

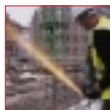


# Creating the space for a better future

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. All of the Company's major development schemes have been forward funded with a number of different institutional partners; such funding, quite apart from the significant reduction of downside risk, enables Development Securities to benefit in a material way from any strong improvement in specific letting markets.

## 1999

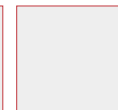
Black Friars Court, London



0.5 acre island site development fully forward funded and 50 per cent pre-let to Rowe & Maw.



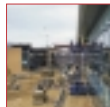
Construction well advanced on 106,000 sq. ft. prime office space in the City of London.



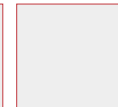
Cambourne Business Park, Cambridge



Construction commenced on first phase of 750,000 sq. ft. Business Park.



First phase fully let with practical completion achieved in December 2000.



Oxford Street, London



Acquisition and forward funding of 78,000 sq. ft. retail and office project.



Paddington Central, Paddington, London



Site acquisition and full forward funding with The Equitable Life Assurance Society and Norwich Union Investment Management.



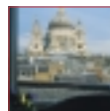
Business Parks at Marlow & Frimley



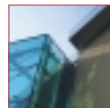
Acquisition and forward funding with Equitable Life of two sites totalling 18 acres.



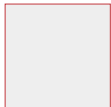
## 2001



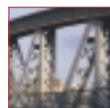
All remaining office space pre-let to Bechtel Limited ahead of practical completion in April.



Second phase of 132,000 sq. ft. under construction and fully forward funded, with one of the three office units pre-let.



Construction under way with completion due in 2002.



Construction continues on first phase of 330,000 sq. ft. prime offices and 100,000 sq. ft. retail and leisure space.



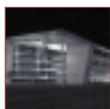
Completion of 115,000 sq. ft. first phase at 200,000 sq. ft. scheme at Marlow. Construction under way at Frimley.



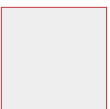
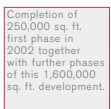
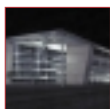
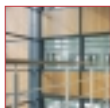
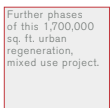
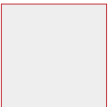
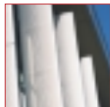
The Royals Business Park, London



Full forward funding of first phase of 50 acre, 2500m prime office development adjacent to the City Airport.



## the future



### Strategy

To establish and maintain a soundly based property group with focused expertise in development, which is able to create, manage and benefit from large, complex projects, generating a reliable earnings stream for the benefit of shareholders.

### Focus

Our skills and resources are primarily focused on the UK market, with particular reference to the Central London and business park work place sectors.

### Teamwork

The depth of talent and the weight of experience in our management team is considerable. During their time in the development business each senior member of the team has been at the forefront of many successful and challenging large scale developments.

### Funding

Relationships with our forward funding partners extend from those in the UK to a range of European, North American and Far Eastern institutions.



# Chairman's statement

The Millennium was truly an exciting and record year for the Company in securing £900 million of new development projects. It marked a significant milestone, since these projects will create a lengthy pipeline for delivering consistent future development profits.

The Millennium was truly an exciting and record year for the Company in securing £900 million of new development projects. It marked a significant milestone, since these projects will create a lengthy pipeline for delivering consistent future development profits. We are able to report profit on ordinary activities before taxation of £10.0 million for the year ended 31st December 2000, representing earnings per share of 23.1 pence. Although earnings were lower than in the previous year, it will be appreciated that the very nature of the development process can result in earnings being delivered in uneven tranches. Total Shareholder Funds have continued to advance for a fifth consecutive year, to £109.7 million, equivalent to 393 pence per share, as compared to £105.9 million and 379 pence per share at the previous year end.

Accordingly, the Board has resolved to recommend the payment of a final dividend of 2.75 pence per share, an advance of 10 per cent from the previous year's final dividend of 2.5 pence per share, payable on 5th July 2001 to shareholders on the register on 8th June 2001.

As shareholders will readily appreciate, our financial profile permits most of the revenue gains from our developments to flow through to the balance sheet, since the majority of our operational expenses and net debt service costs are covered by the rental income from our investment portfolio. The cash flow so generated, together with the proceeds arising from the disposal during the year of a significant part of our investment portfolio, reduced our level of net gearing to 12 per cent at 31st December 2000, down from 30 per cent at the end of 1999. Our financial condition is strong and should prove a firm foundation for the next stage of your Company's growth.

In September, the combination of a sound balance sheet and substantial development pipeline enabled your Board to indicate its intention to recycle to shareholders, via a £3 million share buyback programme, such cash as is considered surplus to likely present and future needs. Since then, shares to the value of £0.9 million have been acquired at a price of 322.5 pence per share. It is our present intention to return further amounts to shareholders in the future on a basis consistent with prudent financial management, either by way of the share buyback programme or enhanced dividend distribution, whichever is the most appropriate. Accordingly, your Board has determined to pay a special dividend of 5.0 pence per share, payable together with the final dividend, bringing the total distribution for the year to 9.1 pence per share.

## STRATEGY

In our Joint Managing Directors' Review of Operations for the year, shareholders will observe that our strategy in 2000 remained unchanged as we sought successfully to maintain a highly efficient development competence able to source, construct and let complex projects in a timely manner to pre-determined budgets. Furthermore, such policy is executed in as risk averse manner as is possible with a view to adding maximum value for the benefit of our shareholders.

Our development activities have remained focused on the provision of office space in Central London and in those areas in reasonable proximity to London such as the Thames Valley and Cambridge. Whilst not denying our proven abilities in both the industrial and retail sectors, where some profitable projects have been and are still being developed, the primary thrust of our

activity is in the office sector. Our specialisation in Central London tends towards large-scale developments, typically in the range of 100,000 sq. ft. to 500,000 sq. ft. Two such projects, at Black Friars Court and PaddingtonCentral, are currently under construction, a third, in Oxford Street, is about to commence on site and a fourth, in the Royal Docks, is at the detailed planning stage.

Elsewhere, our focus is the development of business park office accommodation close to London, with construction in hand at our parks in Cambourne, Marlow and Frimley. Further afield, considerable progress has been achieved at our business and industrial park in Birmingham.

With low vacancies in both these markets and with tenant demand still firm, rental growth has moved sharply ahead. We have seen the benefit of this market strength in the year under review, where all phases of our developments achieved lettings at higher rental levels and at a faster pace than was originally anticipated.

#### BOARD COMPOSITION

In June, I was pleased to announce that Julian Barwick was appointed Joint Managing Director, alongside Michael Marx. Julian has made a significant contribution to the considerable progress that the executive team has made in recent years in establishing a quality development programme and he will continue to assume the lead role in that area of our activities.

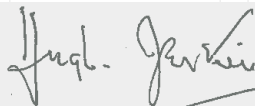
Recently, Michael Wigley and Lord Gowrie, both former Chairmen of Development Securities, indicated that they wished to step down from the Board. On your behalf, I would like to thank very sincerely both of these Non-executive Directors for their valuable

contribution to our deliberations and for their resolute efforts in support of the progress we have made.

I should also like to express my appreciation to all our Directors, management and staff throughout the Group for their unstinting efforts in advancing the prosperity and reputation of the Company.

#### CONCLUSION

2000 witnessed another year of progress in the execution of our strategy to establish a securely based property company that is able to derive strong, substantial and reliable profitability and cash flow from its development activities. Your Board is confident that this foundation, together with the contribution from our experienced professional team, will continue to provide a platform for your Company's further progress in the year ahead. The recent selection of your Company by the London Development Agency to develop the Royals Business Park site in Docklands confirms both this confidence and the potential for the future.



