

Annual Report 2003

Developing risk averse strategies for property



DEVELOPMENT
SECURITIES PLC



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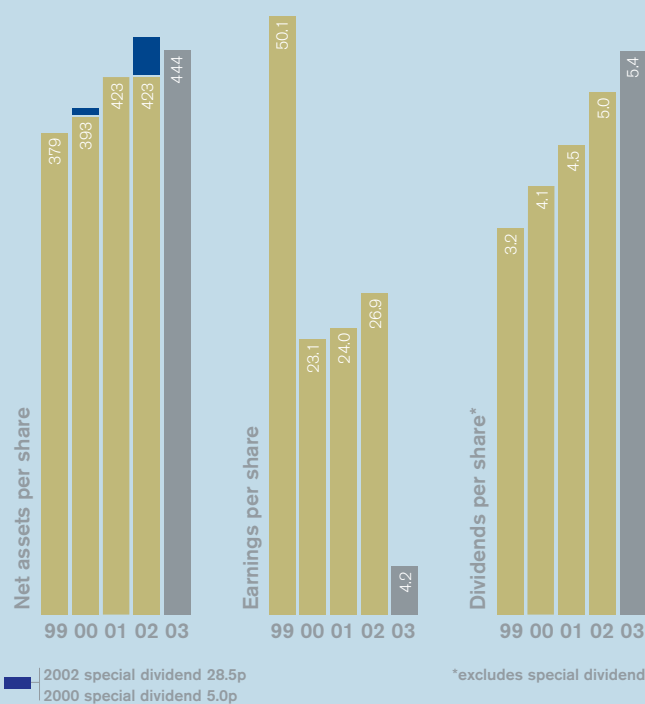
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Front cover: PaddingtonCentral sculpture 'The Family', John Buck 2002.



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.

- Profit before tax £1.2 million
- Net assets £125.1 million
- Annual dividends per share 5.4p
- £18.9 million net borrowings
- Earnings per share 4.20p
- Net assets per share 444p



All stated in pence per share



Roy Dantzig, Chairman
23rd March 2004

Chairman's statement

In this, my first statement to shareholders, I am pleased to report a profitable year for your Company, together with a respectable uplift in shareholders' funds at the year end.

In spite of 2003 representing what we hope will prove ultimately to be the low point of the cycle for the main markets in which our development business operates, we generated profit before tax for the year to 31st December of £1.2 million and earnings of 4.20 pence per share, compared to £10.0 million and 26.9 pence per share for the previous year.

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

Reflecting this positive performance and the Company's continuing sound financial footing, the Board has resolved to recommend the payment of a final Ordinary Dividend (refer note 1(m)) of 3.6 pence per share, payable on 6th July 2004 to shareholders on the register on 4th June 2004. This brings the total Ordinary Dividend for the year to 5.4 pence per share, an advance of eight per cent over the previous year. This is in addition to the special dividend of 28.5 pence per share, which was declared in our financial statements for the year ended 31st December 2002 and paid to shareholders on 28th March 2003. In January 2003, the Company bought back, for cancellation, 640,000 of the Company's ordinary shares at an average price of 314.7 pence per share, generating an increase of 2.8 pence per share in net asset value.

Strategy

Our rigorous business model has distanced us from the severe cyclical downturn in Central London development markets. Thus the year under review saw your Company maintaining its risk-averse profile in a development market place where activity continued to be restrained, both by ourselves and most other Central London market participants. Rather than committing fresh equity to the supply of new office accommodation that the market does not yet require, we concentrated on building out existing projects. Against this background, we were pleased to generate a profit from our development operations, albeit well below the level of the previous year.

However, since the turn of the year, an improvement in business confidence has become increasingly apparent, offering the prospect of an end to the current decline in occupational markets. We are cautiously optimistic that 2004 could represent a turning point in the cyclical recovery of the London office market. Shareholders will be aware that this comparative optimism should be tempered with the knowledge that, given the time scales involved, it is likely to take several years for any new, large-scale development project to generate profitable returns for your Company.

It is particularly pleasing to report that our property investment portfolio has again achieved superior results, delivering a 16.9 per cent IPD (Investment Property Databank Limited) Total Portfolio Return (refer note 1(m)), which compares favourably with an average of 10.7 per cent for the market. This was the third consecutive year in which the total returns from our investment portfolio exceeded market performance. Broadly, half of our return was generated by the rental income arising from the properties themselves, with the balance contributed by realised gains from disposals of trading and investment properties as well as from revaluation surpluses on those properties retained within the portfolio. Our property investment business, which is separate from, but complementary to, our development operations, is a key component of our business model, providing a steady flow of income to contribute to overheads. This is particularly important during cyclical downturns in the development market.

Outlook

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

Board composition

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

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

Conclusion

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



Michael Marx
Joint Managing Director

Business model

Development Securities is one of the UK's leading property development companies. Its objective is to generate superior returns for investors by the creation and recycling of development gains, subject to prudent financial management.

We seek to maximise the potential rewards from property development without unnecessarily large exposure to its inherent risks. Applying these principles, we are able to undertake larger development projects, with their enhanced profit potential, without significant downside risk. Our approach, consistently applied, has increased both dividends and net assets per share by more than 40 per cent in the last five years, a compound growth rate, post tax, of some 9 per cent per annum.

There are three components to our approach:

Forward-funding

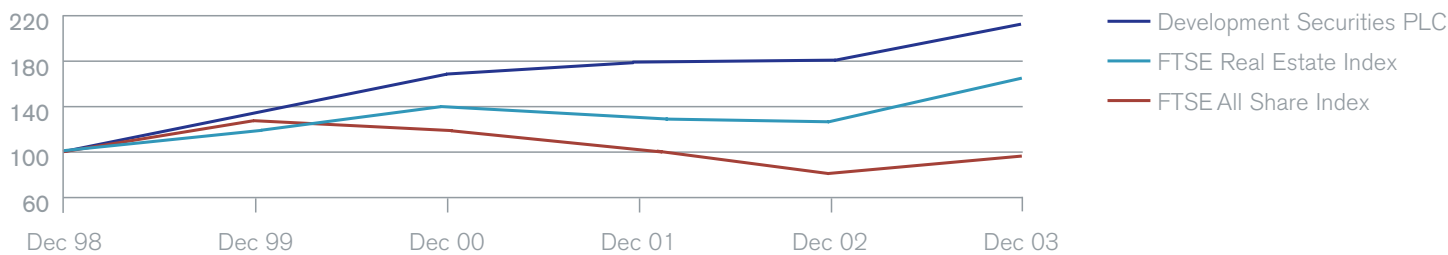
The team at Development Securities has both experience and expertise in large-scale office developments in London and the South East – particularly those involving complex urban regeneration.

Our team uses its expertise to identify a potential major development, prepares detailed drawings and seeks the necessary planning consents. In parallel with this activity, we present the scheme to leading financial institutions, inviting them to participate in the project. At the point of commitment, the investing institution will buy the site and simultaneously enter into a contract with Development Securities which will oblige us to build and let the building, and the institution to finance these activities. As a result, it is rare for Development Securities to own the major developments it is working on, although it may have a limited financial or equity commitment.

This low-risk and low-equity structure, known as forward-funding, is central to the Company's development strategy. It provides a clear view of potential earnings and cash flow streams for a number of years ahead.

Five-year total shareholder return

Return index



Fees are earned by Development Securities as we manage the design and construction process for the project's institutional investors, sometimes including an undertaking to complete the project on time and within budget. The Company retains responsibility for letting the buildings, and then receives, in cash, an agreed percentage of any uplift in the project's eventual investment value over its total cost. In this way, Development Securities can profit from the quality of its developments, while limiting the downside risk should the completed building not be let profitably.

