Incentive Plan described in (d) below.

c) Special discretionary bonus

The Remuneration Committee reserves the right to award special discretionary bonuses to Executive Directors and other executives who have been instrumental in securing development opportunities for the Company. Such bonuses will probably only be awarded on transactions where the first phase is likely to produce profits in excess of £2 million and the return on the Company's equity employed in the transaction exceeds 20 per cent. No more than 10 per cent of the profits of the transaction will be awarded in total and no individual will receive more than 5 per cent of such profit.

When any particular transaction becomes unconditional the Remuneration Committee will determine which individuals should receive special discretionary bonuses and the amount of the award. To this sum will be applied a factor, normally 20 per cent, which will then be paid as a bonus to the specified individuals reflecting the discounting of future profits and risk of the profits not materialising. The balance of the bonus will be paid when the profits are realised.

In awarding annual and special discretionary bonuses there will be no 'double-counting'. The impact of any team and individual performance, which leads to a special discretionary bonus being awarded, will be disregarded in assessing the annual bonus, but will not be disregarded in making an award under the long term incentive plan as described in (d) below.

An award of 5 per cent of anticipated profits in respect of a project, was awarded to C J Barwick on 21st March 2001, for which an on-account bonus payment of £96,500 has been made and 2 per cent of the profits on the same development were also awarded to an executive, included within an on-account payment in respect of future entitlements of £100,000. On 3rd July 2001, an award of 2 per cent of the anticipated profits in respect of a further project was awarded to M H Marx for which an on-account bonus payment of £23,000 has been made and 5 per cent of the profits on the same development were also awarded to a member of staff, with an on-account payment of £57,000.

In addition to awarding special, discretionary bonuses in securing development opportunities, the Remuneration Committee retains the discretion to award bonuses to Executive Directors and other executives at any time for making an exceptional contribution towards the Company. During the year, the Company made cash awards of £200,000 in total to three executives, with a commitment of £100,000 each to two of the executives if certain objectives on a particular project are achieved.

d) Long term incentive plan

The long term incentive plan was approved by shareholders at an Extraordinary General Meeting of the Company on 15th December 1999. The plan which first became operative in respect of the financial year ended 31st December 2000, permits the Remuneration Committee to award performance-related deferred bonuses. The deferred bonuses will vest over a three-year period and, unless a special discretionary bonus is awarded, the maximum amount which can be awarded to any individual is twice the amount of the annual bonus referred to in (b) above. A deferred bonus will take the form of an option to subscribe for shares in the Company at the end of the three-year period at the market price of the shares at the time the option is exercised. At the end of each year, the Group's net asset value per share will be calculated. If the increase in the Group's net asset value per share is at least equal to that of the median of a group of 20 listed property companies, then the option will vest as to one-sixth of the maximum amount which can be awarded. If growth reaches the upper quartile level, the option will vest as to one-third of the maximum amount which can be awarded. Between these criteria, the option will vest pro rata. If the Group's net asset value is below the median for any year, the option will not vest at all in respect of that year. Furthermore, there will be an underpin that the increase in the Group's net asset value per share must also have at least equalled the increase in the retail price index plus 2 per cent for the first performance year, 4 per cent over the first two years for the second year and 6 per cent over all three years for the third year.

The award will be paid in cash, all of which will be used to buy shares in the Company, except that where participants are subject to tax and social security in respect of the award, they will to that extent receive cash only.

On 2nd May 2001, an option under the long term incentive plan was granted to the two Executive Directors and 26 members of staff with a maximum award of £1,247,500 in total, including £318,000 each in respect of C J Barwick and M H Marx. Since this date, options representing a maximum award of £20,000 have lapsed.

e) Option scheme 1993

The option scheme 1993 is a share-based bonus scheme approved by shareholders in that year. It allows individuals to benefit from movements in the price of the Company's shares over the period between the third and tenth year following grant. The Directors may at the date of grant limit the aggregate notional bonus which may become payable.