H R Jenkins CBE  
Chairman  
27th March 2001

# Review of operations

We stuck to our knitting and continued to do what we do best. Ours is a simple strategy: we carry out substantial, complex developments in a risk averse manner by forward funding our major schemes with institutional partners.

It has been one of those years in which most things appeared to go in our favour. The economic environment in the United Kingdom was robustly healthy, with strong tenant demand from both local and overseas-based occupiers meeting in a marketplace constrained by a limited supply of product. With the normal response of the supply side to increase production inhibited by the marked reluctance of the banking community to make finance available for speculative development, the resulting market tension was reflected in increasing rental levels and hardening yields in those sectors in which we operate. Our operating results, summarised by Hugh Jenkins in his Chairman's Report, reflect the benefits we have seen during 2000 as far as our own development programme was concerned and we clarify much of the detail on those activities in the following review.

We stuck to our knitting and continued to do what we do best. Ours is a simple strategy: we carry out substantial, complex developments in a risk averse manner by forward funding our major schemes with institutional partners. We acknowledge that this approach limits our upside potential in certain instances, but equally, if not more importantly, it does provide us with significant protection against downside risk. We remained firmly in those markets where we saw the maximum potential for rental growth, namely the office and business park sectors in London and the South-East of England.

The year 2000 and the early part of 2001 have not only seen the lengthening of our development pipeline to some four million sq. ft., with a value on completion estimated at current prices at £1.5 billion, but also a continuing expansion of the group of institutional funding partners, both from the UK and overseas, with whom we do business.

## DEVELOPMENT – BLACK FRIARS COURT

Practical completion is expected in the next few weeks at our Black Friars Court development, close to St Paul's Cathedral in the City of London. Fifty per cent of the available 106,000 sq. ft. net accommodation was pre-let to Rowe & Maw, a prominent law firm and the entire development has been forward funded with Deutsche Grundbesitz Investmentgesellschaft, one of the major European open-ended funds. The remaining office accommodation was recently let to Bechtel Limited, the global engineering and construction services provider, at a rental level which fully reflects the recent strong demand for prime office space in the City. The present imbalance between supply and demand for prime office accommodation, together with London's pre-eminence as a financial centre, should ensure the continuing strength of the City property market. Accordingly, as is often the case where there is a continuing improvement in a specific letting market, development schemes such as this, financed on the forward funded, "equity erosion" structure, have delivered returns to your Company significantly in excess of those anticipated at the outset.

### BLACK FRIARS COURT

The 106,000 sq. ft. office development at Black Friars Court in the City of London occupies an island site, ensuring the provision of excellent natural light throughout.





Review of operations continued

Paddington is now capable of realising its potential as a significant commercial centre with its own distinct identity within central London, offering substantial headquarters buildings with large, well configured floors.

#### DEVELOPMENT – OXFORD STREET, LONDON W1

In September, we signed a conditional contract for the £38 million acquisition of Dolcis House, Oxford Street from Sears Group Properties. Located in the heart of London's West End, the property occupies the corner of Oxford Street and New Bond Street and will provide 35,000 sq. ft. of retail space on the ground and first floors, with 43,000 sq. ft. of office accommodation on the four other upper floors. We are now close to resolving final outstanding issues and construction of this development, which has been fully forward funded with Despa, is expected to commence imminently.

Airport terminals. PaddingtonCentral is key to the successful regeneration of over 15 acres of brownfield land surrounding Paddington Station. When both PaddingtonCentral and the adjoining proposed developments are complete in a few years time, a new business district will have been established in central London. Combined, projected office accommodation in the immediate vicinity will amount to five million sq. ft., demonstrating that Paddington is now capable of realising its potential as a significant commercial centre with its own distinct identity within central London, offering substantial headquarters buildings with large, well configured floors.

#### DEVELOPMENT – PADDINGTONCENTRAL

In May, we concluded the £77.3 million acquisition, together with our joint funding partners, Norwich Union Life and Pensions Limited and The Equitable Life Assurance Society, of the 11 acre PaddingtonCentral site immediately adjoining Paddington Station in central London, which will provide for the development of a 1.9 million sq. ft. mixed use scheme with an investment value on completion of some £750 million. PaddingtonCentral is not only located within one mile of Mayfair, but has immediate access to excellent road and rail systems, including the Heathrow Express, the new, 15-minute rapid transit service to all Heathrow

Shortly after acquisition, we disposed of the residential component of the site, for over £20 million to St George North London, who will be developing two high-quality, 11-storey buildings, providing 210 apartments adjacent to the Grand Union Canal, thereby significantly reducing the net investment into the project. A broad mix of retail and leisure facilities will be provided within the first phase, with bars, cafes, shops and a health and fitness centre, to create and maintain a robust and active community at PaddingtonCentral.

Towards the end of last year, construction commenced on the first phase of the development to provide 440,000 sq. ft. of prime offices, retail and leisure accommodation in addition to the residential element. Completion of the two architecturally striking, high specification office buildings of 193,000 sq. ft. and 146,000 sq. ft. is scheduled for summer 2002. The current restriction of available office accommodation in both the City and especially the adjacent West End markets seems to augur well for a regeneration project that will match the quality and depth of the new business district at Canary Wharf.

#### PADDINGTONCENTRAL

The 11 acre PaddingtonCentral site will provide for the development of a 1,900,000 sq. ft. mixed use scheme.



Review of operations continued

PaddingtonCentral is not only located within one mile of Mayfair, but has immediate access to excellent road and rail systems, including the rapid transit Heathrow Express service.

We were pleased to secure the services of Wally Kumar, formerly on the Board of Greycourt plc, to head up our management team on what will be, on completion, the largest project your Company has undertaken to date.

#### DEVELOPMENT – ROYALS BUSINESS PARK

In February 2001, we were pleased to have been selected by the London Development Agency to develop the 50 acre Royals Business Park site in London's Docklands. This development forms part of the Royal Docks, one of the most important regeneration areas in the UK, which includes London City Airport and the new ExCel Exhibition Centre. We will be developing a business park of at least 1.6 million sq. ft. of first class offices with an investment value on completion of some £500 million.

The first phase will comprise a 220,000 sq. ft. speculative office building due for completion in summer 2002. Forward funding for this phase has been agreed with Aberdeen Property Investors, Barclays Bank Retirement Fund and the Lattice Group Pension Scheme.

Concurrent with the first phase, Development Securities and its team, which includes architects Aukett Europe, is developing a masterplan for the site as a whole, which has outline planning consent for 1.6 million sq. ft. of office space and 100,000 sq. ft. of retail and leisure accommodation.

The Royals Business Park, which occupies a one mile waterside frontage, 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 communications – two existing Dockland Light Rail stations, London City Airport and dual carriageway access to the M25 and M11.



Review of operations continued

**We are confident that Cambourne will continue to be a significant contributor to earnings over the medium term.**

#### DEVELOPMENT – CAMBOURNE BUSINESS PARK

At the beginning of the financial year under review, we agreed with Universities Superannuation Scheme Limited the forward funding of the £25 million first phase at our 750,000 sq. ft. office business park development at Cambourne, near Cambridge. Unusually for speculative developments of this nature, all three buildings in the 103,000 sq. ft. initial phase were pre-let, prior to practical completion, to Regus (UK) Limited, Geneva Technology Limited and Citrix Systems (Research and Development) Limited. These early lettings enabled your Company to benefit from additional profits on all three buildings. Demand continues to be strong at this Park, which forms part of the new Cambourne settlement, a 1,040 acre scheme of 3,300 houses together with town centre and retail and leisure facilities, which, on completion, will be home to some 10,000 people.