This is the key distinction between Development Securities' strategy and the more conventional techniques applied in property development.

Investment portfolio

The timing of new projects and their impact on the Company's cash flow can be unpredictable for two main reasons. The number of major projects underway at any one time is limited, so that we can maintain a high standard of project management and ensure the financial out turn from each development. Clearly, the timing of new projects is subject to cyclical conditions, particularly those in occupational markets.

The second element of our strategy, our property investment portfolio, provides a stable base of income to contribute to overheads throughout the property cycle.

This allows us to concentrate on identifying, winning and managing those large-scale projects to the greater benefit of our shareholders and funding partners and, at the same time, to maintain our experienced and high-quality management team.

The Company therefore allocates the majority of its equity to the ownership of a portfolio of actively managed investment properties spread across the UK and across diverse business sectors.

An efficient balance sheet

Whilst we have long been conservative in our management of cash and use of debt, it is not the Company's policy to have a fixed gearing limit. It is important that the Company retain the ability to capitalise on appropriate development and investment opportunities.

The application of cash and the related use of debt will depend on the timing of market cycles. During, or approaching the end of a market cycle, it would be the Board's policy to return cash to shareholders on a basis consistent with prudent financial management. In the early stages of a cyclical recovery, such resources might be better applied to secure development or investment opportunities at values that have not yet reflected the potential upside that we envisage might be attained at a later stage in the same economic cycle.

Our funding partners have included:

Standard Life Investments
 The Prudential Assurance Company
 Legal & General Assurance Society
 Universities Superannuation Scheme Limited
 Morley Fund Management
 DEKA Immobilien Investment GmbH
 Commerz Grundbesitz Investmentgesellschaft
 Deutsche Grundbesitz Investmentgesellschaft
 Pillar Property PLC

Review of operations



Julian Barwick
Joint Managing Director

Whilst the level of new business in 2003 was subdued in most development markets and virtually non-existent in the Central London office market, the main area of our own activities, we are encouraged to note that 2004 has started with a more positive tone.

The background to this improving sentiment probably arises from the increasing level of United Kingdom GDP growth, which has picked up from 1.7 per cent in 2002 to 2.1 per cent in 2003 and is projected by most economic forecasting houses to show further uplift, approaching or exceeding its trend rate of 2.75 per cent in 2004. Inflation and interest rates continued at low levels throughout 2003, whilst the consumer continued to keep spending growth in positive territory. On the negative side, exports and manufacturing industry remain weak and increasing public spending may lead to higher taxation and, possibly, continue upward pressure on United Kingdom interest rates. The potentially vulnerable housing market and the high level of personal debt could still threaten consumer demand and destabilise the long overdue rebalancing of the economy.



In the City of London, the recession in the investment banking community that began some two or three years ago continued throughout 2003 as the industry struggled to adjust its cost base in the face of collapsing revenues. The dominant influence of this activity on the fortunes of the City was reflected in a further weakening of the occupational market; rental levels fell to new lows and vacancy levels rose to new highs for this economic cycle. There are signs in 2004 that this trend may be reversing, since some recovery may be discernible as employment growth shows signs of picking up alongside some recovery in financial markets.

Current development programme

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





Royals Business Park

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

10 St Bride Street, London EC4

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

Heart of Slough

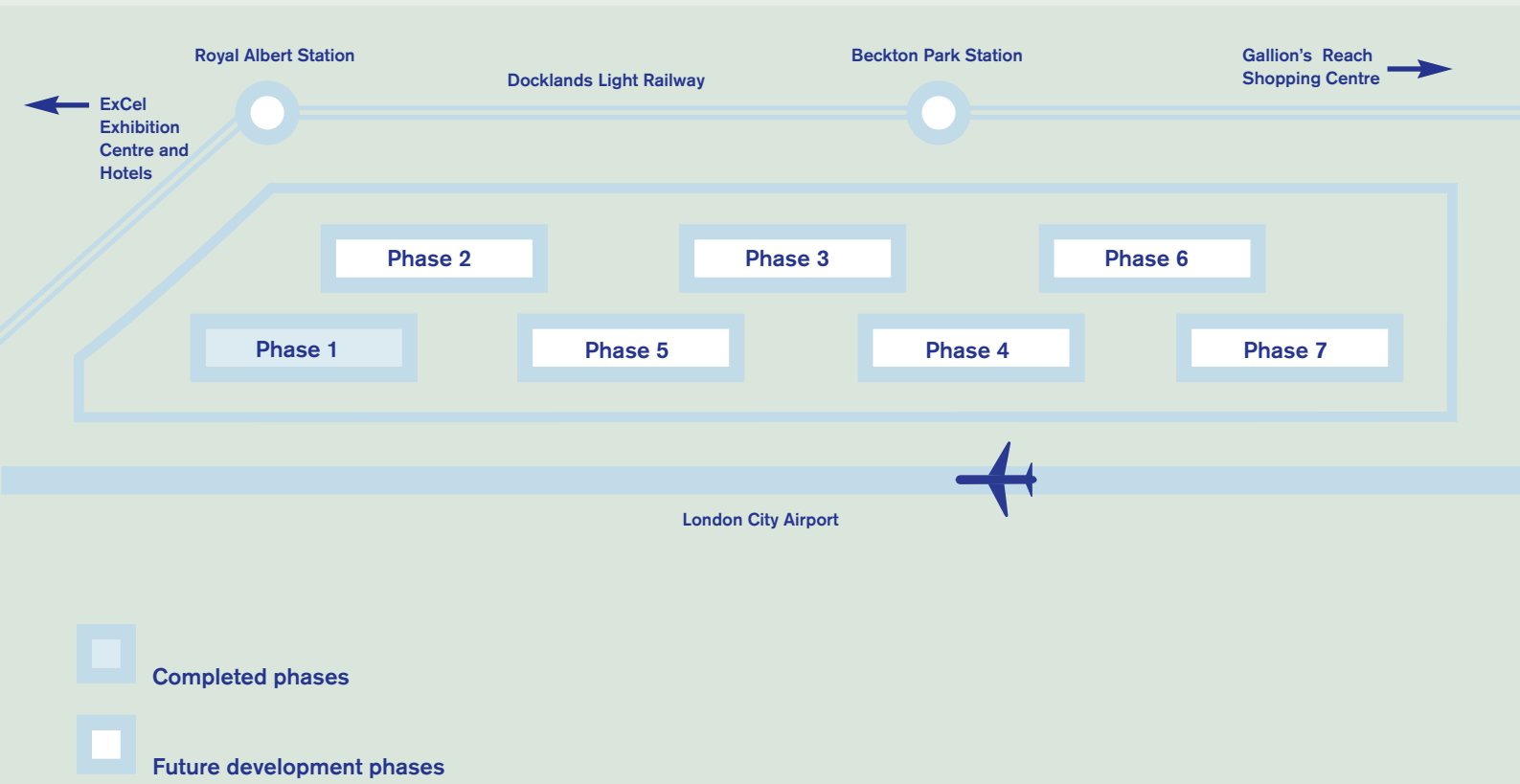
We have continued to work with our partners, Slough Borough Council and Berkeley Homes, to progress this long-term regeneration scheme for Slough Town Centre. The local authority has been in negotiation with public sector regeneration agencies for assistance with infrastructure costs and it appears likely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

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

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

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

Construction of Phase 1 at the Royals Business Park is nearing completion. The Thames Gateway continues to develop as a business location and the Park is ideally situated near the ExCel exhibition centre and London City Airport, with excellent communications by road, rail and air.





PaddingtonCentral

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

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

We are encouragingly close to concluding an agreement with Cross London Rail Links, the Government agency responsible for promoting the Crossrail scheme. This agreement will sanction the erection of a structural deck over that part of the site that is subject to a Safeguarding Direction to protect the Crossrail project. The entrance to the proposed Crossrail tunnel will lie immediately to the west of the PaddingtonCentral site. Construction of the deck will allow development to proceed on this part of our site without interfering with construction of the tunnel.

