

Development Securities PLC

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Interim Report 2005



Developing risk averse strategies for property

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Financial highlights

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.

Financial highlights

unaudited for the six months ended 30th June 2005

	30th June 2005 unaudited £ million	30th June 2004 unaudited restated £ million	31st Dec 2004 audited restated £ million
(Loss)/profit before taxation	(1.3)	0.5	18.9
Net assets	170.6	127.2	173.2
Net borrowings*	(68.1)	(47.5)	(30.8)
(Loss)/earnings per share (pence)	(3.0)	2.8	54.5
Net assets per share (pence)	465	451	472
Dividends per share declared (pence)	2.12	2.00	6.00

* See glossary (refer note 15)

The figures presented for 30th June 2004 and 31st December 2004 are restated for the adoption of International Financial Reporting Standards (refer note 13).

Chairman's statement

The results for the six months to 30th June 2005, our first reported under newly adopted International Financial Reporting Standards, are in line with our expectations at the commencement of the year. We recorded a loss before taxation of £1.3 million, compared to a restated profit of £0.5 million in the first six months of the previous year.

Shareholders' funds declined marginally to £170.6 million, equivalent to 465 pence per share, from the restated £173.2 million or 472 pence per share at 31st December 2004. These figures compare to shareholders' funds of £171.0 million or 466 pence per share which we originally reported in March this year.

Shareholders will be aware that over recent years our substantial profits arose largely from the realisation of development gains on significant projects in which we were involved in the previous property development cycle. Shareholders will equally be aware that development activity in Central London, our core market, has been very subdued since the peak of the last cycle in 2000 and hence there are no development surpluses to report in the period now under review.

We have now adopted the new International Financial Reporting Standards. As you will see from the attached financial statements, they have had only a marginal impact on the figures we have previously reported.

The balance sheet remains strong, with shareholders' funds very close to their all time high. Net gearing* is currently at a modest 40 per cent. Accordingly, your Board has declared an interim dividend of 2.12 pence per share, an increase of six per cent over the equivalent dividend paid in 2004, to be paid on 27th October to shareholders on the register on 30th September 2005.

The United Kingdom economy is likely to require a period of consolidation before it moves forward again. Economic growth has decelerated to an annual rate of 1.7 per cent in the first half of 2005 as domestic demand slowed sharply. The consensus view is that UK GDP growth will decline significantly from 3.2 per cent in 2004 to circa 2.0 per cent per annum in 2005 and 2006.

* See glossary (refer note 15)

Whilst we have been active in identifying and bidding for development opportunities in Central London, we are reluctant to commit our resources and management time to projects which do not enable us to generate adequate returns for our shareholders. The weight of money in the market and keen appetite of investors and competitors has seemingly raised the cost of entry for many projects to levels that we believe are unjustified. On the more positive side, inflation remains low, with expectations that the low interest rate environment will continue into the medium-term. However, strong tenant demand, which would lead to firm rental growth, remains elusive and it is this indicator, possibly more than anything else, which has determined our cautious approach during 2005.

Accordingly, as shareholders will be aware from my previous report, we have refocused our current endeavours into the key provincial cities in the United Kingdom and into the London suburbs. The number of projects which we have either won or with which we are still actively associated outside Central London is significant. Current low interest rates together with the relative lack of distressed sellers of real estate preclude any reduction in acquisition prices in the near future.

PaddingtonCentral

A revised masterplan for future phases, comprising four office buildings totalling 800,000 sq. ft. net and a 200-room hotel, has been agreed with our development partner, Morley Fund Management. Whilst certain aspects of this masterplan remain subject to planning approval, particularly the inclusion of the hotel, a decision was made in August of this year to seek tenders for the construction of our next phase, namely the 250,000 sq. ft. office building for which detailed planning consent already exists. Consideration is being given to the implications of extending this phase to incorporate the hotel building. We expect to place the main construction contract within a few months and still anticipate practical completion to be at the end of 2007. Construction of the Crossrail works on the site commenced in January 2005 and is on schedule for practical completion in Spring 2006. These works will enable the Crossrail project to proceed at its own pace by providing a horizontal separation between the planned Crossrail work area and future phases of the PaddingtonCentral development. It is also pleasing to report that the project to widen the adjacent Bishops Bridge Road from two to five lanes will be completed in April 2006, providing the new main road access to our development, directly opposite the proposed new entrance to Paddington station. The new bridge and the Crossrail works are significant components in the realisation of our regeneration vision for PaddingtonCentral.

Chairman's statement continued

CityPark, Manchester

Located in central Manchester immediately to the north-east of Victoria station, CityPark has an outline planning consent for a 94,000 sq. ft. hotel and 177,000 sq. ft. of office accommodation, together with associated car parking. Since acquisition of this site in the final quarter of 2004, we have been working up feasibility studies on the variation and enlargement of the existing planning consent as well as engaging in negotiation with a number of potential hotel operators. We anticipate being in a position to submit a detailed planning application to Manchester City Council in the near future.

Cambourne Business Park

In July this year, we signed an agreement to let 20,000 sq. ft. of office accommodation to a subsidiary of TTP Communications plc, a cellular telephone systems provider. Only one building therefore remains to be let on Phase 2 of our development and we are currently reviewing the sub-division of this 45,000 sq. ft. building in the light of current tenant interest.

Located nine miles from Cambridge City Centre and close to the M11 motorway, this 750,000 sq. ft. business park is an integral part of the Cambourne settlement; a 1,040-acre scheme of 3,300 houses with town centre, hotel, retail and leisure facilities.