In September, we signed a second, 20-year pre-let with Geneva Technology Limited for a 30,000 sq. ft. office building on the second phase of this development and in January 2001, forward funded the entire £37 million second phase of 125,000 sq. ft. with Morley Fund Management on behalf of an in-house fund. Construction is well underway on the initial unit where completion is scheduled for April 2001, with the remaining space due to be finished later this year. We are confident that Cambourne will continue to be a significant contributor to earnings over the medium term.

#### DEVELOPMENT – GLOBESIDE BUSINESS PARK, MARLOW

Good progress has been achieved at our 11 acre Globeside Business Park, which we acquired together with our funding partners, The Equitable Life Assurance Society, in August 1999. The site is located adjacent to Marlow railway station, only 800 metres from the town centre and has excellent access to the M4 and M40 motorway network. Construction of the first phase, to provide 90,000 sq. ft. net of prime office and 25,000 sq. ft. net of light industrial accommodation, commenced on site in February 2000

and practical completion has now been achieved on two of the four units. Development of the second phase of the Park, to provide 55,000 sq. ft. net of office space, is anticipated to start in the medium term once existing leases expire.

The Thames Valley has seen a continuation of strong tenant demand in the year under review and interest in the Globeside Business Park has accordingly reflected a firm appetite from potential occupiers notwithstanding the significant rental growth that has occurred. We remain confident that satisfactory lettings will be achieved in the coming year.

#### DEVELOPMENT – FRIMLEY, SURREY

In June, together with our joint development partner, The Equitable Life Assurance Society, we acquired a seven acre site at Frimley, close to junction 4 of the M3 motorway, for a price in excess of £20 million. In October, detailed planning consent was achieved for 165,000 sq. ft. net of first-class office accommodation and demolition of the existing office and workshop buildings commenced shortly thereafter. Construction of the four new office







Review of operations continued

It is perhaps a reflection on the strength and depth of our development programme, that we have now entered into funding partnerships with eight institutions, both UK and overseas, in the last two years alone.

buildings commenced in March of this year, with the entire scheme scheduled for completion by mid-2002. We believe that Frimley will also benefit from the current established demand for high-quality, purpose-built office accommodation provided by such modern business parks.

#### DEVELOPMENT – BIRMINGHAM INTERNATIONAL PARK

In April 2000, we completed the forward funding with The Prudential Assurance Company Limited of International Square, the next £17 million phase of development on our site situated adjacent to Birmingham International Airport. The first office building of this 69,000 sq. ft. net phase was completed in June and pre-let to Executive Communications Centres, our own serviced office suite provider at a rent of £18 per sq. ft. In November, we concluded a pre-let of the second unit to Fair Isaac International UK Corporation at an improved rent of £18.75 per sq.ft., with delivery of the facility scheduled for mid-2001. Construction of the third unit is well underway with completion similarly scheduled for mid-2001.

Close by, on the same Park, we also completed the construction and disposal last year of a £3.5 million, 50,000 sq. ft. distribution facility to Spanish wholesale tile specialist, Porcelanosa UK Limited.

#### BIRMINGHAM INTERNATIONAL PARK

Construction is underway at the new 120,000 sq. ft. phase of light industrial accommodation at Birmingham International Park.

In December 2000, we secured detailed planning consent for a further phase of 120,000 sq. ft. of light industrial accommodation and simultaneously concluded pre-lets with Danzas Limited and Interface Solutions International Limited for two of the three units, starting on-site immediately. In February 2001, we forward funded this £9 million phase with Legal and General Assurance Society

Limited for whom we plan to achieve practical completion of the first two units in September 2002.

This transaction represented a further addition to the portfolio of institutions with whom we have concluded forward funding arrangements. It is perhaps a reflection on the strength and depth of our development programme, that we have now entered into funding partnerships with eight institutions, both UK and overseas, in the last two years alone.

#### INVESTMENT PORTFOLIO

The year under review has seen much activity in the further restructuring of our investment portfolio, with the disposal of £42 million of investment property, closely approximating to book values. The significant sales included Lyon House and Equitable House in Harrow, Telephone House in the centre of Sheffield, Drapers Court in Kingston and Riverside Quay, Haverfordwest. The latter property was our only town centre shopping scheme investment and we were particularly pleased to dispose of this property at book value in a difficult retail market.

Total returns for the standing investment portfolio in 2000 were 8.25 per cent, effectively representing the income return from the properties. While still falling short of the IPD annual index total return for 2000 of 11.5 per cent, it is apparent that we are beginning to benefit from the steps we have taken to restructure our portfolio. Further disposals of those properties with limited potential may be expected in the near term.



The programme of reinvesting the cash released from our disposal programme began in 2000 with the acquisition of the 160,000 sq. ft. industrial estate at Great West Trading Estate, Brentford, West London for close to £10 million and, in early 2001, with the purchase of Hammersley House, London W1 for £7.5 million. Our current acquisition strategy is perhaps typified by these properties, which offer the opportunity for active management of their tenant profile as well as improvements to the properties themselves, in stark contrast to the bulk of our previous investment portfolio which could be classified simply as benefiting from single tenants of undoubted covenant together with a long-lease profile. Our investment appetite, which is likely to focus on the office and industrial sectors, will seek to derive returns from our future acquisitions which are more akin to those which we achieve on our development portfolio. Ample funds are available to replace those assets disposed of in the last two years.

We are pleased to welcome Matthew Weiner, who joined us in October as Director of Investments, after completing seven years of service with both AXA Real Estate Investment Managers Limited and Legal and General Property Limited. Matthew has already made a worthwhile contribution to our endeavours.

**CORPORATE WEBSITE**

Until very recently, communication with our shareholders has, of necessity, been restricted mainly to both the Annual and Interim Reports, supplemented by relevant Stock Exchange announcements and press releases. In common with an increasing number of quoted companies, we created last year, our own website, which now contains up-to-date and relevant information on our activities. The address of the website, which contains a facility for shareholders to provide us with their own e-mail addresses, is [www.developmentsecurities.com](http://www.developmentsecurities.com). We would encourage

shareholders with Internet access to visit the site and, by leaving their own e-mail address details, enable us to communicate with them on a more direct basis.

**MANAGEMENT**

It would be difficult to overstate the importance of our professional management and staff in achieving the goals we have set ourselves. For many years now, members of the Development Securities team have played pivotal roles in some of the most successful developments in Britain. Together, they represent a resource that we prize very highly and would wish to thank them all for their unflagging efforts in support of your Company.

C J Barwick  
27th March 2001

M H Marx

**THE GLOBESIDE BUSINESS PARK**  
Completion of the entire first phase of the 170,000 sq. ft. Globeside Business Park, Marlow is scheduled for April 2001.

# Property portfolio analysis

31st December 2000

## Portfolio tenure profile

900+ Years	2%
Other	18%
Freehold	80%

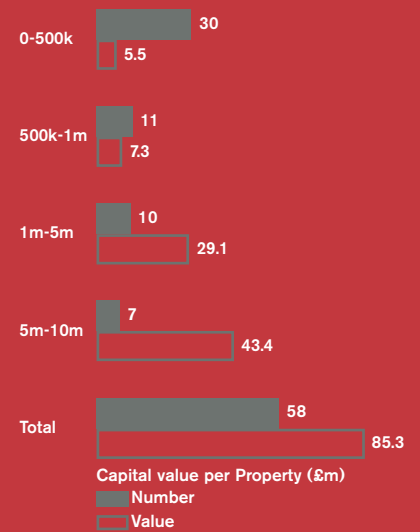
## Portfolio tenant profile

Government	12%
FTSE 100	11%
PLC/National Multiples	49%
Regional Multiples	18%
Local Businesses	10%

## Portfolio analysis by sector

Mixed	2%
Industrial	15%
Retail	26%
Office	57%

## Portfolio lot size



## Debt analysis

### Portfolio location profile

Wales	2%
Scotland	3%
North	8%
Midlands	13%
South East	31%
West End	3%
City	14%
London	26%

### Portfolio lease profile

0-5 Years	20%
5-10 Years	6%
10-15 Years	38%
15-20 Years	26%
20+ Years	10%

### Debt maturity profile

0-5 Years	31%
5-10 Years	13%
10+ Years	56%

### Interest sensitivity profile

Floating Rate	1%
Fixed Rate	99%

Weighted average debt maturity: 11.5 years

The above analyses exclude freehold land.