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

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

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

333 Oxford Street, London W1

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

From the derelict scene when our PaddingtonCentral development began, the area has been successfully regenerated and now provides extensive residential, retail and office accommodation. With a two-year programme under way to widen the adjacent Bishops Bridge, communication and access will be significantly enhanced.



West End - 1 Mile →

A40 Westway

Grand Union Canal

Phase 3

Phase 2

Phase 1

--- Crossrail link

■ Completed phases

■ Future development phases

Paddington Station
Heathrow Express
London Underground
Mainline Train Services





Cambourne Business Park

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

In the summer of 2003, the A428 dual carriageway road improvement around Cambourne was completed. As a consequence, the interim ceiling on the amount of accommodation that could be developed on the park was removed. The A428 will benefit further from a two-year improvement programme along the same arterial road. Located nine miles from Cambridge City centre, Cambourne Business Park forms an integral part of the three villages that the Cambourne Settlement comprises; including 3,300 houses with a 120-room four star hotel, civic and leisure facilities and a 60,000 sq. ft. Morrisons supermarket.

Other Business Parks

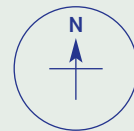
At Globeside Business Park, Marlow, only one unit of 38,500 sq. ft. remains to be let. At Frimley Square Business Park, Frimley, the soft letting conditions in the occupier market around London are generating only tentative interest from prospective tenants. Both of these business parks were acquired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

Broughton

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

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

Set in the Cambridgeshire countryside, and yet easily accessible, Cambourne has become a popular community in its own right. With over half of the business park still to be developed, and with the Cambourne settlement steadily growing, we are well positioned to complete one of the country's finest business parks.





Matthew Weiner
Investment Property Director

Investment property portfolio

The year under review saw our team of investment specialists capitalising on the significant progress made in recent years with the successful culmination of several transactions where real value was added from the active management of our asset portfolio. This encompassed lettings, refurbishments, lease restructuring and disposals. At the year end, the investment property portfolio was valued at £105.1 million.

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

The IPD (Investment Property Databank Limited) Total Portfolio Return (refer note 1(m)) achieved on the portfolio in 2003 was 16.9 per cent, which comprises an income return of 7.5 per cent and capital growth of 9.4 per cent. This result compares favourably with the IPD market return of 10.7 per cent. The Company's average annual three-year return of 13.6 per cent reflects out-performance of 4.5 per cent against the market. It is our belief that the investment portfolio now comprises assets capable of providing above average performance over the medium-term and we hope to build on this in 2004.

Investment strategy

In 2002, we exited the City of London office market and, in 2003, we further reduced our Central London and office exposure through disposal and by targeting reinvestment into the convenience retail sector. This has proved to be the appropriate strategy, and, whilst our West End office properties produced a valuation decline of 7.3 per cent, the impact in portfolio terms was limited. These declines were more than offset by the gains seen on the retail investments acquired in the last three years, where capital growth was 12.8 per cent in the current year. By way of example, the Kingsland Shopping Centre, Thatcham, acquired in 2001, showed capital growth over the year of 16 per cent and a total of 30 per cent since acquisition, emphasising the importance of stock selection in the investment process.

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

The quality and performance of our investment portfolio has improved significantly over recent years. In Sheffield, we redeveloped a 90,000 sq. ft., obsolete office building at modest cost to provide grade A accommodation which is now fully let.





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

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

Investment transaction activity

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

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

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

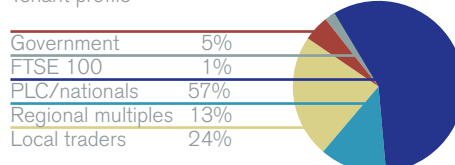
Since the year end, we have completed two further disposals at book values, the most important being that at Grove House, Ashford, Middlesex. This substantially over-rented office investment was subject to a break option in 2005 by the tenant, who was not in occupation of the premises. The £4 million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

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

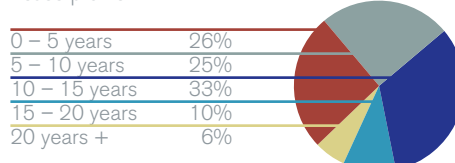
The Unicentre, Preston, was purchased in November 2003 for £9.5 million, with short-term leases on all of the accommodation. Simultaneously with the acquisition, we entered into negotiations which concluded with the principal occupier taking new, indexed-linked, 14-year leases. Shortly thereafter, we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

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

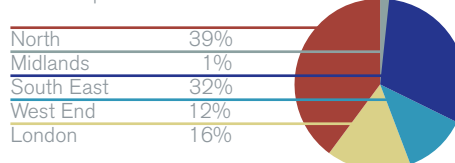
Tenant profile



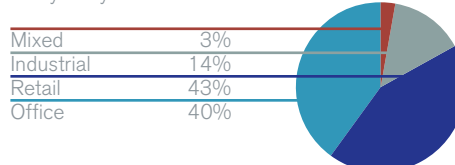
Lease profile



Location profile



Analysis by sector



All figures as at 31st December 2003

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

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

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

As the market moves into a period of limited rental growth, the leasing of voids and the securing of reversions at rent review will contribute significantly to future capital uplifts. 2003 witnessed continuing success in leasing vacant accommodation with over 52,500 sq. ft. let during the year. We believe that a modest, selective acquisition of void premises is a proven technique to assist out-performance. The year end portfolio void rate of 6.8 per cent is somewhat lower than the optimum level we believe is desirable, and since then, we have put a further 42,300 sq. ft. under offer reducing the void rate to 3.1 per cent. Accordingly, in February 2004, we completed the purchase of a vacant 110,000 sq. ft. warehouse in Redditch. The unit will be refurbished and offered for re-letting. Once let, we believe that the property will achieve a yield on cost in excess of 10 per cent, an attractive income return in the current market.

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

**Development Securities achieved
two further industry and investor
relations awards during 2003**



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

Stead & Simpson

Shareholders will recall that we have long held a 19.9 per cent equity stake in this privately owned UK shoe retailer together with £1.5 million of preference shares; both holdings were recorded in our accounts at nil book value at 31st December 2002. In December 2003, we acquired a further 18 per cent of the ordinary shares at a total cost of £212,000, having recognised Stead & Simpson Group Limited as an associate from November 2003. Unaudited results for the year ended 31st December 2003 indicate that Stead & Simpson will report profit before tax of £4.5 million on turnover of £130 million, compared to profit before tax of £2.25 million for 2002. Our attributable share of these profits for 2003 is £0.5 million. On the back of this strong performance, our own results have benefited from the release of the provision of £1.5 million previously held against the preference shares, as well as taking credit for £0.5 million of the redemption premium that has accrued to date on these shares. Additionally, we were able to release £0.5 million of provisions in respect of loan monies. We are not planning to increase our stake in Stead & Simpson any further and the improved profile of the company should assist our orderly exit from this business in the medium-term.

A handwritten signature in black ink that reads 'Julian Barwick'.

C J Barwick
23rd March 2004

A handwritten signature in black ink that reads 'Michael Marx'.

M H Marx

Development Securities' sustainability policy has been developed to complement and enhance the Group's principal objectives of carrying out substantial, complex projects in a risk-averse manner.

We are keen that our developments enrich their local communities by achieving physical improvements and social benefits whilst simultaneously protecting and enhancing the natural and built environment. We are committed to the principles of sustainability as part of our overall approach to property development and we recognise that social and environmental well-being have important implications for both our corporate reputation and our long-term strategic and financial performance.

Long-term shareholder value and sustainable income streams can be enhanced through the careful consideration of economic, social and environmental quality in urban design.