Broughton Park

Since the summer of 2004, when planning applications were submitted for both the proposed retail and residential developments, much work has been undertaken in connection with the impact of those proposals on the existing transport infrastructure as well as a retail impact assessment. The environmental impact has also been carefully considered and agreement reached with the relevant environmental agencies.

The planning application for the extension to the existing retail scheme is intended to embrace a 90,000 sq. ft. Marks & Spencer store, an additional 26,000 sq. ft. for Tesco and 54,000 sq. ft. of speculative retail space. We anticipate that the planning application will be presented to the members' committee of Flintshire County Council before the end of this financial year.

Very soon thereafter, we anticipate that the residential planning application in respect of our nearby 27.7-acre site will be presented to the committee, hopefully also before the end of this year. This site is close to the retail park, the British Aerospace facility and within a reasonable walking distance of the proposed one million sq. ft. business and leisure park to be developed by the Welsh Development Agency at Warren Hall, for which planning approval was obtained in July of this year.

Colindale, London, NW9

In June, we acquired the freehold interest in an existing 100,000 sq. ft. retail scheme which was developed in the late 1980s, for £26.4 million, yielding 6.5 per cent. Currently known as Oriental City, the retail activity presently embraces a broad range of specialist oriental food

retailers and other products. The 7.5-acre site has the capacity to accommodate a significantly more dense mixed-use development, which we believe will embrace an enlarged retail offer not restricted to oriental foods and merchandise, as well as a substantial residential component. We have begun work on preparing a detailed planning application and have already engaged Brent Borough Council in early discussions.

Property portfolio

The continued dislocation between property investment and occupational markets remains difficult to fully justify. There is little doubt that property is seen in a new light by investors as part of a diversified investment portfolio. This has fuelled demand for property investments and in turn led to unprecedented price increases. Meanwhile, occupational markets, impacted by a soft domestic and global economic environment, have stalled. Rental growth is the critical long-term factor in providing investment returns. Yield shifts at best can be one-off, and at worst often are transitory.

However, we now feel that the indiscriminate rise in property values is coming to an end and continued implementation of our stock selection and asset management initiatives will be the key drivers to increasing values and delivering shareholder returns from our property portfolio.

We have remained committed to our three key principles, namely sector rotation, stock selection and proactive management. As a result, so far this year we have been cautious on acquisitions, whilst taking advantage of market conditions to sell those assets where we believe the market has overpriced the quality and potential offered. Most importantly, we have remained focused on maximising value from the assets we own.

Our investment acquisition strategy remains focused on marginally higher-risk assets that do not depend on market momentum to deliver returns. We are encouraged by increasing confidence in both our stock selection skills and recognition that we possess the required in-house development skills to generate attractive shareholder returns.

Earlier this year, we completed the development funding of Cavendish Walk Shopping Centre in Huyton, Liverpool. Construction of this centre has just commenced and will be undertaken by our development partner CTP over the course of the next nine months to provide circa 100,000 sq. ft. of town centre retail accommodation. At the time of our acquisition, the anchor unit was pre-let to Wilkinson Hardware Stores Limited and it is our clear task to lease the remainder of the scheme. Whilst the evidence from the high street indicates a slowdown in consumer spending, there are still a number of retailers with targeted expansion plans and we are pleased to report that serious discussions are in hand for over 60 per cent of the accommodation. On completion and when fully let, we would expect the scheme to reflect an attractive uplift in value. We intend to target further acquisitions of this nature where we undertake quantifiable letting risk, which we can price, whilst leaving the construction cost risk with our specialist development partners.

Chairman's statement continued

We continue to implement asset management initiatives at our other shopping centre assets, including the acquisition of adjoining land holdings to facilitate further phases of development and tenant upgrades. For example, in Ringwood we have taken back possession of several units and have this year, amongst others, welcomed Hobbs, AGA and Phase 8 to the scheme. Having created a refreshed and unique shopping experience on the south coast, we intend to capitalise on this with further phases of development of the scheme, targeting other aspirational retail brands. Accordingly, we have acquired a key adjacent land holding to facilitate this extension and are in discussion with the Local Authority to obtain the required planning permission.

Aside from the recent sale of Milton House, Sheffield for £15.5 million, our disposals have focused on smaller assets, thereby further rationalising the portfolio. We plan an acceleration of the sales programme towards the end of the year, especially if the investment market shows further signs of flattening out.

Our exposure to retail property has served us well over recent years, but as the retail sector bears the brunt of the economic slowdown, we expect the disparity between sectoral returns to reduce. We will continue to balance the overall portfolio positioning against our stock specific investment strategy.

In June, we were pleased to receive the prestigious Estates Gazette property investment award for the highest three-year returns in the category of Balanced Pooled Funds and Traditional Institutions £50 million to £200 million.

Following recent transactions our property portfolio sector allocation by value comprises 76 per cent retail, 11 per cent office and 13 per cent industrial.

Stead & Simpson

Following on from their appointment by Stead & Simpson in March 2005, Clearwater Corporate Finance PLC conducted a strategic review of a range of exit options for some of Stead & Simpson's current shareholders, including ourselves. Following the review, Clearwater initiated the presentation of the business to a wide range of interested parties embracing the venture capital, trade and banking sectors. Since then, a shortlist of preferred bidders have undertaken due diligence, including meetings with the executive management of Stead & Simpson. It is anticipated that Clearwater will shortly be able to recommend one of the bidders as a suitable investor to support and further the growth of the business.