## Chairman and Non-executive Directors



### **H R JENKINS CBE**

(Aged 67) 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, Rank Group, Johnson Matthey and Gartmore European Investment Trust.

### **LORD GOWRIE PC**

(Aged 61) Appointed Chairman of Development Securities PLC in October 1995, retiring from that position in June 1999. Chairman of the Arts Council of England 1994 – 1998, Chairman of Sotheby's Europe 1985 – 1994 and currently a Non-executive Director of Yeoman Investment Trust, NXT plc and ITG Group plc. During a distinguished Government career, a number of senior Ministerial positions were held, including a Cabinet post.

### **P J WILLIS**

(Aged 47) 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.

### **M R LANDAU**

(Aged 63) 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.

### **M D WIGLEY**

(Aged 61) Chairman from July 1991, retiring in October 1995, but continuing as a Non-executive Director. Deputy Chairman of Legg Mason Investors International Utilities Trust plc. Non-executive Director of BFS Income & Growth Trust plc and formerly a Director of Matheson Investment Limited.

### **W GRANT**

(Aged 63) Appointed in January 1997. Former Partner of the international law firm, Linklaters & Paines. Previously, a Non-executive Director of Development Securities (Investments) PLC.

# Report of the Directors

The Directors present their annual report and the financial statements of the Group for the year ended 31st December 2000.

## 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 the Review of Operations.

## RESULTS AND DIVIDENDS

The profit for the financial year attributable to shareholders amounted to £6,464,000 (1999: £13,994,000). An interim dividend of £378,473 representing 1.35p per ordinary share has been paid. The Board recommends a final dividend of 2.75p per ordinary share amounting to £774,698, together with a special dividend of 5.0p per ordinary share amounting to £1,408,541, both of which are to be paid on 5th July 2001 to shareholders on the register on 8th June 2001.

## 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 6: 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 4,197,000 ordinary 50p shares, representing approximately 14.9 per cent of the Company's issued share capital. On 27th December 2000, 279,238 ordinary shares of 50p each, representing 0.99 per cent of the issued share capital were purchased by the Company at 322.5p per share for cancellation. As at 31st December 2000, the Company has an unexpired authority to repurchase 2,512,762 ordinary shares.

Special Resolution 7: 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 £5,255,000 being equal to one-third of the issued ordinary share capital of the Company, together with the number of share options outstanding.

Special Resolution 8: 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 £704,270 being equal to 5 per cent of the issued ordinary share capital of the Company.

## SHARE OPTION SCHEMES

During the year options over 36,693 shares were granted under the Savings Related Share Option Scheme 1995. Further details of the Share Option Schemes are contained on pages 42 and 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

William Marcus Henderson Rose – resigned 17th March 2000

Martin Richard Landau

Lord Gowrie PC

Michael Derek Wigley

Lord McAlpine of West Green (alternate,

David Malcolm McAlpine) – resigned 4th August 2000

Sir David Sydney Rowe-Beddoe – resigned 4th August 2000

Paul James Willis

William Grant

Antonius Theresia Meijer – resigned 27th December 2000

The Director retiring by rotation at the Annual General Meeting is M H Marx, who being eligible, offers himself for re-election. Lord Gowrie PC and M D Wigley will be stepping down as Non-executive Directors at the Annual General Meeting on 19th June 2001.

**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 2000 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	%
Standard Life Group	1,941,828	6.89
TR Property Investment Trust PLC	1,675,000	5.95
Legal & General Investment Management Limited	1,475,025	5.24
Stichting Pension funds ABP Family Assurance	1,305,000	4.63
Friendly Society	1,295,524	4.60
Fidelity International Limited & Subsidiaries	1,160,746	4.12

**CHARITABLE AND POLITICAL DONATIONS**

Charitable donations during the year were £11,800

(1999: £24,200). No political donations were made during the year (1999: £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.

Report of the Directors continued

<p><b>ENVIRONMENTAL POLICY</b></p> <p>The Group continues to be an active member of Property Environmental Governance and takes part in the annual Property Industry Survey of Corporate Environment Engagement.</p>			<p><b>PAYMENT POLICY</b></p> <p>Amounts due to suppliers are settled promptly within their terms of payment, except in cases of dispute. The number of days creditors outstanding for the Company at 31st December 2000 was 4 days (1999: 5 days).</p>		
<p>The Group continues to develop a systematic approach towards achieving our environmental objectives, which are to reduce both the direct and indirect environmental impact of our property activities.</p>			<p><b>AUDITORS</b></p> <p>Deloitte &amp; 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.</p>		
<p>Through the continued co-operation of our contractors, designers and occupiers, we undertake for each project a full BREEAM (Building Research Establishment Environmental Assessment Method) audit of our building designs. Our target for each project is to achieve, as a minimum, a rating in the "Very Good" category.</p>			<p>Approved by the Board of Directors</p> <p>Signed on its behalf by:</p> <p>S A Lanes</p> <p>Secretary</p> <p>27th March 2001</p>		
<p>For all our new development projects we undertake environmental investigations of each site to identify any key issues that would impact on the development process.</p>					

# Corporate governance

## COMPLIANCE STATEMENT

The Company complied throughout the financial year with the Code provisions set out in Section 1 of the Combined Code except that certain Non-executive Directors were not appointed for specified terms. At the 2000 Annual General Meeting the Company's Articles of Association were amended to permit Non-executive Directors to be appointed for fixed terms of three years only as and when they are due for election or re-election at forthcoming Annual General Meetings. As from the 2001 Annual General Meeting, the Company will be in compliance with the Code provision.

## APPLIANCE STATEMENT

The Board, which met nine times during the year, currently consists of two Executive and six Non-executive Directors, the majority of whom are considered to be independent. H R Jenkins CBE, Lord Gowrie PC, M D Wigley and W Grant 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 year.

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, M D Wigley and W Grant. Sir D S Rowe-Beddoe resigned as Chairman of the Committee on 4th August 2000.
- The Nominations Committee comprises H R Jenkins CBE as Chairman, W Grant and M H Marx. Sir D S Rowe-Beddoe resigned from the Committee on 4th August 2000.

- The Remuneration Committee comprises W Grant as Chairman and M D Wigley. Sir D S Rowe-Beddoe and Lord McAlpine of West Green resigned from the Committee on 4th August 2000 and W Grant was appointed on the 12th September 2000. 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 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 its potential impact, likelihood of

## Corporate governance continued

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.

The Audit Committee meets, as a minimum, 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 is not appropriate 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 2000 and to the date of this report and considers there is an ongoing process for identifying, evaluating and managing the Group's

significant risks, that it has been in place for the year ended 31st December 2000 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.

# 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  
27th March 2001

# Report of the Auditors

## TO THE MEMBERS OF DEVELOPMENT SECURITIES PLC

We have audited the financial statements on pages 26 to 46 which have been prepared under the accounting policies set out on pages 31 and 32.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing the Annual Report, including as described on page 23 preparation of the financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the UK Listing Authority and by our profession's ethical guidance.

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 to you 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 on pages 21 and 22 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the UK Listing Authority 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 other information contained in the Annual Report, including the corporate governance statement, and consider

whether it is consistent with the audited financial statements.