Development Securities' emphasis on urban regeneration projects, particularly at PaddingtonCentral and The Royals Business Park, has highlighted the desirability of pursuing partnerships at all levels in order to achieve such enhancements.

Sustainability report

Our first report on sustainability issues was published in 2003, building upon the progress made in achieving the targets set within our environmental policy programme for 2002. We remain committed to improving our contribution to sustainable development. As part of our annual review, specific targets will be reassessed and where appropriate broadened to encompass our social and economic goals.

Scope

We view our sustainability report as a first step in which our policies and procedures are set out and subsequently improved upon, particularly through a continuous process of review of current and completed developments and, increasingly, investments.

In fulfilling our commitment to sustainability, we will aim to:

Overall

Comply with all relevant legislation as a minimum standard and work towards good practice in sustainability.

Strive towards continuous improvement in performance by reviewing progress on a regular basis and reporting this to the Board.

Openly communicate our progress towards sustainability both internally and externally, thereby demonstrating our commitment and encouraging debate that will help to further our own understanding.

Operate clear and fair terms of employment and respect a policy of equal opportunities.

Encourage training, skills and knowledge development, and set and review individual training initiatives accordingly.

Urban regeneration

Enrich and improve the local communities and environments in which we work.

As part of a balanced development portfolio, develop mixed-use projects that enable people to live and work within close distance to retail and leisure facilities.

Create diverse and balanced communities that reflect the social and economic diversity of the communities in which we develop.

Develop successful partnerships with local stakeholders and engage them in our work towards sustainability.

Youth and education

Sponsor and support youth programmes in their efforts to create greater opportunities for young people in the communities in which we develop.

Co-operate in educational initiatives in the local communities in which we develop in order to improve local levels of skills and training as well as greater appreciation of local environmental issues.

Health

Ensure the health and safety of all employees and visitors through the implementation of a workplace health and safety policy.

Liaise closely with contractors on our development sites to ensure compliance with best practice procedures in relation to health and safety.

The environment

Seek assurance that principal consultants and contractors support and will aid delivery of our environmental programme.

Ensure our key staff have the necessary skills, through appropriate training, to deliver our environmental targets.

Address emissions associated with travel to work.

Take environmental issues into account in the construction and design of our buildings, including addressing emissions associated with operational energy use, whilst maintaining good working conditions and seeking to reduce the use of raw materials and generation of waste.

Undertake development with regards to local biodiversity.

The arts

Sponsor and support projects that promote the arts in communities in which we develop.

The property industry

Take part in sectoral debates and research programmes concerning sustainability within the property industry and contribute to shared learning about evolving best practice.

Consider sponsoring targeted research into other aspects or debates with relevance to our core business activities.

Environmental policy

The environmental objectives are delivered through specific targets and timescales. Environmental targets were developed and agreed during 2003. We continue to undertake regular progress reviews against these targets and, as part of this programme, will consider whether it is necessary to update our 2002 sustainability report.

We are already seeing additional, unforeseen benefits arising from the implementation of our environmental targets. For example, improving waste segregation and increasing recycling of materials has improved efficiency and health and safety on site. At our Royals Business Park project, we have, in conjunction with the main contractor, initiated a waste management system, which we expect to introduce on our future major projects.

As in previous years our performance against property-related aspects of environmental management continue to be annually benchmarked by Upstream, through our ongoing membership of the Property Environmental Group (PEG).

In 2004, we will be undertaking an exercise to develop Key Performance Indicators in respect of our economic, social and environmental targets and we anticipate that some of these will be as recommended by the Global Reporting Initiative. These will also be supplemented by our own Performance Indicators.

Board of Directors



Michael Marx



Julian Barwick



Matthew Weiner



Paul Willis

Executive Directors

M H Marx (Aged 56)

Joint Managing Director and Finance Director. Appointed to the Board in September 1994. A Fellow of the Institute of Chartered Accountants in England and Wales and a Member of the UK Listing Authority Advisory Committee. Non-executive Director of FIBI Bank (UK) PLC and Stead & Simpson Group Limited. Formerly Finance Director and Commercial Director of Heron International PLC from 1981 to 1994.

C J Barwick (Aged 50)

A Fellow of the Royal Institution of Chartered Surveyors. Joined the Board in May 1998 being appointed Joint Managing Director in June 2000. Formerly property advisor to the Bedford Estate from 1997 to 2003 and Chairman of the Paddington Regeneration Partnership from 2000 to 2002. A member of the Board of Management of the British Council for Offices and of the Property Consulting Group, advisors to the Office of the Deputy Prime Minister.

M S Weiner (Aged 33)

Appointed in March 2004. A Member of the Royal Institution of Chartered Surveyors. Joined Development Securities PLC in November 2000 as Director of Investments. Formerly a Fund Manager at Legal & General Property Limited and AXA REIM UK Limited.

P J Willis (Aged 50)

A senior partner at Knight Frank, being partner in charge of the City Office and Chairman of Knight Frank Continental Group Operations until May 2004, when due to take up the appointment of Executive Director with Development Securities PLC. Previously a Non-executive Director of Development Securities PLC from 1995 to 2002. A Fellow of the Royal Institution of Chartered Surveyors and a Member of the Royal Town Planning Institute.



Roy Dantzig



William Grant



Paul Manduca



Victoria Mitchell



Michael Soames

Chairman and Non-executive Directors

R M Dantzig (Aged 59)

Appointed Chairman in September 2003. Joined the Board as a Non-executive Director in May 2003. A member of the Institute of Chartered Accountants of Scotland. After spending the early part of his career in the City, joined the Board of Stanhope Properties PLC in 1989. Was Managing Director of SecondSite Property Holdings Limited from 1996 to 2003. Is a Non-executive Director of Airplanes Limited, SecondSite Property Holdings Limited, Blenheim Bishop Limited, a Council Member of the Architectural Heritage Fund and a former Member of the Government's Property Advisory Group.

W Grant (Aged 65)

Appointed in January 1997. Former Partner of the international law firm, Linklaters.

P V S Manduca (Aged 52)

Appointed in August 2001. Currently Chief Executive Officer, Europe of Deutsche Asset Management Limited. CEO of Rothschild Asset Management 1999 to 2002; founding CEO of Threadneedle Asset Management 1994 to 1999 and a Director of Allied Dunbar Assurance Company PLC and Eagle Star Holdings PLC during the same period. Former Director of MEPC 1999 to 2000. A Director of Henderson Smaller Companies Investment Trust PLC and other companies.

V M Mitchell (Aged 53)

Appointed in August 2002. Currently Consultant Director to FPD Savills, Non-executive Director of The Berkeley Group PLC and The Golding Group (South Africa). Member of ING-Baring Residential Property Fund Advisory Board. Formerly an Executive Director of Savills PLC from 1988 to 2000.

M S Soames (Aged 53)

Appointed in August 2002. The Surveyor to The Mercers' Company and previously Group Corporate Development Director of Regus PLC and partner of Knight Frank. A Non-executive Director of the ISIS Property Trust Limited. A Fellow of the Royal Institution of Chartered Surveyors and past president of the British Council for Offices.

Report of the Directors

The Directors present their annual report and the financial statements of the Group for the year ended 31st December 2003.

Principal activities

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

Review of the business

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

Results and dividends

The profit for the financial year attributable to shareholders amounted to £1,180,000 (2002: £7,677,000). An interim Ordinary Dividend (refer note 1(m)) of £505,184 representing 1.8 pence per ordinary share was paid on 29th October 2003. The Board recommends a final Ordinary Dividend (refer note 1(m)) of 3.6 pence per ordinary share amounting to £1,014,529 be payable on 6th July 2004 to shareholders on the register at 4th June 2004.