Notwithstanding an inclement April and May this year and a generally perceived slowdown in retail activity, sales at Stead & Simpson so far this year have been maintained slightly ahead of last year, on a like for like basis.

Conclusion

I am pleased to report that in the second half of the current financial year, investment property disposals have already realised profits of £2.5 million. We have a number of other properties currently under offer which we hope will realise additional gains upon completion in the next few months. All realised gains will be accounted for within the income statement for the year to 31st December 2005 together with, under the new accounting standards, the impact of the normal year-end property revaluations. The Investment Property Databank capital growth index to August this year increased by 5.9 per cent, providing us with some confidence that our 2005 year-end revaluation surplus will again prove firmly positive.

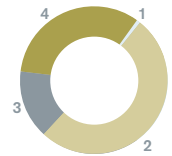
A handwritten signature in gold ink, appearing to read 'R. M. Dantzig', with a long horizontal stroke extending to the right.

R M Dantzig
Chairman
20th September 2005

Property portfolio analysis

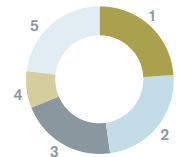
Tenant profile

1	FTSE 100	1%
2	PLC/Nationals	51%
3	Regional Multiples	15%
4	Local Businesses	33%



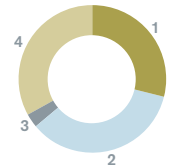
Lease profile

1	0-5 years	24%
2	5-10 years	24%
3	10-15 years	21%
4	15-20 years	8%
5	20 years +	23%



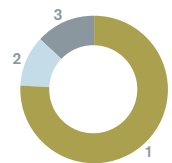
Location profile

1	London	29%
2	South East	35%
3	Midlands	3%
4	North	33%



Analysis by sector

1	Retail	76%
2	Office	11%
3	Industrial	13%



As at 31st August 2005

Principal properties

Retail	Kingsland Shopping Centre, Thatcham, Berkshire 131 The Broadway, Bexleyheath, Kent The Furlong Centre, Ringwood, Hampshire Princess of Wales Shopping Centre, Dewsbury Swanley Shopping Centre, Swanley, Kent
Offices	The Genesis Centre, Birchwood, Warrington, Cheshire
Industrial	Great West Trading Estate, Great West Road, Brentford, Middlesex

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Consolidated income statement

unaudited for the six months ended 30th June 2005

	Notes	Six months to 30th June 2005 unaudited £ million	Six months to 30th June 2004 unaudited restated £ million	Year ended 31st Dec 2004 audited restated £ million
Revenue		7.9	10.0	23.7
Direct costs		(3.6)	(5.3)	(14.0)
Gross profit	3	4.3	4.7	9.7
Operating costs		(3.7)	(3.4)	(8.4)
Operating profit		0.6	1.3	1.3
Share of results of associate		0.5	0.7	3.6
Income from other fixed asset investments		0.2	0.1	0.1
Gain on revaluation of investment properties		–	–	14.7
Profit on disposal of investment properties		0.1	0.6	4.0
Profit before interest and taxation		1.4	2.7	23.7
Finance income		1.2	1.2	2.6
Finance costs		(3.9)	(3.4)	(7.4)
(Loss)/profit before taxation		(1.3)	0.5	18.9
Taxation	4	0.2	0.3	(0.3)
(Loss)/profit for the period		(1.1)	0.8	18.6
Basic (loss)/earnings per share	6	(3.0)p	2.8p	54.5p
Diluted (loss)/earnings per share	6	(3.0)p	2.8p	54.4p

Consolidated balance sheet

unaudited as at 30th June 2005

	Notes	30th June 2005 unaudited £ million	30th June 2004 unaudited restated £ million	31st Dec 2004 audited restated £ million
Non-current assets				
Property, plant and equipment				
– Operating properties		10.4	8.2	10.6
– Other non-current assets		3.7	4.0	3.8
Investment properties	7	161.5	134.3	156.6
Investments		7.0	5.2	8.4
		182.6	151.7	179.4
Current assets				
Land, developments and trading properties		55.0	21.7	21.2
Trade and other receivables		15.6	16.3	18.0
Cash and cash equivalents		26.6	43.5	53.8
		97.2	81.5	93.0
Current liabilities				
Trade and other payables		(15.3)	(16.0)	(16.4)
Net current assets		81.9	65.5	76.6
Total assets less current liabilities		264.5	217.2	256.0
Non-current liabilities				
Borrowings	8	(93.9)	(90.0)	(82.8)
Net assets		170.6	127.2	173.2
Financed by				
Capital and reserves				
Called up share capital	9	18.3	14.1	18.3
Reserves	10	134.8	110.2	134.8
Retained earnings	10	17.5	2.9	20.1
Total equity shareholders' funds		170.6	127.2	173.2
Basic net assets per share		465p	451p	472p
Diluted net assets per share		462p	447p	469p

Consolidated statement of recognised income and expense

unaudited as at 30th June 2005

	Six months to 30th June 2005 unaudited £ million	Six months to 30th June 2004 unaudited restated £ million	Year ended 31st Dec 2004 audited restated £ million
Gains on revaluation of owner-occupied properties	–	–	0.1
(Loss)/profit for the period	(1.1)	0.8	18.6
Total recognised income and expense for the period attributable to equity shareholders of the parent company	(1.1)	0.8	18.7