We 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 2000 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

27th March 2001

Chartered Accountants and Registered Auditors

Hill House, 1 Little New Street, London EC4A 3TR



# Consolidated profit and loss account

for the year ended 31st December 2000

				Notes	2000 £'000	1999 £'000
<b>Turnover</b>				2	<b>39,145</b>	37,826
<b>Direct costs</b>				2	<b>(19,755)</b>	(5,265)
<b>Gross profit</b>				2	<b>19,390</b>	32,561
Operating expenses				2	<b>(7,225)</b>	(7,879)
<b>Operating profit</b>				2	<b>12,165</b>	24,682
Profit/(loss) on disposal of fixed assets					<b>247</b>	(517)
<b>Profit on ordinary activities before interest</b>					<b>12,412</b>	24,165
Net interest payable				4	<b>(2,383)</b>	(4,518)
<b>Profit on ordinary activities before taxation</b>					<b>10,029</b>	19,647
Tax on profit on ordinary activities				5	<b>(3,565)</b>	(5,653)
<b>Profit on ordinary activities after taxation</b>					<b>6,464</b>	13,994
Dividends on equity shares				6	<b>(2,562)</b>	(1,033)
<b>Retained profit for the year</b>				18	<b>3,902</b>	12,961
<b>Earnings per share</b>				7	<b>23.1p</b>	50.1p
<b>Diluted earnings per share</b>				7	<b>22.8p</b>	49.7p
All turnover and profits derive from continuing operations						

# Consolidated balance sheet

31st December 2000

	Notes	£'000	2000 £'000	1999 £'000
<b>Fixed assets</b>				
Investment properties	8	91,092		123,651
Other tangible assets	9	3,804		2,830
Investments	10	1,995		3,058
			<b>96,891</b>	129,539
<b>Current assets</b>				
Land, developments and trading properties	11	12,509		14,494
Debtors	12	26,409		10,042
Cash at bank and in hand		52,630		42,545
		<b>91,548</b>		67,081
<b>Creditors: amounts falling due within one year</b>	13	<b>(14,944)</b>		(19,513)
<b>Net current assets</b>			<b>76,604</b>	47,568
<b>Total assets less current liabilities</b>			<b>173,495</b>	177,107
<b>Creditors: amounts falling due after more than one year</b>				
Borrowings	14		<b>(63,820)</b>	(71,250)
<b>Net assets</b>			<b>109,675</b>	105,857
<b>Financed by:</b>				
<b>Capital and reserves</b>				
Called up share capital	16		<b>13,953</b>	13,962
Share premium account	17		<b>61,538</b>	60,896
Revaluation reserve	17		<b>(2,101)</b>	(8,122)
Other reserves	17		<b>45,299</b>	45,159
Profit and loss account – deficit	18		<b>(9,014)</b>	(6,038)
<b>Total equity shareholders' funds</b>			<b>109,675</b>	105,857
<b>Net assets per share</b>			<b>393p</b>	379p
<b>Diluted net assets per share</b>			<b>384p</b>	368p
Approved by the Board of Directors on 27th March 2001 and signed on its behalf				
M H Marx				
Director				

# Balance sheet

31st December 2000

			Notes	£'000	2000 £'000	1999 £'000
<b>Fixed assets</b>						
Investment properties			8	1,900		1,650
Other tangible assets			9	1,078		1,127
Investments			10	56,213		57,276
					<b>59,191</b>	60,053
<b>Current assets</b>						
Land, developments and trading properties			11	-		1,360
Debtors			12	126,142		129,094
Cash at bank and in hand				123		1,354
				<b>126,265</b>		131,808
<b>Creditors: amounts falling due within one year</b>			13	<b>(94,198)</b>		(98,615)
<b>Net current assets</b>					<b>32,067</b>	33,193
<b>Net assets</b>					<b>91,258</b>	93,246
<b>Financed by:</b>						
<b>Capital and reserves</b>						
Called up share capital			16		13,953	13,962
Share premium account			17		61,538	60,896
Investment property revaluation reserve			17		(95)	(345)
Capital redemption reserve			17		1,111	971
Profit and loss account			18		14,751	17,762
<b>Total equity shareholders' funds</b>					<b>91,258</b>	93,246
Approved by the Board of Directors on 27th March 2001						
and signed on its behalf						
M H Marx						
Director						



# Statement of total recognised gains and losses

for the year ended 31st December 2000

	2000 £'000	1999 £'000
Profit on ordinary activities after taxation	6,464	13,994
Unrealised surplus/(deficit) on revaluation of investment properties	45	(1,092)
Currency translation differences on foreign currency investment	-	(123)
<b>Total recognised gains for the financial year</b>	<b>6,509</b>	<b>12,779</b>

## Note of historical cost profits and losses

for the year ended 31st December 2000

	2000 £'000	1999 £'000
Profit on ordinary activities before taxation as reported	10,029	19,647
Revaluation reserve deficit realised on disposals	(5,976)	(2,465)
Historical cost profit on ordinary activities before taxation	4,053	17,182
<b>Historical cost (loss)/profit for the year after taxation and dividends</b>	<b>(2,074)</b>	<b>10,496</b>

## Reconciliation of movement in total equity shareholders' funds

for the year ended 31st December 2000

	2000 £'000	1999 £'000
Profit on ordinary activities after taxation	6,464	13,994
Dividends on equity shares	(2,562)	(1,033)
Retained profit for the financial year	3,902	12,961
Purchase of own shares	(902)	(799)
Issue of new shares	773	533
Surplus/(deficit) on revaluation of investment properties	45	(1,092)
Currency translation differences on foreign currency investment	-	(123)
Net movement in equity shareholders' funds	3,818	11,480
Opening total equity shareholders' funds	105,857	94,377
<b>Closing total equity shareholders' funds</b>	<b>109,675</b>	<b>105,857</b>

# Notes to the financial statements

31st December 2000

## 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 sales proceeds of trading properties, undeveloped land and buildings units sold during the year;
- ii) rental income;
- 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 assets, liabilities and cash flows on a proportional consolidation basis 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. Surpluses and deficits arising are transferred directly to revaluation reserve unless the deficit is considered to be permanent, whereupon it is 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 1985 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 provision for any foreseeable losses. Cost includes net outgoings, including capitalised interest, up to the date of completion.

## Notes to the financial statements continued

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**f) Depreciation of other fixed assets**

Depreciation is provided so as to write off the cost of fixed assets over their expected useful lives. The principal annual rates used for this purpose are as follows:

Fixtures and fittings	– 10% to 33% on cost
Motor vehicles	– 20% on cost

**g) 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 attributable interest up to the date of practical 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.

**h) 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.

**i) Investment in subsidiaries**

The shares in subsidiaries shown as fixed assets in the balance sheet of the Company are included at cost, less provisions for any 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.

**j) Pension schemes**

The charge to the profit and loss account in the period represents the actual amount paid to the defined contribution scheme/arrangements and Funded Unapproved Retirement Benefit Schemes (FURBS).

**k) 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.

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## 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 £197,000 (1999: £630,000) included in direct costs in respect of a development property in France.

### b) Analysis of gross profit

	Turnover £'000	Direct costs £'000	2000 Profit £'000	Turnover £'000	Direct costs £'000	1999 Profit £'000
Rental income	7,606	(1,885)	5,721	10,505	(1,746)	8,759
Project management fee income	1,354	-	1,354	307	-	307
Land, developments and trading properties	30,185	(17,870)	12,315	27,014	(3,519)	23,495
	<b>39,145</b>	<b>(19,755)</b>	<b>19,390</b>	<b>37,826</b>	<b>(5,265)</b>	<b>32,561</b>

### c) Operating profit

	2000 £'000	1999 £'000
The operating profit is stated after charging:		
Depreciation	483	360
Impairment to investment property	-	100
Impairment to investment	500	-
Operating leases in respect of land and buildings	226	226
Auditors' remuneration	100	106
Auditors' remuneration in respect of non-audit work amounted to £94,500 (1999: £109,000).		