Awards over 934,395 notional shares were granted under the option scheme 1993 on 26th November 1998 at an initial value of 211.5 pence per notional share, but with a notional cash bonus limit totalling £814,637, representing the maximum bonus which may become payable under the grant. Consequent upon the initial exercise period of 26th November 2001, the two Executive Directors and nine members of staff exercised their options, generating the maximum award of £458,290 in total. Only 900 options with a notional cash limit of £6,016 remain exercisable, the balance of those initially granted having either been exercised early or have lapsed.

f) Share option schemes

The original executive share option 1985 scheme was approved in that year and, following its 10-year life, was replaced by a new scheme, the executive share option scheme 1995. The options are granted under the new scheme on the basis that they may only be exercised if a performance condition is satisfied. An option over 58,651 shares was granted on 27th March 2001 to an executive at an exercise price of 341.0 pence per share and options over 125,000 shares in total were granted on 30th April 2001 to 16 executives at an exercise price of 400.5 pence per share; both grants being subject to a performance condition that the net assets per ordinary share of the Company are equal to or in excess of the average growth in the All Properties Capital Growth Index during the same period, over three consecutive financial years of the Company. Options over 65,000 shares were exercised during the year by three executives.

g) Savings related option scheme

No grants were made under the savings related option scheme 1995 during the year. Those options granted in 1997 may be exercised after five years and those in 1999 and 2000 after three years. All three grants represent an exercise price not less than 80 per cent of the market value of the shares at the time of invitation.

h) Service contracts and retirement benefits

Either party may terminate the service contract of M H Marx and C J Barwick with 12 months' notice. H R Jenkins CBE and P J Willis serve for a fixed term expiring on 1st June 2002 and W Grant and P V S Manduca until the Annual General Meetings to be held in 2003 and 2005 respectively. Either party may terminate the appointment of H R Jenkins CBE with 12 months' notice and those for W Grant, P J Willis and P V S Manduca with six months' notice.

The services of M R Landau, through Executive Services Overseas Inc (ESO), are retained on an exclusive basis to support the Company's strategy with regard to substantial UK development projects and the Company's European development and investment activities. The service agreement and service contract will terminate on 31st December 2002. The service agreement with ESO may not be terminated by the Company and requires a 12-month notice period from ESO. The service contract with M R Landau provides for a 24-month notice period from the Company or 12-months' notice from M R Landau. During the period to 31st December 2002, ESO is paid a consultancy fee of £285,000 per annum. In addition, for the period to 31st December 2002, ESO is entitled to a 10 per cent profit share of any development projects referred to above and is paid £225,000 per annum on account as a non-refundable advance against this profit share. M R Landau is paid fees of £20,000 per annum as a Non-executive Director for the period to 31st December 2002.

The fees of the Non-executive Directors are determined by the Board. No Director participates in any discussion about his own particular remuneration.

Severance payments are based upon the service contract terms, whilst bearing in mind a duty to mitigate, where appropriate. Executive Directors may accept appointment to a limited number of external Non-executive Directorships, for which they may retain any attributable fees.

Qualifying members of staff are invited to join the Development Securities PLC retirement benefits scheme, which is a contracted-in money purchase scheme, including appropriate life assurance. Since the Company's policy is to render pension payments on a defined contribution basis, this avoids the uncertainty of pension liabilities to the Company, which would be the case had a defined benefit scheme been adopted. M H Marx has separate personal pension arrangements. Funded unapproved retirement benefits schemes (FURBS) have been established for both M H Marx and C J Barwick. The maximum contributions by the Company may not exceed 17.5 per cent of salary in total towards the approved scheme/arrangement and the FURBS.