Group structure

Details of principal subsidiary undertakings are disclosed on page 42.

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 9: 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 4,199,000 ordinary 50 pence shares, representing approximately 14.9 per cent of the Company's issued share capital. Between 14th and 27th January 2003, 640,000 ordinary shares of 50 pence each, representing 2.23 per cent of the issued share capital were purchased by the Company between 310 pence and 320 pence per share for cancellation. The Directors have no further present intention of making any additional market purchases of the Company's shares, but if they considered such action would enhance net assets or earnings per share, they would consider exercising this authority. As at the date of this report, the Company has an unexpired authority to repurchase 4,181,000 ordinary shares.

Special Resolution 10: 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 £5,023,242 being equal to one-third of the issued ordinary share capital of the Company, together with the number of share options outstanding.

Special Resolution 11: 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 £704,534 being equal to five per cent of the issued ordinary share capital of the Company.

Treasury shares

Under the rules of the Company's long-term incentive plan, awards are satisfied in cash which is then used to acquire shares in the Company. However, no new shares may be issued under the Plan and accordingly shares will be purchased in the market. To avoid these purchases causing fluctuations in availability of stock in the market and volatility in the share price, it is proposed to satisfy awards using treasury shares. The ABI has confirmed the Company's understanding that it would be acceptable treatment, given the nature of the Plan, for the use of treasury shares not to be included within the usual limits on the number of shares which may be issued under the Company's share schemes, but to count such shares within the five per cent annual headroom on issues of shares for cash, as represented by Resolution 11 above.

Share option schemes

During the year no options were granted under any of the Company's Share Option Schemes. Further details of the Share Option Schemes are contained on page 47 and in the Remuneration report on pages 51 to 56.

Directors

The Directors during the year and to date were as follows:

Roy Dantzic – appointed 21st May 2003
– elected Chairman 17th September 2003
Hugh Jenkins CBE – resigned 17th September 2003
Michael Marx
Julian Barwick
William Grant
Paul Manduca
Victoria Mitchell
Michael Soames
Matthew Weiner – appointed 18th March 2004

The Director retiring by rotation at the Annual General Meeting is M H Marx, who being eligible, offers himself for re-election. R M Dantzic, M S Weiner and P J Willis who joined, or who are due to join as members of the Board since the previous Annual General Meeting offer themselves for election.

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 2003 are fully disclosed in the Remuneration report on pages 51 to 56.

Other substantial interests

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

	Number of shares	%
Fidelity International Limited & Subsidiaries	2,777,272	9.85
ISIS Asset Management PLC	2,514,893	8.92
Stichting Pensioenfonds ABP	1,305,000	4.63
T R Property Investment Trust PLC	1,000,000	3.55
Standard Life Group	986,733	3.50
The Fleming Merchantile Investment Trust PLC	853,396	3.02

Charitable and political donations

Charitable donations during the year, principally to local charities serving the communities in which the Group operates, were £26,450 (2002: £10,550). No political donations were made during the year (2002: £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.

Payment policy

Amounts due to suppliers are settled promptly within their terms of payment, except in cases of dispute. The number of creditor days outstanding for the Company at 31st December 2003 was three days (2002: four days).

Auditors

On 1st August 2003, Deloitte & Touche, the Company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent was given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1st August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to reappoint Deloitte & Touche LLP as the Company's auditors will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
Signed on its behalf by:

S A Lanes
Secretary
23rd March 2004

Compliance statement

The Company complied throughout the financial year with the Code provisions set out in section one of the Combined Code dated June 1998 (the Hampel code).

Appliance statement

The Board, which met eight times during the year currently consists of three Executive Directors with the appointment of M S Weiner on the 18th March and five Non-executive Directors, all of whom are considered to be independent. A further Executive Director, P J Willis, is due to join the Company on 4th May 2004. 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:

- The Audit Committee comprises R M Dantzig as Chairman, W Grant, V M Mitchell and M S Soames. H R Jenkins CBE resigned as a member of the Committee on 17th September 2003 and R M Dantzig was appointed on the same date.
- The Nomination Committee comprises R M Dantzig as Chairman, W Grant and M H Marx. H R Jenkins CBE resigned as a member of the Committee on 17th September 2003 and again R M Dantzig was appointed on the same date.
- The Remuneration Committee comprises W Grant as Chairman, P V S Manduca, V M Mitchell and M S Soames. The Committee is authorised to determine remuneration policy, including the exercise of powers to grant options under the Group's option schemes to the Executive Directors and senior management and to determine the annual bonus, special discretionary bonus, ad hoc bonuses for exceptional contributions and awards under the Long Term Incentive Plan. The Remuneration report to shareholders can be found on pages 51 to 56.

- 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 terms of reference of the Audit, Nomination and Remuneration Committees, as determined by the Board, are available both upon request and are also published on the Company's website www.developmentsecurities.com.

The Executive Directors have regular dialogue with institutional shareholders. We have notified the 20 principal shareholders that the Chairman, the senior independent Director or any of the Non-executive Directors are available at any time to meet with them. The Company's Annual General Meeting provides an opportunity to respond to shareholders' appropriate questions. Directors are introduced to shareholders at the Annual General Meeting, including the identification of Non-executives and Committee Chairmen.

Internal control

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

The Board has conducted a review of the effectiveness of the system of internal control by means of a thorough risk assessment of the business, identifying risks, their potential impact, likelihood of occurrence, controls and mitigating actions, together with early warning systems and further actions which need to be implemented. The regular process of identifying, evaluation 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 three executives, M S Weiner, R H Pearse and C Christofi. The Committee meets quarterly 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 is responsible, inter alia, for the appointment of the external auditors, the accounting policies, major judgemental areas, financial reporting and acts as a conduit between the Board and the external auditors.

As a minimum, the Audit Committee meets three times during each financial period. The first meeting is to determine the terms of engagement, proposed programme and fees of the annual audit exercise. The second and third meetings are prior to the issue of the preliminary full-year results and interim results respectively, in order to consider any significant issues arising from the audit review process.

A whistleblowing policy has been prepared and issued to all members of staff in the Group, outlining arrangements by which they may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

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

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

The Board has conducted a review of the effectiveness of the system of internal control for the year ended 31st December 2003 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 2003 and up to the date of approval of these financial statements, that it is regularly reviewed by the Board and that it accords with the internal control guidance for Directors on the Combined Code.

Going concern

The Directors, having made enquiries, have a reasonable expectation that the Company and the Group have adequate resources to continue in operation for the foreseeable future, and that it is appropriate to adopt the going concern basis in preparing the financial statements. This statement also forms part of the Review of operations on pages 6 to 19.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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 judgments and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985, for safeguarding the assets of the Group, for the system of internal control and for the prevention and detection of fraud and other irregularities.

By order of the Board

S A Lanes
Secretary
23rd March 2004

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Independent auditors' report to the members of Development Securities PLC

We have audited the financial statements of Development Securities PLC for the year ended 31st December 2003 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the reconciliation of consolidated net cash flow to movement in net debt, the consolidated statement of total recognised gains and losses, the consolidated note of historical cost profits and losses, the reconciliation of movements in consolidated total equity shareholders' funds and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As described in the statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the Directors' Remuneration report. Our responsibility is to audit the financial statements and the part of the Directors' Remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration report described as having been audited have been 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 regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services 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 Directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the Directors' Remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration report described as having been audited. 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 and the part of the Directors' Remuneration report described as having been audited 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 and the part of the Directors' Remuneration report described as having been audited.