### d) Analysis of net assets

	2000 £'000	1999 £'000
Property	109,675	105,857

Net assets are all in the United Kingdom except £1,786,000 (1999: £1,882,000) in respect of a development property in France and £985,000 (1999: £1,025,000) in respect of a joint venture company incorporated and registered in the Netherlands (refer to note 10).


## Notes to the financial statements continued

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**3. Employee information**

Staff costs including Directors:

	2000 £'000	1999 £'000
Wages and salaries	2,738	5,346
Social security	321	480
Other pension costs	279	280
	<b>3,338</b>	6,106

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

	2000 Number	1999 Number
Property development and investment	33	32
Market stall licences and other	23	21
	<b>56</b>	53

Details of Directors' emoluments are contained in the Remuneration Report on pages 47 to 51.

**4. Net interest payable**

	2000 £'000	1999 £'000
Interest on bank loans and overdrafts	4,796	5,742
Other loans	2,200	2,200
Share of interest payable/(receivable) in joint venture	40	(21)
Capitalised interest	(1,202)	(1,484)
	<b>5,834</b>	6,437
Interest receivable	(3,451)	(1,919)
	<b>2,383</b>	4,518

Capitalised interest in the amount of £1,589,000 (1999: £63,000) was written off in the year against gross profit on disposal of related properties.

**5. Tax on profit on ordinary activities**

	2000 £'000	1999 £'000
Corporation Tax on income at 30.00% (1999: 30.25%)	2,932	4,455
Adjustment in respect of prior years	-	130
Deferred Taxation	633	1,068
	<b>3,565</b>	5,653

The tax charge for the year is high as it includes \$220,000 in respect of tax on a realised revaluation surplus for which no deferred tax liability has been provided in prior years and \$235,000 in respect of capitalised costs on which corporation tax relief has previously been recognised.

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	2000 £'000	1999 £'000
<b>6. Dividends</b>		
Interim paid of 1.35p per share (1999: 1.2p)	378	335
Proposed final of 2.75p per share (1999: 2.5p)	775	698
Proposed special dividend of 5.0p per share (1999: nil)	1,409	–
	<b>2,562</b>	1,033

## 7. Earnings per share

Earnings per share have been based on the profit on ordinary activities after taxation of £6,464,000 (1999: £13,994,000) divided by the weighted average of 27,994,104 (1999: 27,912,829) shares in issue during the year.

Diluted earnings per share, based on the profit on ordinary activities after taxation of £6,464,000 (1999: £13,994,000), have been calculated taking into account the weighted average number of shares in issue during the year of 28,358,507 (1999: 28,149,498), which include shares under options granted at 1st January 2000 and options granted during the period, where those shares under options have a dilutive effect on earnings.

## 8. Investment properties

### a) Group

	Freehold £'000	Long Leasehold £'000	Total £'000
At cost or valuation 1st January 2000	101,938	21,713	123,651
Additions	16,345	–	16,345
Disposals	(47,749)	(1,200)	(48,949)
Surplus on revaluation	45	–	45
<b>At cost or valuation 31st December 2000</b>	<b>70,579</b>	<b>20,513</b>	<b>91,092</b>
Original cost of investment properties	<b>95,122</b>	<b>17,860</b>	<b>112,982</b>

### b) Company

	Freehold £'000	Long Leasehold £'000	Total £'000
At cost or valuation 1st January 2000	–	1,650	1,650
Surplus on revaluation	–	250	250
<b>At cost or valuation 31st December 2000</b>	<b>–</b>	<b>1,900</b>	<b>1,900</b>
Original cost of investment properties	–	1,995	1,995

The Group investment properties include freehold land and developments in progress held at Directors' valuation in the amount of £16,134,000 (1999: £15,202,000) and capitalised interest of £2,195,000 (1999: £1,443,000). The investment properties have been valued as at 31st December 2000 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.





## Notes to the financial statements continued

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**10. Investments continued****c) Principal subsidiary undertakings**

The principal subsidiary undertakings at 31st December 2000, all incorporated in Great Britain, registered in England and Wales and operating in the United Kingdom are:

	% holding in ordinary shares at 31.12.00	Principal Activity
Birmingham International Park (2000) Limited*	100	Property Development
Cambourne Business Park 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
Development Securities (No 9) Limited*	100	Property Investment

\* indirectly held

**11. Land, development and trading properties**

	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Land	-	1,360	-	1,360
Developments in progress	9,701	12,044	-	-
Trading properties	2,808	1,090	-	-
	<b>12,509</b>	14,494	-	1,360

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 £1,664,000 (1999: £2,368,000).

**12. Debtors**

	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Trade debtors	2,963	1,908	31	39
Amounts owed by subsidiary undertakings	-	-	121,537	124,895
Other debtors	22,322	6,553	3,220	3,687
Other tax recoverable	-	-	914	-
Deferred tax asset	180	812	180	189
Prepayments	944	769	260	284
	<b>26,409</b>	10,042	<b>126,142</b>	129,094

Included within deferred tax is an asset of £108,000 (1999: \$588,000) recoverable after more than one year and relates to the reversal of a provision previously disallowed for tax purposes. Other debtors includes accrued development profits of £10,495,000 (1999: £2,251,000).

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**13. Creditors: amounts falling due within one year**

	2000 £'000	Group 1999 £'000	2000 £'000	Company 1999 £'000
Bank loans and overdrafts	2,011	2,542	257	64
Loan notes	16	63	16	63
Trade creditors	495	567	3	30
Amounts owed to subsidiary undertakings	-	-	89,716	93,757
Other creditors	1,061	640	10	2
Corporation tax	2,220	3,217	353	-
Other tax and social security	38	546	415	417
Accruals and deferred income	6,920	11,240	1,245	3,584
Proposed dividend	2,183	698	2,183	698
	<b>14,944</b>	19,513	<b>94,198</b>	98,615

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.

**14. Creditors: amounts falling due after more than one year**

	2000 £'000	Group 1999 £'000	2000 £'000	Company 1999 £'000
First mortgage debenture 11% due 2016	20,000	20,000	-	-
Bank loans	43,820	51,250	-	-
	<b>63,820</b>	71,250	-	-

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

Bank loans, loan notes and overdrafts in the sum of £645,000 (1999: £3,535,000) included in notes 13 and 14 attract a variable interest rate of base rate +1.00 % and £65,202,000 (1999: £70,320,000) attract fixed rates between 7.13% and 11.00%.

	2000 £'000	Group 1999 £'000	2000 £'000	Company 1999 £'000
Analysis of borrowings by date of repayment:				
Less than 1 year	2,027	2,605	273	127
Between 1 and 2 years	1,123	1,027	-	-
Between 2 and 5 years	11,582	17,895	-	-
After 5 years	51,115	52,328	-	-
	<b>65,847</b>	73,855	<b>273</b>	127

Cash in the amount of £34,726,000 (1999: £5,394,000) is held on deposit as security against the above borrowings and facilities.

Borrowings due for repayment after five years include £15,490,588 (1999: £15,621,000) repayable by instalments.


## Notes to the financial statements continued

**Finance review****Summary**

The Group's financial instruments other than short-term 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 2000 were £13,217,000 (1999: £31,336,000). Cash balances were £52,630,000 (1999: £42,545,000), of which £34,726,000 (1999: £5,394,000) was pledged as security against those borrowings. Undrawn, committed revolving credit facilities were £84,000,000 (1999: £80,000,000).