Consolidated statement of changes in equity

unaudited as at 30th June 2005

	30th June 2005 unaudited £ million	30th June 2004 unaudited restated £ million	31st Dec 2004 audited restated £ million
Opening shareholders' funds			
– as previously reported		125.1	125.1
– effect of adopting IFRS (note 13)		2.3	2.3
Opening shareholders' funds – restated	173.2	127.4	127.4
Issue of shares	–	–	28.6
Adjustment for share-based payments	–	–	0.1
	173.2	127.4	156.1
Total recognised income and expense for the period	(1.1)	0.8	18.7
Dividends (note 5)	(1.5)	(1.0)	(1.6)
Closing shareholders' funds	170.6	127.2	173.2

Consolidated cash flow statement

unaudited for the six months ended 30th June 2005

	Notes	Six months to 30th June 2005 unaudited £ million	Six months to 30th June 2004 unaudited restated £ million	Year ended 31st Dec 2004 audited restated £ million
Net cash from operating activities	11	(35.3)	(11.7)	(15.8)
Investing activities:				
Interest received		1.2	1.3	2.5
Dividends received from associated undertaking		0.2	–	–
Proceeds from sale of shares in associated undertaking		0.3	–	–
Proceeds from redemption of preference shares held in associated undertaking		1.5	–	–
Issue of new shares		–	–	28.6
Proceeds on disposal of property, plant and equipment		–	0.1	0.1
Proceeds on disposal of investment properties		3.4	5.9	26.3
Purchase of property, plant and equipment		(0.3)	(0.7)	(0.9)
Purchase of investment properties		(8.3)	(23.2)	(50.7)
Purchase of investments		–	(0.3)	(0.4)
Net cash (used in)/from investing activities		(2.0)	(16.9)	5.5
Financing activities:				
Dividends paid		–	–	(1.6)
Repayments of borrowings		(5.1)	(0.1)	(7.2)
New bank loans raised		16.1	15.2	15.2
(Decrease)/increase in bank overdrafts		(0.8)	0.6	1.4
Decrease/(increase) in pledged cash		6.3	3.8	(10.2)
Net cash from/(used in) financing activities		16.5	19.5	(2.4)
Net decrease in cash and cash equivalents		(20.8)	(9.1)	(12.7)
Cash and cash equivalents at the beginning of the year		34.6	47.4	47.4
Cash and cash equivalents at the end of the period		13.8	38.3	34.7
Pledged cash held as security against borrowings		12.8	5.2	19.1
Cash and cash equivalents as disclosed in the consolidated balance sheet		26.6	43.5	53.8

Notes to the interim financial information

unaudited for the six months ended 30th June 2005

1. BASIS OF ACCOUNTING

The restated results presented for the year ended 31st December 2004 are not statutory accounts within the meaning of s240, Companies Act 1985. Statutory accounts for that period were prepared and filed with the Registrar of Companies and received an unqualified audit report. The results for the six months to 30th June 2005 and 2004 are unaudited and do not constitute the Group's statutory accounts within the meaning of s240 of the Companies Act 1985.

The income statement and balance sheet have been prepared in accordance with applicable International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and on the basis that all such standards will be endorsed by the European Union (EU). These standards are also collectively referred to as "IFRS".

2. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

All listed companies in the EU are required to present their consolidated financial statements for accounting periods beginning on or after 1st January 2005 in accordance with IFRS as adopted by the EU. Therefore, the Group's consolidated financial statements for the year ending 31st December 2005 will be presented on this basis with IFRS comparative figures. These interim financial statements have been prepared on the basis of the IFRS accounting policies expected to be adopted in the year-end consolidated financial statements.

The Group's transition date for adoption of IFRS is 1st January 2004. IAS 32 and IAS 39, dealing with financial instruments have been adopted from 1st January 2005. The provisions of IFRS 2 "Share-Based Payments" have been applied in respect of grants of equity instruments after 7th November 2002. IFRS 3 "Business Combinations" has been applied prospectively from 1st January 2004. These transition dates have been selected in accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards".

Prior to the adoption of IFRS, the financial statements of Development Securities PLC had been prepared in accordance with United Kingdom accounting standards (UK GAAP). UK GAAP differs in certain respects from IFRS and certain accounting, valuation and consolidation methods have been amended, when preparing these financial statements, to comply with IFRS. The comparative figures in respect of 2004 have been restated to reflect these amendments. Reconciliation and description of the effect of the transition from UK GAAP to IFRS on the Group's reported financial position, financial performance and cash flows is set out in notes 13 and 14.

3. SEGMENTAL ANALYSIS

For management purposes, the Group is currently organised into three operating divisions – Investment, Trading and Development and Operating. These divisions are the basis on which the Group reports its primary segmental information.

Principal activities are as follows:

- Investment – management of the Group's investment property portfolio, generating rental income and valuation surpluses from property management;
- Trading and Development – managing the Group's development projects. Revenue is received from project management fees and development profits;
- Operating – serviced office operations and retail activities. Revenue is principally received from short-term licence fee income.