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 2003 and of the profit of the Group for the year then ended; and
- the financial statements and part of the Directors' Remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

DELOITTE & TOUCHE LLP
Chartered Accountants and Registered Auditors
London
23rd March 2004

Consolidated profit and loss account for the year ended 31st December 2003

	Notes	2003 £'000	2002 £'000
Turnover	2(b)	32,237	33,462
Direct costs	2(b)	(22,862)	(12,648)
Gross profit	2(b)	9,375	20,814
Operating expenses	2(c)	(7,792)	(8,298)
Exceptional items	2(e)	2,000	500
Total operating expenses		(5,792)	(7,798)
Operating profit	2(c)	3,583	13,016
Share of operating profit of associate	2(f)	537	–
Income from other fixed asset investments	2(f)	495	–
Profit on disposal of fixed assets		1,214	1,767
Profit on ordinary activities before interest		5,829	14,783
Net interest payable	4	(4,649)	(4,768)
Profit on ordinary activities before taxation		1,180	10,015
Tax on profit on ordinary activities	5	–	(2,338)
Profit on ordinary activities after taxation		1,180	7,677
Dividends on equity shares	6	(1,520)	(9,425)
Retained loss for the year	18	(340)	(1,748)
Earnings per share	7	4.20p	26.9p
Diluted earnings per share	7	4.19p	26.7p

All turnover and profits derive from continuing operations

Consolidated balance sheet

31st December 2003

	Notes	£'000	2003 £'000	2002 £'000
Fixed assets				
Investment properties	8	115,355		104,799
Operating properties	8	6,991		7,240
Other tangible assets	9	3,745		4,182
Investments	10	3,104		905
			129,195	117,126
Current assets				
Land, developments and trading properties	11	15,318		10,284
Debtors	12	13,863		22,411
Cash at bank and in hand	14	56,339		85,063
		85,520		117,758
Creditors: amounts falling due within one year	13	(14,703)		(29,736)
Net current assets			70,817	88,022
Total assets less current liabilities			200,012	205,148
Creditors: amounts falling due after more than one year	14		(74,950)	(83,630)
Net assets			125,062	121,518
Financed by:				
Capital and reserves				
Called up share capital	16		14,091	14,353
Share premium account	17		63,016	62,779
Revaluation reserves	17		6,048	2,376
Other reserves	17		45,619	45,299
Profit and loss account – deficit	18		(3,712)	(3,289)
Total equity shareholders' funds			125,062	121,518
Net assets per share	7		444p	423p
Diluted net assets per share	7		441p	419p

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

M H Marx
Director

Balance sheet

31st December 2003

	Notes	£'000	2003 £'000	2002 £'000
Fixed assets				
Other tangible assets	9	517		733
Investments	10	56,785		55,123
			57,302	55,856
Current assets				
Debtors	12	206,144		173,682
Cash at bank and in hand		40,239		223
		246,383		173,905
Creditors: amounts falling due within one year	13	(203,608)		(129,901)
Net current assets			42,775	44,004
Net assets			100,077	99,860
Financed by:				
Capital and reserves				
Called up share capital	16		14,091	14,353
Share premium account	17		63,016	62,779
Capital redemption reserve	17		1,431	1,111
Profit and loss account	18		21,539	21,617
Total equity shareholders' funds			100,077	99,860

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

M H Marx
Director

Primary statements

for the year ended 31st December 2003

CONSOLIDATED CASH FLOW STATEMENT for the year ended 31st December 2003

	Notes	2003 £'000	2002 £'000
Cash inflow from operating activities	22	773	22,215
Returns on investment and servicing of finance	23	(5,245)	(4,938)
Taxation		716	(4,815)
Capital expenditure and financial investment	23	(4,068)	16,748
Equity dividends paid		(9,443)	(1,333)
Cash (outflow)/inflow before financing		(17,267)	27,877
Financing:	23		
Purchase of own shares		(2,029)	–
Issue of new shares		295	1,330
Repayment of debt		(17,384)	(1,246)
Proceeds from new borrowings		7,644	12,653
Decrease/(increase) in pledged cash		18,579	(5,920)
(Decrease)/increase in cash in the year		(10,162)	34,694

RECONCILIATION OF CONSOLIDATED NET CASH FLOW TO MOVEMENT IN NET DEBT for the year ended 31st December 2003

	Notes	2003 £'000	2002 £'000
(Decrease)/increase in cash in the year		(10,162)	34,694
Cash outflow from reduction in debt		17,135	1,016
Cash inflow from new borrowings		(7,644)	(12,653)
Cash (inflow)/outflow from movement in pledged cash		(18,579)	5,920
Movement in net debt in the year		(19,250)	28,977
Net funds/(debt) at 1st January		332	(28,645)
Net (debt)/funds at 31st December	24	(18,918)	332

Primary statements continued

for the year ended 31st December 2003

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31st December 2003

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

CONSOLIDATED NOTE OF HISTORICAL COST PROFITS AND LOSSES for the year ended 31st December 2003

	2003 £'000	2002 £'000
Profit on ordinary activities before taxation as reported	1,180	10,015
Revaluation reserve realised on disposals	1,946	2,254
Historical cost profit on ordinary activities before taxation	3,126	12,269
Historical cost profit for the year after taxation, extraordinary items and dividends	1,606	506

RECONCILIATION OF MOVEMENT IN CONSOLIDATED TOTAL EQUITY SHAREHOLDERS' FUNDS for the year ended 31st December 2003

	2003 £'000	2002 £'000
Profit on ordinary activities after taxation	1,180	7,677
Dividends on equity shares	(1,520)	(9,425)
Retained loss for the financial year	(340)	(1,748)
Net proceeds of issue of new shares	295	1,330
Purchase and cancellation of own shares	(2,029)	–
Net surplus on revaluation of property portfolio	5,618	2,671
Net movement in equity shareholders' funds	3,544	2,253
Opening total equity shareholders' funds	121,518	119,265
Closing total equity shareholders' funds	125,062	121,518

Notes to the financial statements

31st December 2003

1. ACCOUNTING POLICIES

a) Basis of accounting

The financial statements have been prepared in accordance with applicable United Kingdom 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

- i) 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. Acquisitions are accounted for under the acquisition method.
- ii) Goodwill arising on the acquisition of subsidiaries before 1998 was written off directly against reserves in the year of acquisition. Goodwill arising since 1998 on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life. Provision is made for any impairment. Negative goodwill is similarly included in the balance sheet and is credited to the profit and loss account in the periods in which the acquired non-monetary assets are recovered through depreciation or sale. Negative goodwill in excess of the fair values of the monetary assets acquired is credited to the profit and loss account in the periods expected to benefit.

c) Turnover

Turnover, which excludes value added tax, represents:

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

d) Associates, joint arrangements and joint ventures

The Group's investments in associates are accounted for in the consolidated financial statements using the net equity method. The Group's share of the profits and losses of associated undertakings are shown in the consolidated profit and loss account while the Group's share of the net assets of associated undertakings is shown in the consolidated balance sheet. Goodwill arising on the acquisition of associated undertakings is accounted for in accordance with the policy set out in note 1(b(ii)) above. Any unamortised balance of goodwill is included in the carrying value of the investments in associated undertakings.

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 material 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 Open Market Value. 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 Company'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 as cost less provisions for any foreseeable losses. Cost includes capitalised net outgoings, including interest, up to the date of completion.

Notes to the financial statements continued

31st December 2003

1. ACCOUNTING POLICIES continued

f) Operating properties

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

g) Depreciation of other fixed assets

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

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

h) Land, developments in progress and trading properties

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

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

i) Deferred tax

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no binding contract to dispose of these assets. Deferred tax assets are recognised to the extent that it is regarded as more likely that not that they will be recovered. Deferred tax assets and liabilities are not discounted.

j) Investment in subsidiaries

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

k) Pension schemes

The Group operates a defined contribution scheme. The charge to the profit and loss account in the period represents the actual amount paid to the scheme.

l) Foreign currencies

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

m) Definitions

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

Total Portfolio Return: The total return from the investment property portfolio, comprising net rental income or expenditure and capital gains or losses, from disposals and revaluation surpluses or deficits, divided by the average capital employed during the financial period, as defined and measured by Investment Property Databank Limited, a company that produces independent benchmarks of property returns.