2. DIRECTORS' EMOLUMENTS

The remuneration of the individual Directors who held office during the year is set out below:

	Salaries and fees £'000	Bonus £'000	Benefits in kind £'000	Total 2001 £'000	Total 2000 £'000	Pension contributions 2001 £'000	Pension contributions 2000 £'000
Chairman:							
H R Jenkins CBE	50	–	–	50	50	–	–
Executive Directors:							
C J Barwick (highest paid Director)	225	512*	20	757	376	38	33
M H Marx	225	275*	16	516	387	36	36
Non-executive Directors:							
M R Landau	20	–	6	26	26	–	–
Lord Gowrie PC (to 19th June 2001) [†]	9	–	–	9	20	–	–
M D Wigley (to 19th June 2001)	7	–	–	7	15	–	–
P J Willis [‡]	15	–	–	15	15	–	–
W Grant	19	–	–	19	15	–	–
P V S Manduca (from 1st August 2001)	8	–	–	8	–	–	–
	578	787	42	1,407	904	74	69

Benefits in kind received during the year comprise motor vehicles, fuel and medical insurance.

Executive Services Overseas Inc provides the services of M R Landau as a consultant outside of the United Kingdom, receiving a total income of £510,000 (2000: £510,000).

* The bonus includes the exercise under the option scheme 1993 as described in note (c) on page 51.

† As from the date of retirement as a Non-executive Director, Lord Gowrie PC is retained as a consultant for a one-year period at a fee of £20,000.

‡ Fees paid to Knight Frank, of which P J Willis is a partner.

3. DIRECTORS' SHARE INTERESTS

The interests of the Directors, all of which were beneficial in the share capital of the Company, were:

Ordinary shares:			2001 No.	2000 No.
M H Marx			64,139	54,139
C J Barwick			10,000	10,000
M R Landau			294,363	214,363
W Grant			5,000	5,000
			373,502	283,502

Options:	Date of grant	Exercise price (pence)	2001 No.	2000 No.
M H Marx	12th October 1994	250.0	216,000	216,000
	26th November 1998	211.5	–	216,000 [‡]
	14th November 2000	233.5	4,148[†]	4,148 [†]
C J Barwick	26th May 1998	326.5	214,395	214,395
	26th November 1998	211.5	–	214,395 [‡]
	7th June 1999	210.5	4,602[†]	4,602 [†]
M R Landau	27th July 1993	350.0	140,000*	140,000*
	10th April 1997	245.0	250,000*	500,000*

* Options granted outside of the share option schemes to Executive Services Overseas Inc

† Savings related options

‡ Notional shares granted under the option scheme 1993

- (a) None of the Directors had a beneficial interest in the shares of any subsidiary company.
- (b) The mid-market price of the shares as at 31st December 2001 was 338.5 pence and the range during 2001 was 293.5 pence to 404.5 pence.
- (c) On 15th January 2001, Executive Services Overseas Inc exercised 250,000 options granted on 10th April 1997 at an exercise price of 245.0 pence per share, selling 170,000 shares thereof at 332.5 pence per share. On 26th November 2001, M H Marx and C J Barwick exercised their options over 216,000 and 214,395 notional shares respectively under the option scheme 1993, with notional cash bonus limits of £83,160 and £246,554 respectively, thereby realising the maximum bonus award.
- (d) No options lapsed or were exercised during the year, except as disclosed above.
- (e) The exercise dates for options are set out in full in note 16 to the financial statements.
- (f) The information contained in sections 2 and 3 above provides details of the Directors' remuneration and share options held and constitutes part of the financial statements.

There were no transactions between 31st December 2001 and the date of this report.

Signed on behalf of the Board on 26th March 2002

W Grant

Chairman of the Remuneration Committee

FINANCIAL CALENDAR

Annual General Meeting	20th May 2002
Payment of Ordinary Dividend	3rd July 2002
Announcement of Interim Results to 30th June 2002	September 2002

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Barclays Bank PLC

HSBC Property Finance

Bank of Scotland

Norwich Union Mortgage Finance Limited

MERCHANT BANKERS

HSBC Investment Bank plc

CORPORATE SOLICITORS

Linklaters

AUDITORS

Deloitte & Touche

STOCKBROKERS

HSBC Securities

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