	Six months to 30th June 2005			
	Investment £ million	Trading and Development £ million	Operating £ million	Total £ million
Revenue	5.2	0.4	2.3	7.9
Direct costs	(0.8)	(0.6)	(2.2)	(3.6)
Gross profit/(loss)	4.4	(0.2)	0.1	4.3
Unallocated operating costs				(3.7)
Operating profit				0.6
Share of results of associate				0.5
Income from other fixed asset investments				0.2
Profit on disposal of investment properties				0.1
Profit before interest and taxation				1.4
Finance income				1.2
Finance costs				(3.9)
Loss before taxation				(1.3)
Taxation				0.2
Loss for the period				(1.1)

Notes to the interim financial information continued

unaudited for the six months ended 30th June 2005

3. SEGMENTAL ANALYSIS continued

	Six months to 30th June 2004			
	Investment £ million	Trading and Development £ million	Operating £ million	Total £ million
Revenue	4.6	3.2	2.2	10.0
Direct costs	(0.7)	(2.2)	(2.4)	(5.3)
Gross profit/(loss)	3.9	1.0	(0.2)	4.7
Unallocated operating costs				(3.4)
Operating profit				1.3
Share of results of associate				0.7
Income from other fixed asset investments				0.1
Profit on disposal of investment properties				0.6
Profit before interest and taxation				2.7
Finance income				1.2
Finance costs				(3.4)
Profit before taxation				0.5
Taxation				0.3
Profit for the period				0.8

	Year ended 31st Dec 2004			
	Investment £ million	Trading and Development £ million	Operating £ million	Total £ million
Revenue	9.2	9.4	5.1	23.7
Direct costs	(1.5)	(7.7)	(4.8)	(14.0)
Gross profit	7.7	1.7	0.3	9.7
Unallocated operating costs				(8.4)
Operating profit				1.3
Share of results of associate				3.6
Income from other fixed asset investments				0.1
Gain on revaluation of investment properties				14.7
Profit on disposal of investment properties				4.0
Profit before interest and taxation				23.7
Finance income				2.6
Finance costs				(7.4)
Profit before taxation				18.9
Taxation				(0.3)
Profit for the year				18.6

4. TAXATION

Corporation tax for the interim period is charged at 30 per cent (30th June and 31st December 2004: 30 per cent). The tax credit for the period represents the estimated deferred tax asset arising from the loss for the period.

5. DIVIDENDS

	Six months to 30th June 2005 unaudited £ million	Six months to 30th June 2004 unaudited restated £ million	Year ended 31st Dec 2004 audited restated £ million
Amounts recognised as distributions to equity holders in the period	1.5	1.0	1.6
Proposed interim dividend for the year ended 31st December 2005	0.8		
	Pence	Pence	Pence
Interim dividend per share	2.12	2.00	2.00
Final dividend per share	–	–	4.00

The interim dividend was approved by the Board on 20th September 2005 and has not been included as a liability as at 30th June 2005. The interim dividend is payable on 27th October 2005 to Ordinary shareholders on the register at the close of business on 30th September 2005.

6. (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months to 30th June 2005 unaudited	Six months to 30th June 2004 unaudited restated	Year ended 31st Dec 2004 audited restated
(Loss)/earnings for the purposes of basic and diluted earnings per share (£ million)	(1.1)	0.8	18.6
Number of shares			
Weighted average number of Ordinary shares for the purposes of basic earnings per share (million)	36.7	28.2	34.1
Effect of dilutive potential Ordinary shares:			
– Share options (million)	–	0.1	0.1
Weighted average number of Ordinary shares for the purpose of diluted earnings per share (million)	36.7	28.3	34.2
Basic (loss)/earnings per share (pence)	(3.0)	2.8	54.5
Diluted (loss)/earnings per share (pence)	(3.0)	2.8	54.4

Notes to the interim financial information continued

unaudited for the six months ended 30th June 2005

7. INVESTMENT PROPERTIES

Investment properties at 30th June 2005 are stated at the valuations incorporated within the financial statements for the year ended 31st December 2004 or at cost where acquired subsequently. The movement in investment properties for the six month period ended 30th June 2005 was:

	Freehold £ million	Long leasehold £ million	Total £ million
At 1st January 2005	151.8	4.8	156.6
Additions	8.2	–	8.2
Disposals	(1.4)	(1.9)	(3.3)
At 30th June 2005	158.6	2.9	161.5

Interest of £0.1 million was capitalised in the six months ended 30th June 2005 (30th June 2004: £0.3 million, 31st December 2004: £0.5 million).

8. BORROWINGS

The Group repaid £5.1 million of debt during the period (30th June 2004: £0.1 million, 31st December 2004: £7.2 million). New facilities were drawn during the period in the amount of £16.1 million (30th June 2004: £15.2 million, 31st December 2004: £15.2 million).

At 30th June 2005, an external valuation, undertaken by J C Rathbone Associates Limited, appraised 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 rates of appropriate debt instruments, resulting in an excess of fair value over book value of £15.3 million before tax (30th June 2004: £11.7 million, 31st December 2004: £14.2 million) at that date. The valuation, which is subject to daily fluctuations in line with money market movements, is only an indication of the notional effect on the net asset value of the Group at 30th June 2005 and is not recognised in the balance sheet.