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

b) Analysis of gross profit

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

c) Operating profit

	2003 £'000	2002 £'000
The operating profit is stated after charging/(crediting):		
Depreciation	888	877
Reversal of impairment – investment (refer note 2(e))	(1,500)	–
– loans (refer note 2(e))	(500)	(500)
Operating leases in respect of land and buildings	579	577
Auditors' remuneration – current year (Company: £70,000 (2002: £70,000))	107	103

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

d) Analysis of net assets

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

Net assets are all in the United Kingdom except £1,021,000 (2002: £1,021,000) in respect of a development property in France and £805,000 (2002: £855,000) in respect of an associated company incorporated and registered in The Netherlands (refer note 10).

e) Exceptional items

The exceptional items in 2002 and 2003 represent the release of provisions against the book value of the Group's investment in the preference shares of, and loans to, Stead & Simpson Group Limited, arising from the Directors' evaluation of the amounts recoverable from the investment and associated loans (refer note 2(f) and note 10). The exceptional item in 2002 was classified within operating expenses.

f) Associated undertakings

The Group has held a 19.9 per cent interest in Stead & Simpson Group Limited ('Stead & Simpson') for a number of years, which was accounted for as a trade investment. In November 2003, Development Securities PLC entered into a conditional share purchase agreement with Apax Ventures IV and Apax Ventures International Partners IV LP, who owned the majority of the shares, and certain of the management of Stead & Simpson. Under the share purchase agreement, which went unconditional on 31st December 2003, Development Securities PLC increased its interest to 38 per cent. The Directors believe that Development Securities PLC began to exercise significant influence over Stead & Simpson, which therefore became an associate, in November 2003, and has accounted for its 19.9 per cent share of the profit after tax of Stead & Simpson from that date. M H Marx was appointed to the Board of Stead & Simpson Group Limited on 1st December 2003.

Notes to the financial statements continued

31st December 2003

3. EMPLOYEE INFORMATION

Staff costs including Directors:

	2003 £'000	2002 £'000
Wages and salaries	4,133	5,260
Social security	452	540
Other pension costs	339	358
	4,924	6,158

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

	2003 Number	2002 Number
Property development and investment	31	37
Operating property activities	35	38
	66	75

4. NET INTEREST PAYABLE

	2003 £'000	2002 £'000
Interest on bank loans and overdrafts	5,147	5,104
Other loans	2,200	2,200
Share of interest payable in joint venture	50	60
Capitalised interest	(500)	(570)
	6,897	6,794
Interest receivable	(2,248)	(2,026)
	4,649	4,768

Capitalised interest in the amount of £250,000 (2002: £430,000) was written off in the year against gross profit.

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2003 £'000	2002 £'000
Corporation tax on income at 30% (2002: 30%)	–	2,215
Adjustment in respect of prior years	–	(76)
Total current tax charge	–	2,139
Deferred taxation	–	199
	–	2,338

5. TAX ON PROFIT ON ORDINARY ACTIVITIES continued

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows:

	2003 £'000	2002 £'000
Profit on ordinary activities before taxation	1,180	10,019
Tax on profit on ordinary activities at 30% (2002: 30%)	354	3,006
Permanent differences	246	202
Short-term timing differences	(228)	(199)
Relief for capital losses	(420)	(794)
Non-taxable income	(448)	–
Losses carried forward	496	–
Adjustment in respect of prior years	–	(76)
	–	2,139

There is no tax charge on the profit for the period because, in part, it relates to the release of provisions which were not deductible for tax purposes when established, and also the profits on the disposal of investment properties have been offset by brought forward capital losses.

6. DIVIDENDS

	2003 £'000	2002 £'000
Interim paid: 1.80 pence per share (2002: 1.65 pence)	505	473
Proposed final: 3.60 pence per share (2002: 3.35 pence)	1,015	953
	1,520	1,426
Special dividend: nil pence per share (2002: 28.5 pence)	–	7,999
	1,520	9,425

7. EARNINGS AND NET ASSETS PER SHARE

a) Earnings per share and diluted earnings per share, based on profit on ordinary activities after taxation of £1,180,000 (2002: £7,677,000), have been calculated as follows:

	Earnings £'000	Weighted average number '000	2003 Earnings per share Pence	Earnings £'000	Weighted average number '000	2002 Earnings per share Pence
Basic	1,180	28,110	4.20	7,677	28,543	26.9
Effect of dilutive shares	–	71	–	–	195	–
Diluted	1,180	28,181	4.19	7,677	28,738	26.7

b) Net assets per share and diluted net assets per share, based on net assets of £125,062,000 (2002: £121,518,000), have been calculated as follows:

	Net assets £'000	Number of shares '000	2003 Net assets per share Pence	Net assets £'000	Number of shares '000	2002 Net assets per share Pence
Basic	125,062	28,181	444	121,518	28,706	423
Effect of dilutive shares	2,084	653	–	2,308	828	–
Diluted	127,146	28,834	441	123,826	29,534	419

Notes to the financial statements continued

31st December 2003

8. INVESTMENT AND OPERATING PROPERTIES

a) Group – investment properties

	Freehold properties £'000	Long leasehold properties £'000	Total £'000
At cost or valuation 1st January 2003	88,679	16,120	104,799
Additions	19,713	174	19,887
Disposals	(11,540)	(3,625)	(15,165)
Surplus on revaluation	5,571	263	5,834
At cost or valuation 31st December 2003	102,423	12,932	115,355
Original cost of investment properties	114,168	9,943	124,111

b) Group – operating properties

	Freehold £'000	Long leasehold £'000	Short leasehold £'000	Total £'000
At cost or valuation 1st January 2003	4,250	1,450	1,540	7,240
Additions	149	60	–	209
Depreciation charge for the year	(140)	(38)	(64)	(242)
Deficit on revaluation	(200)	–	(16)	(216)
At cost or valuation 31st December 2003	4,059	1,472	1,460	6,991
Original cost of operating properties	7,689	1,315	–	9,004

The Group's investment properties include freehold land and developments in progress held at Directors' valuation in the amount of £10,272,000 (2002: £12,370,000) and capitalised interest of £2,347,000 (2002: £2,644,000). The other investment properties have been valued as at 31st December 2003 by External Valuers: DTZ Debenham Tie Leung, Chartered Surveyors, and Colliers CRE (incorporating Gooch Webster), Chartered Surveyors, on the basis of Open Market Value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

The Group's operating properties have been valued as at 31st December 2003 by External Valuers: DTZ Debenham Tie Leung, Chartered Surveyors, and Colliers CRE (incorporating Gooch Webster), Chartered Surveyors, on the basis of Existing Use Value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

9. OTHER TANGIBLE ASSETS

a) Group

	Fixtures and fittings £'000	Motor vehicles and other tangible assets £'000	Total £'000
Cost:			
At 1st January 2003	5,606	655	6,261
Additions	421	53	474
Disposals	(458)	(169)	(627)
At 31st December 2003	5,569	539	6,108
Depreciation:			
At 1st January 2003	1,812	267	2,079
Charge for the year	583	63	646
Disposals	(263)	(99)	(362)
At 31st December 2003	2,132	231	2,363
Net book value 31st December 2003	3,437	308	3,745
Net book value 31st December 2002	3,794	388	4,182

b) Company

	Fixtures and fittings £'000	Motor vehicles and other tangible assets £'000	Total £'000
Cost:			
At 1st January 2003	1,271	411	1,682
Additions	19	42	61
Disposals	(263)	(169)	(432)
At 31st December 2003	1,027	284	1,311
Depreciation:			
At 1st January 2003	782	167	949
Charge for the year	127	61	188
Disposals	(243)	(100)	(343)
At 31st December 2003	666	128	794
Net book value 31st December 2003	361	156	517
Net book value 31st December 2002	489	244	733