The decrease in net borrowings largely reflects net cash receipts from development projects and disposal of certain 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 forward 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 2000 are analysed as:

	2000 £ million	Weighted average interest rate %	Weighted average debt maturity Years	1999 £ million	Weighted average interest rate %	Weighted average debt maturity Years
Fixed rate debt	65.2	9.1	11.5	70.3	8.9	12.5
Floating rate debt	0.6	7.0	-	3.6	7.6	4.6
Gross debt	65.8	9.0	11.5	73.9	8.9	12.3
Cash balances	52.6	5.7	-	42.6	5.8	-
Net debt	13.2	-	-	31.3	-	-
Undrawn facilities	84.0	7.0	4.4	80.0	7.0	4.8
	97.2	8.0	7.5	111.3	8.5	8.4

For the purposes of this analysis, the interest rate for undrawn facilities at 31st December 2000 is calculated based on five-year LIBOR.

Cash balances attract variable rates of interest linked to LIBOR or base rate.

The Group's investment in Stead & Simpson Group Limited is classified as a monetary asset under Financial Reporting Standard No 13, "Derivatives and Other Financial Instruments", and does not bear interest.

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### Valuation of Financial Assets and Liabilities

A valuation was carried out as at 31st December 2000 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 2000 and may be subject to daily fluctuations in line with money market movements.

The debt valuation as at 31st December 2000 is analysed as:

	Book value 31st December 2000 £'million	Fair value 31st December 2000 £'million	Fair value adjustment 31st December 2000 £'million	Fair value adjustment 21st March 2001 £'million
Fixed rate mortgage facilities	45.2	50.5	5.3	5.9
Interest rate swap	-	0.2	0.2	0.2
First Mortgage debenture 11% due 2016	20.0	27.6	7.6	7.8
<b>Total financial liabilities</b>	<b>65.2</b>	<b>78.3</b>	<b>13.1</b>	<b>13.9</b>
<b>Total financial assets</b>	<b>1.0</b>	<b>1.0</b>	<b>-</b>	<b>-</b>

The fair value adjustment of £13,100,000 at 31st December 2000 (1999: £11,500,000) represents approximately 20 per cent of gross, fixed-rate borrowings (1999: 16 per cent). The effect on net assets per share after tax of this adjustment would be a decrease of 32.9p (1999: 28.8p). As at 21st March 2001, the fair value adjustment had increased to £13,900,000, equivalent to a decrease in net assets of 34.9p per share 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 2000.

### Debt Maturity

The maturity profile of the Group's borrowings is set out above in this note. Of the total of £84,000,000 of currently undrawn revolving credit facilities, £50,000,000 expire in 2003, with the remaining £34,000,000 expiring in 2005.

### Gearing

Gearing, measured as net debt to shareholders' funds, has decreased to 12.0 per cent (1999: 29.6 per cent) as at 31st December 2000.

### 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.

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## Notes to the financial statements continued

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**15. Provisions for liabilities and charges**

There are no unprovided deferred tax assets or liabilities in the Group, except in relation to the deferred tax asset analysed in note 12.

**16. Called up share capital**

	2000 £'000	1999 £'000
Authorised:		
37,000,000 ordinary shares of 50p (1999: 37,000,000 ordinary shares of 50p)	18,500	18,500
Issued, called up and fully paid:		
27,905,829 ordinary shares of 50p (1999: 27,923,829 ordinary shares of 50p)	13,953	13,962
		Number of shares
Shares in issue at the date of this Report		28,170,829

On 27th December 2000, 279,238 ordinary shares were purchased by the Company at 322.5p per share for cancellation. During the year, \$464,000 was received following the allotment of 261,238 ordinary shares as a consequence of the exercise of share options. In addition, a further 265,000 ordinary shares have been allotted since 1st January 2001, again through the exercise of share options.

**Share Option Schemes:**

As at 31st December 2000 and at the date of this Report the options outstanding under the Company's Share Option Schemes were exercisable as follows:

## 1985 Share Option Scheme:

Date of grant	Number 31.12.00	Number 27.03.01	Exercise dates	Price
8th November 1991	1,100	1,100	8th November 1994 to 7th November 2001	320p
7th April 1994	49,500	49,500	7th April 1997 to 6th April 2004	322.5p
12th October 1994	216,000	216,000	12th October 1997 to 11th October 2004	250p
	266,600	266,600		

## Executive Share Option Scheme 1995:

Date of grant	Number 31.12.00	Number 27.03.01	Exercise dates	Price
6th June 1996	45,000	30,000	6th June 1999 to 5th June 2006	190.5p
19th May 1997	37,500	37,500	19th May 2000 to 18th May 2007	250p
21st May 1998	95,000	95,000	21st May 2001 to 20th May 2008	328.5p
26th May 1998	214,395	214,395	26th May 2001 to 25th May 2008	326.5p
	391,895	376,895		

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## Notes to the financial statements continued

<b>17. Reserves</b>						
<b>a) Group</b>						
			Share premium account £'000	Investment property revaluation reserve £'000	Other property revaluation reserve £'000	Capital redemption reserve £'000
At 1st January 2000			60,896	(9,229)	1,107	971
Issue of new shares			642	–	–	–
Purchase of own shares			–	–	–	140
Net surplus on revaluation of investment properties			–	45	–	–
Revaluation reserve realised on disposal of investment properties			–	6,709	(733)	–
<b>At 31st December 2000</b>			<b>61,538</b>	<b>(2,475)</b>	<b>374</b>	<b>1,111</b>

The cumulative goodwill written off at 31st December 2000 is £5,301,000 (1999: £5,301,000). This goodwill was eliminated against reserves in accordance with the Group's accounting policy prior to 1998, and will be charged to the profit and loss account on disposal of the business to which it relates.

**b) Company**

					Share premium account £'000	Investment property revaluation reserve £'000
At 1st January 2000					60,896	(345)
Issue of new shares					642	–
Purchase of own shares					–	–
Net surplus on revaluation of investment properties					–	250
<b>At 31st December 2000</b>					<b>61,538</b>	<b>(95)</b>

**18. Profit and loss account**

					Group £'000	Company £'000
At 1st January 2000					(6,038)	17,762
Purchase of own shares					(902)	(902)
Revaluation reserve realised on disposal of investment properties and other properties					(5,976)	–
Retained profit/(loss) for the year					3,902	(2,109)
<b>At 31st December 2000</b>					<b>(9,014)</b>	<b>14,751</b>

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 £453,000 (1999: £4,135,000).

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### 19. Financial commitments

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

	2000 £'000	1999 £'000
Financial commitments	<b>16,728</b>	4,350
Annual commitments in respect of operating leases on land and buildings expiring after more than five years	<b>226</b>	226

Subsequent to the year end, £15,000,000 of financial commitments were released following the funding of a development project with a third party.

### 20. Contingent liabilities

Performance bonds of Group companies are guaranteed by banks in favour of third parties for a total of £201,935 (1999: £319,000). The due performance of obligations under various leases entered into by Group companies, expiring subsequent to 2015, amount to £1,743,000 per annum (1999: £1,773,000). Obligations in respect of a guarantee for the provision of finance to Stead & Simpson Group Limited amounted to £2,118,000 (1999: £2,118,000) (refer to note 10).