9. SHARE CAPITAL

	30th June 2005 unaudited £ million	30th June 2004 unaudited £ million	31st Dec 2004 audited £ million
Authorised:			
50,000,000 Ordinary shares of 50 pence (30th June 2004: 37,000,000 Ordinary shares of 50 pence, 31st December 2004: 50,000,000 Ordinary shares of 50 pence)	25.0	18.5	25.0
Issued, called up and fully paid:			
36,674,869 Ordinary shares of 50 pence (30th June 2004: 28,188,876 Ordinary shares of 50 pence, 31st December 2004: 36,667,308 Ordinary shares of 50 pence)	18.3	14.1	18.3

10. RESERVES

	Share premium £ million	Property revaluation reserve £ million	Other reserves £ million	Total £ million
At 1st January 2005 (restated) and 30th June 2005	87.4	1.7	45.7	134.8
				Retained earnings £ million
At 1st January 2005 (restated)				20.1
Loss for the period				(1.1)
Final dividend for the year ended 31st December 2004				(1.5)
At 30th June 2005				17.5

11. NOTE TO THE CASH FLOW STATEMENT

	Six months to 30th June 2005 unaudited £ million	Six months to 30th June 2004 unaudited restated £ million	Year ended 31st Dec 2004 audited restated £ million
Operating profit	0.6	1.3	1.3
Adjustments for:			
Depreciation of property, plant and equipment	0.5	0.5	1.0
Operating cash flows before movements in working capital	1.1	1.8	2.3
Increase in developments and trading properties	(33.8)	(6.5)	(5.7)
Decrease/(increase) in receivables	2.8	(4.0)	(4.6)
(Decrease)/increase in payables	(1.7)	0.4	(1.2)
Cash generated by operations	(31.6)	(8.3)	(9.2)
Income taxes received	0.1	0.2	1.1
Interest paid	(3.8)	(3.6)	(7.7)
Net cash from operating activities	(35.3)	(11.7)	(15.8)

Notes to the interim financial information continued

unaudited for the six months ended 30th June 2005

12. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Summary of significant accounting policies under IFRS

Prior to the introduction of IFRS, the Group had prepared its financial statements under United Kingdom accounting standards (UK GAAP). As a result of adopting IFRS it has been necessary to change many of the Group's accounting policies. A summary of the Group's significant accounting policies are shown below.

Basis of accounting

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain items.

Basis of consolidation

The consolidated financial statements of the Group include the financial statements of Development Securities PLC ("the Company"), its subsidiaries and the Group's share of profits and losses and net assets of jointly controlled entities and associated undertakings to 30th June 2005.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

Intra-group balances and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Revenue

Revenue, which excludes value added tax, is recognised in the period in which the Group earns the right to consideration and represents:

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

Associates and jointly controlled entities

An associated company is defined as an undertaking other than a subsidiary or jointly controlled entity in which the Group holds a long-term interest and has significant influence. The Group's investment in associates is accounted for in the consolidated financial statements using the net equity method. The Group's share of the profits and losses of associated undertakings is shown in the consolidated income statement while the Group's share of the net assets of associated undertakings is shown in the consolidated balance sheet. The Group does not equity account for losses from investments in associated companies where the investment is held at nil value after provisions for impairment.

A jointly controlled entity 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 two or more venturers. The Group's share of the post-acquisition results of jointly controlled entities is shown in the consolidated income statement. Investments in material jointly controlled entities are included in the consolidated balance sheet at cost plus the appropriate share of post-acquisition results and reserves less provision for any impairment.

Investment properties

Investment properties are those properties that are held either to earn rental income or for capital appreciation or both. Investment properties may be freehold properties or leasehold properties. For leasehold properties that are classified as investment properties, the associated leasehold obligations are accounted for as finance lease obligations where appropriate.

Investment properties are revalued each year by independent professional valuers on the basis of Market Value. Investment properties are not valued at the interim period. Surpluses and deficits arising in the period are included in the income statement.

Profits and losses on disposal of investment properties are calculated by reference to carrying value.

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.

Investment properties in the course of development are accounted for as investment properties.

Property, plant and equipment

Operating properties are those properties classified as being held for business purposes rather than for investment. These properties are revalued each year by independent, professional valuers on the basis of Existing Use Value. Surpluses and deficits in the period are included in a revaluation reserve, except where carrying value is below depreciated cost, in which case surpluses and deficits are included in the income statement. Depreciation is provided so as to write off the value of the properties over their expected useful lives.

Other fixed assets are held at cost less accumulated depreciation and any provision for impairment. Depreciation is provided so as to write off the cost less estimated residual value of fixed assets over their expected useful lives.

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

Operating properties	– 4 per cent
Fixtures and fittings	– 10 per cent to 33 per cent on cost
Motor vehicles	– 20 per cent

Notes to the interim financial information continued

unaudited for the six months ended 30th June 2005

Leases

Rental payments under operating leases are charged on a straight-line basis over the lease term even if the payments are not made on such a basis.

Land, developments in progress and trading properties

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

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets are not recognised if the temporary differences arise from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group is entitled to settle its current tax assets and liabilities on a net basis.

Financial Instruments

Trade and other receivables are recognised initially at fair value. A provision for estimated irrecoverable amounts of trade receivables is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables concerned.

Cash and cash equivalents comprise cash balances, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less and insignificant risk of changes in value. Bank overdrafts that are repayable on demand and which form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Trade and other payables are stated at fair value.

Debt is stated at fair value on initial recognition and thereafter at amortised historic cost.

As from 1st January 2005, the Group recognises the fair value of its derivatives including interest rate hedges and currency swaps on the balance sheet and movements on those values within the income statement.

Borrowing costs

Gross borrowing costs relating to direct expenditure on properties under development or undergoing major refurbishment are capitalised. The interest capitalised is calculated using the Group's weighted average cost of borrowings. Interest is capitalised from the commencement of the development work until the date of practical completion. The capitalisation of finance costs is suspended if there are prolonged periods when development activity is interrupted.