### 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 (outflow)/inflow from operating activities

	2000 £'000	1999 £'000
Operating profit	<b>12,165</b>	24,682
Profit on disposal of tangible fixed assets	-	(7)
Decrease in developments and trading properties	<b>2,076</b>	4,762
(Increase)/decrease in debtors	<b>(16,645)</b>	20,670
(Decrease)/increase in creditors	<b>(4,257)</b>	2,700
Depreciation charges	<b>483</b>	360
Other items – non cash	<b>(40)</b>	(5)
	<b>(6,218)</b>	53,162

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## Notes to the financial statements continued

<b>23. Analysis of cash flow for headings netted in the cash flow statement</b>					
			<b>2000</b> <b>£'000</b>	<b>2000</b> <b>£'000</b>	1999 £'000
					1999 £'000
<b>Returns on investment and servicing of finance</b>					
Interest received			<b>3,098</b>		1,656
Interest paid			<b>(6,514)</b>		(6,638)
<b>Net cash outflow for returns on investment and servicing of finance</b>				<b>(3,416)</b>	(4,982)
<b>Capital expenditure and financial investment</b>					
Purchase of tangible fixed assets			<b>(1,728)</b>		(874)
Receipts from sale of tangible fixed assets			-		67
Receipts from sale of investment properties			<b>49,043</b>		6,408
Purchase of investment properties			<b>(15,312)</b>		(17,710)
<b>Net cash inflow/(outflow) from capital expenditure and financial investment</b>				<b>32,003</b>	(12,109)
<b>Financing</b>					
Issue of new shares			<b>464</b>		-
Purchase of own shares			-		(799)
Debt due within one year					
– repayment of secured loan			<b>(387)</b>		(7,253)
– increase in pledged cash			<b>(29,332)</b>		(359)
Debt due beyond one year					
– repayment of secured loan			<b>(7,430)</b>		-
Capital element of finance lease payments			<b>(26)</b>		-
<b>Net cash outflow from financing</b>				<b>(36,711)</b>	(8,411)
<b>24. Analysis of net debt</b>					
			Balance at 1 January 2000 £'000	Cash flow £'000	Other non-cash changes £'000
					<b>Balance at 31 December 2000 £'000</b>
Cash in hand, at bank			37,151	(19,247)	-
Bank overdraft			(1,069)	191	-
				(19,056)	
Debt falling due within one year:			(1,536)	387	-
Debt falling due after more than one year:			(71,250)	7,430	-
Pledged cash			5,394	29,332	-
Finance leases			(26)	26	-
				37,175	
			(31,336)	18,119	-
					<b>(13,217)</b>
Pledged cash shown above is included within cash at bank and in hand in the consolidated balance sheet.					

# Remuneration report

The Remuneration Committee, as constituted by the Board, is responsible for the determination of the remuneration policy for the 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 three times during the year, comprises W Grant as Chairman and M D Wigley. Sir D S Rowe-Beddoe and Lord McAlpine of West Green resigned as members of the Committee on 4th August 2000 and W Grant was appointed to the Committee on 12th September 2000. 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 London Stock Exchange Listing Rules and this Report contains the appropriate information detailed in Schedule B thereto.

## 1 Executive remuneration policy

The objective of the 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 as 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.

## Remuneration report continued

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.

#### **(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 that of the median of a group of 25 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.

#### **(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 211.5p per notional share, but with a notional cash bonus limit totalling £814,637, representing the maximum bonus which may become payable under the grant. 65,000 options with a notional cash bonus limit of £54,925 lapsed during the year. Taking into account the options which lapsed or were exercised in the prior year, 644,395 options remain outstanding as at 31st December 2000, with a notional cash bonus limit of £529,007.

#### **(f) Share option schemes**

The original Executive Share Option 1985 Scheme was approved in that year and following its 10-year life, was renewed 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. No grants were made during the year. An option over 207,692 shares at an exercise price of 260p per share in favour of W M H Rose lapsed on 17th March 2000 and 197,500 options were exercised during the year.

**(g) Savings related option scheme**

On 14th November 2000, 21 members of staff, including M H Marx, were granted an option over a total of 36,693 shares at an exercise price of 233.5p per share under the Savings Related Option Scheme 1995. The option was open to all employees who had been employed by the Group in excess of one month. The options may be exercised after three years at a price not less than 80% of the market value of the shares at the time of invitation. The options granted in 1997 may be exercised after five years and those in 1999 after three years.

The grant made on 23rd June 1995 under a five-year term matured on 1st August 2000 resulting in 63,738 shares being allotted to seven members of staff, including 14,139 in favour of M H Marx, following exercise at the option price of 122p per share.

**(h) Service contracts and retirement benefits**

Either party may terminate the service contract of M H Marx or C J Barwick with 12 months' notice. H R Jenkins CBE, Lord Gowrie PC and P J Willis serve for fixed term expiring on 1st June 2002 and W Grant until the Annual General Meeting to be held in 2003.

Either party may terminate the appointment of H R Jenkins CBE with 12 months' notice and those for W Grant, P J Willis and M D Wigley with six months' notice. In respect of Lord Gowrie PC, if it is mutually agreed to terminate prior to the end of the term, then a notice period of six months will apply and in all other events, compensation will be due for the full remainder of the contractual term.

A variation to the service contract with M R Landau and service agreement with Executive Services Overseas Inc ("ESO") was entered into on 18th December 1998. The services of M R Landau, through 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 1st January 2000 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 1st January 2000 to 31st December 2002.

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.

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

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. FURBS have been established for both M H Marx and C J Barwick. The maximum contributions by the Company may not exceed 17.5% of salary in total towards the approved scheme/arrangement and the FURBS.



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### 3. Directors' share interests

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

Ordinary Shares:					2000 No.	1999 No.
M H Marx					54,139	25,000
C J Barwick					10,000	—
M R Landau					214,363	845,018
Lord Gowrie PC					8,888	8,888
M D Wigley					70,000	70,000
W Grant					5,000	5,000
					<b>362,390</b>	953,906

Options:		Date of Grant		Exercise Price	2000 No.	1999 No.
M H Marx		12th October 1994		250p	216,000	216,000
		26th November 1998		211.5p	216,000‡	216,000‡
		14th November 2000		233.5p	4,148†	—
C J Barwick		26th May 1998		326.5p	214,395	214,395
		26th November 1998		211.5p	214,395‡	214,395‡
		7th June 1999		210.5p	4,602†	4,602†
M R Landau (granted to Executive Services Overseas Inc.)		27th July 1993		350p	140,000*	140,000*
		10th April 1997		245p	500,000*	500,000*

\* Options granted outside of the Share Option Schemes.

† Savings related options.

‡ Notional shares granted under the Option Scheme 1993, with notional cash bonus limits of:

M H Marx £83,160

C J Barwick £246,554

- (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 2000 was 327.5p and the range during 2000 was 241p to 327.5p.
- (c) On 4th January 2001, M D Wigley inherited an additional 2,600 shares and on 15th January 2001, Executive Services Overseas Inc. exercised 250,000 options granted on 10th April 1997 at an exercise price of 245p per share, selling 170,000 shares thereof at 332.5p per share.
- (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.

There were no further transactions between 31st December 2000 and the date of this report.

Signed on behalf of the Board on 27th March 2001

W Grant

Chairman of the Remuneration Committee

# Financial calendar and Advisors

## FINANCIAL CALENDAR

Annual General Meeting  
 Payment of ordinary and special dividend  
 Announcement of interim results to 30th June 2001

19th June 2001  
 5th July 2001  
 September 2001

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 S A Lanes FCA

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REGISTERED NUMBER  
 1528784

## ADVISORS

AUDITORS  
 Deloitte & Touche

PRINCIPAL BANKERS  
 Barclays Bank PLC  
 HSBC Property Finance  
 Bank of Scotland  
 Norwich Union Mortgage Finance Limited

MERCHANT BANKERS  
 HSBC Investment Bank plc

CORPORATE SOLICITORS  
 Linklaters

STOCKBROKERS  
 HSBC Securities

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 Bourne House,  
 34 Beckenham Road,  
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