All other borrowing costs are recognised in the Group income statement in the period in which they are incurred.

Pension schemes

The Group operates a defined contribution scheme. The charge to the income statement in the period represents the actual amount paid to the scheme. Differences between contributions payable in the year and contributions paid are shown as either accruals or prepayments in the balance sheet.

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 income statement.

Share-based payments

The cost of granting share options and other share-based remuneration to employees and Directors is recognised through the income statement. The Group has used the Black-Scholes option valuation model and the resulting value is amortised through the income statement over the vesting period of the options. The charge is reversed if it appears likely that the performance criteria will not be met.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are declared.

Notes to the interim financial information continued

unaudited for the six months ended 30th June 2005

13. EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

This is the Group's first interim report prepared in accordance with IFRS. The reconciliations of balance sheets and equity at 1st January 2004 (date of transition to IFRS), 31st December 2004 (date of last UK GAAP financial statements) and 30th June 2004, and the reconciliation of profit for the period ended 30th June 2004 and year ended 31st December 2004, are included below to enable comparison of the 2005 published interim figures with those published for the corresponding period of the previous financial year and the last full financial year. All UK GAAP figures have been reclassified to IFRS format.

Consolidated balance sheet

	As at 1st Jan 2004 (date of transition)		
	UK GAAP £ million	Effect of transition to IFRS £ million	IFRS (opening balance sheet) £ million
Non-current assets			
Property, plant and equipment			
– Operating properties	7.0	–	7.0
– Other non-current assets	3.7	–	3.7
Investment properties	115.4	–	115.4
Investments	3.1	1.3	4.4
	129.2	1.3	130.5
Current assets			
Land, developments and trading properties	15.3	–	15.3
Trade and other receivables	13.9	–	13.9
Cash and cash equivalents	56.3	–	56.3
	85.5	–	85.5
Current liabilities			
Trade and other payables	(14.7)	1.0	(13.7)
Net current assets	70.8	1.0	71.8
Total assets less current liabilities	200.0	2.3	202.3
Non-current liabilities			
Borrowings	(74.9)	–	(74.9)
Net assets	125.1	2.3	127.4
Financed by			
Capital and reserves			
Called up share capital	14.1	–	14.1
Reserves	114.7	(4.5)	110.2
Retained earnings	(3.7)	6.8	3.1
Total equity shareholders' funds	125.1	2.3	127.4

Consolidated balance sheet

	As at 30th June 2004		
	UK GAAP £ million	Effect of transition to IFRS £ million	IFRS £ million
Non-current assets			
Property, plant and equipment			
– Operating properties	8.2	–	8.2
– Other non-current assets	4.0	–	4.0
Investment properties	133.9	0.4	134.3
Investments	4.2	1.0	5.2
	150.3	1.4	151.7
Current assets			
Land, developments and trading properties	21.7	–	21.7
Trade and other receivables	16.3	–	16.3
Cash and cash equivalents	43.5	–	43.5
	81.5	–	81.5
Current liabilities			
Trade and other payables	(16.6)	0.6	(16.0)
Net current assets	64.9	0.6	65.5
Total assets less current liabilities	215.2	2.0	217.2
Non-current liabilities			
Borrowings	(90.0)	–	(90.0)
Net assets	125.2	2.0	127.2
Financed by			
Capital and reserves			
Called up share capital	14.1	–	14.1
Reserves	114.4	(4.2)	110.2
Retained earnings	(3.3)	6.2	2.9
Total equity shareholders' funds	125.2	2.0	127.2

Notes to the interim financial information continued

unaudited for the six months ended 30th June 2005

13. EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS continued**Consolidated balance sheet**

	As at 31st Dec 2004 (last period presented under UK GAAP)		
	UK GAAP £ million	Effect of transition to IFRS £ million	IFRS £ million
Non-current assets			
Property, plant and equipment			
– Operating properties	10.6	–	10.6
– Other non-current assets	3.8	–	3.8
Investment properties	156.6	–	156.6
Investments	7.7	0.7	8.4
	178.7	0.7	179.4
Current assets			
Land, developments and trading properties	21.2	–	21.2
Trade and other receivables	18.0	–	18.0
Cash and cash equivalents	53.8	–	53.8
	93.0	–	93.0
Current liabilities			
Trade and other payables	(17.9)	1.5	(16.4)
Net current assets	75.1	1.5	76.6
Total assets less current liabilities	253.8	2.2	256.0
Non-current liabilities			
Borrowings	(82.8)	–	(82.8)
Net assets	171.0	2.2	173.2
Financed by			
Capital and reserves			
Called up share capital	18.3	–	18.3
Reserves	155.6	(20.8)	134.8
Retained earnings	(2.9)	23.0	20.1
Total equity shareholders' funds	171.0	2.2	173.2

Reconciliation of equity

	Notes	31st Dec 2004 £ million	30th June 2004 £ million	1st Jan 2004 £ million
Total equity UK GAAP		171.0	125.2	125.1
Capitalisation and amortisation of direct lease costs	2	–	0.1	–
Longer amortisation period for lease incentives	2	0.4	0.3	0.2
Longer amortisation period for lease incentives – adjustment of property value	2	(0.4)	–	(0.2)
Dividend not recognised as liability until declared	3	1.5	0.6	1.0
Negative goodwill released at date of transition	4	0.7	1.0	1.3
Total adjustment to equity		2.2	2.0	2.3
Total equity IFRS		173.2	127.2	127.4

Notes to the reconciliation of equity

1. As required by IAS 40 "Investment Property", gains and losses arising on revaluation of investment properties are recorded as operating income in the income statement. For the year ended 31st December 2004, this includes gains previously reported in the revaluation reserve of £14.7 million on the Group's investment properties.
2. Under SIC 15 "Operating Lease Incentives", investment property lease rent-free periods and other incentives are amortised over the non-cancellable lease term rather than the period to first open market rent review. In addition direct costs of lease negotiations are capitalised and amortised under IAS 17 "Leases".
3. Under IAS 10 "Events After The Balance Sheet Date", dividends are recognised as liabilities in the period in which they are declared. Accordingly, compared with UK GAAP, equity shareholders' funds have increased, and current liabilities have decreased.
4. Under IFRS 3 "Business Combinations", negative goodwill, being the excess of fair value of net assets acquired over consideration paid, is recognised directly to reserves. The net financial effect is a release of £1.3 million recognised in retained earnings at the transition date, and a reduction in share of result of associate of £0.3 million to 30th June 2004 and £0.6 million for the year ended 31st December 2004.

Notes to the interim financial information continued

unaudited for the six months ended 30th June 2005

13. EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS continued**Consolidated income statement**

	Notes	Six months ended 30th June 2004		
		UK GAAP £ million	Effect of transition to IFRS £ million	IFRS £ million
Revenue	5	9.9	0.1	10.0
Direct costs	5	(5.6)	0.3	(5.3)
Gross profit		4.3	0.4	4.7
Operating costs	6	(3.4)	–	(3.4)
Operating profit		0.9	0.4	1.3
Share of results of associate	4	1.0	(0.3)	0.7
Income from other fixed asset investments		0.1	–	0.1
Profit on disposal of investment properties		0.6	–	0.6
Profit before interest and taxation		2.6	0.1	2.7
Finance income		1.2	–	1.2
Finance costs		(3.4)	–	(3.4)
Profit before taxation		0.4	0.1	0.5
Taxation		0.3	–	0.3
Profit for the period		0.7	0.1	0.8

Notes to the reconciliation of profit

- Under IAS 17 "Leases", investment property lease rent-free periods and other incentives are capitalised and amortised over the full lease term rather than the period to first open market rent review.
- In accordance with IFRS 2 "Share-Based Payments", only share-based transactions after 7th November 2002 that had not vested by 1st January 2005 have been restated, with a resulting reduction in profit before taxation of £0.1 million up to 31st December 2004.

Consolidated income statement

	Notes	Year ended 31st December 2004		
		UK GAAP £ million	Effect of transition to IFRS £ million	IFRS £ million
Revenue	5	23.6	0.1	23.7
Direct costs	5	(14.3)	0.3	(14.0)
Gross profit		9.3	0.4	9.7
Operating costs	6	(8.3)	(0.1)	(8.4)
Operating profit		1.0	0.3	1.3
Share of results of associate	4	4.2	(0.6)	3.6
Income from other fixed asset investments		0.1	–	0.1
Gain on revaluation of investment properties	1	–	14.7	14.7
Profit on disposal of investment properties		4.0	–	4.0
Profit before interest and taxation		9.3	14.4	23.7
Finance income		2.6	–	2.6
Finance costs		(7.4)	–	(7.4)
Profit before taxation		4.5	14.4	18.9
Taxation		(0.3)	–	(0.3)
Profit for the year		4.2	14.4	18.6

14. EXPLANATION OF MATERIAL ADJUSTMENTS TO THE CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30TH JUNE 2004 AND YEAR ENDED 31ST DECEMBER 2004

Under IFRS, the consolidated cash flow statement reconciles the movements in cash and cash equivalents, whereas in the last audited UK GAAP financial statements it reconciled the movements in cash only. Other than this, there are no material differences in the restated consolidated cash flow statement from that previously published.

15. GLOSSARY

Net borrowings: Net borrowings are defined as total debt less cash and cash equivalents.

Net gearing: Net gearing, expressed as a percentage, is measured as net borrowings divided by total shareholders' funds.

Independent review report to Development Securities PLC

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30th June 2005 which comprises the consolidated income statement, the consolidated balance sheet, the consolidated statement of recognised income and expense, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes 1 to 15. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

International Financial Reporting Standards

As disclosed in note 2, the next annual financial statements of the Group will be prepared in accordance with International Financial Reporting Standards as adopted for use in the EU. Accordingly, the interim report has been prepared in accordance with the recognition and measurement criteria of IFRS and the disclosure requirements of the Listing Rules.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30th June 2005.

Deloitte & Touche LLP

Chartered Accountants
London
20th September 2005

Officers, committees and advisors

Directors

R M Dantzig, Chairman*
M H Marx, Executive Deputy Chairman
and Finance Director
C J Barwick, Joint Managing Director
P J Willis, Joint Managing Director
M S Weiner
W Grant*
P V S Manduca*
V M Mitchell*
M S Soames*

Secretary

S A Lanes

Remuneration committee

W Grant, Chairman*
V M Mitchell*
M S Soames*

Audit committee

R M Dantzig, Chairman*
V M Mitchell*
P V S Manduca*

Nomination committee

R M Dantzig, Chairman*
M H Marx, Executive Deputy Chairman
and Finance Director
P V S Manduca*

* Non-executive

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HSBC Property Finance
Bank of Scotland
Norwich Union Mortgage Finance Limited

Corporate Solicitors

Linklaters

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Collins Stewart Limited

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