Notes to the financial statements continued

31st December 2003

10. INVESTMENTS

a) Group

	Fair value of equity shares £'000	Share of post-acquisition reserves £'000	Negative goodwill £'000	Interest in preference shares of associate £'000	Total Interest in associated undertakings £'000	Interest in joint ventures £'000	Total £'000
Cost and share of post-acquisition reserves:							
At 1st January 2003	–	–	–	–	–	905	905
Transfer from trade investment	1,416	–	(1,416)	–	–	–	–
Acquisition of shares (refer note 2(f))	649	–	(437)	–	212	–	212
Share of post-acquisition reserves (refer note 2(f))	–	537	–	–	537	–	537
Provision released (refer note 2(e))	–	–	–	1,500	1,500	–	1,500
Provisions against investment in joint venture	–	–	–	–	–	(50)	(50)
At 31st December 2003	2,065	537	(1,853)	1,500	2,249	855	3,104

b) Company

	Shares in subsidiary undertakings £'000	Interest in associated undertakings £'000	Interest in preference shares of associate £'000	Total interest in associated undertakings £'000	Interest in joint ventures £'000	Total £'000
Cost and share of post-acquisition reserves:						
At 1st January 2003	54,218	–	–	–	905	55,123
Acquisition of shares (refer note 2(f))	–	212	–	212	–	212
Provision released	–	–	1,500	1,500	–	1,500
Provision against investment in joint venture	–	–	–	–	(50)	(50)
At 31st December 2003	54,218	212	1,500	1,712	855	56,785

Interests in joint ventures include £805,000 (2002: £855,000) invested in the loan stock of Continental Estates Corporation BV, together with a 29 per cent interest in the equity of that company. The Directors consider that the Group's share of the assets and liabilities of that company is not material. Continental Estates Corporation BV is incorporated and registered in The Netherlands. The company's principal activity is currently as an investment holding company.

At 31st December 2003, the Group and the Company held 38 per cent (2002: 19.9 per cent) of the ordinary share capital and 1,524,126 preference shares of £1 each, representing 100 per cent (2002: 1,524,126 shares representing 43 per cent) of the preference share capital, of Stead & Simpson Group Limited, a company incorporated in Great Britain and registered in England and Wales and operating in the United Kingdom as a shoe retailing business (refer note 2(f) and note 20).

c) Principal subsidiary undertakings

The following principal subsidiary undertakings at 31st December 2003, incorporated in Great Britain, registered in England and Wales and which operate in the United Kingdom are:

	% holding in ordinary shares at 31st December 2003	Principal activity
Birmingham International Park (2000) Limited*	100	Property development
DS Property Developments Limited*	100	Property development
Development Securities Estates PLC*	100	Management and investment company
Development Securities (Investments) PLC	100	Property investment

* indirectly held

11. LAND, DEVELOPMENTS AND TRADING PROPERTIES

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Developments in progress	10,940	6,818	–	–
Trading properties	4,378	3,466	–	–
	15,318	10,284	–	–

Land, developments in progress and trading properties are stated at the lower of cost and estimated net realisable value.

12. DEBTORS

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Trade debtors	4,658	8,277	3	22
Amounts owed by subsidiary companies	–	–	202,216	167,943
Other debtors	7,473	11,871	2,868	5,069
Corporation tax	94	810	–	–
Other tax recoverable	317	–	489	–
Deferred tax	281	281	281	281
Prepayments	1,040	1,172	287	367
	13,863	22,411	206,144	173,682

Trade debtors include recoverable development expenditure in the sum of £954,000 (2002: £4,800,000). Other debtors includes accrued development profits of £2,321,000 (2002: £3,300,000) and loans, accrued interest and preference share redemption premium of £2,534,000 (2002: £1,200,000) due from Stead & Simpson Group Limited (refer note 2(f)).

13. CREDITORS: amounts falling due within one year

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Bank loans and overdrafts	291	1,085	–	–
Loan notes	16	16	16	16
Trade creditors	1,709	3,545	17	27
Amounts owed to subsidiary undertakings	–	–	183,744	119,188
Other creditors	2,238	1,709	16,919	849
Corporation tax	–	–	716	–
Other tax and social security	364	4,743	356	476
Accruals and deferred income	9,070	9,700	825	407
Proposed dividend	1,015	8,938	1,015	8,938
	14,703	29,736	203,608	129,901

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.

Notes to the financial statements continued

31st December 2003

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

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
First mortgage debenture 11% due 2016	20,000	20,000	–	–
Bank loans	54,950	63,630	–	–
	74,950	83,630	–	–

Bank loans and the Debenture are supported by way of mortgages and legal charges on certain properties and cash deposits owned by the Group.

Bank loans, loan notes and overdrafts in the sum of £21,462,000 (2002: £16,886,000) included in notes 13 and 14, attract variable rates of interest based on LIBOR/base rate in the range +1.075 per cent to +1.100 per cent and £53,795,000 (2002: £67,845,000) attract fixed rates between 7.00 per cent and 11.00 per cent.

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Analysis of borrowings by date of repayment:				
Less than 1 year	307	1,101	16	16
Between 1 and 2 years	7,908	1,106	–	–
Between 2 and 5 years	9,556	24,400	–	–
After 5 years	57,486	58,124	–	–
	75,257	84,731	16	16

Cash in the amount of £8,930,000 (2002: £27,509,000) is held on deposit as security against the above borrowings and facilities. Borrowings due for repayment after five years include £6,384,000 (2002: £6,544,000) repayable by instalments.

FINANCE REVIEW

Summary

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

The Group had net borrowings of £18,918,000 at 31st December 2003 (2002: £nil). Cash balances were £56,339,000 (2002: £85,063,000), of which £8,930,000 (2002: £27,509,000) was pledged as security against borrowings. Undrawn, committed revolving credit facilities were £44,149,000 (2002: £34,506,000).

The increase in net borrowings largely reflects net cash outflows for the Group's special dividend and share buyback programme in 2003 and investment and trading property acquisitions during the year.

Financing and interest rate strategy

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

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

Fixed and floating rate liabilities and financial assets as at 31st December 2003 are analysed as:

	2003 £'million	Weighted average interest rate %	Weighted average debt maturity Years	2002 £'million	Weighted average interest rate %	Weighted average debt maturity Years
Fixed rate debt	53.8	9.6	11.7	67.8	9.0	12.6
Floating rate debt	21.4	5.3	4.6	16.9	5.1	6.3
Gross debt	75.2	8.3	9.7	84.7	8.3	11.4
Cash balances	(56.3)	3.7	–	(85.1)	3.9	–
Net debt/(funds)	18.9	–	–	(0.4)	–	–
Undrawn facilities	44.1	5.5	4.6	34.5	5.3	5.0
	63.0	6.3	8.0	34.1	6.0	9.2

Valuation of financial assets and liabilities

A valuation was carried out as at 31st December 2003 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 2003 and may be subject to daily fluctuations in line with money market movements.

The debt valuation as at 31st December 2003 is analysed as:

	Book value 31 December 2003 £'million	Fair value 31 December 2003 £'million	Fair value adjustment 31 December 2003 £'million	Fair value adjustment 27 February 2004 £'million
Fixed rate bank loans	33.8	40.0	(6.2)	(6.3)
First mortgage debenture 11% due 2016	20.0	26.8	(6.8)	(6.8)
Total fixed rate financial liabilities	53.8	66.8	(13.0)	(13.1)

The fair value adjustment of £13,000,000 at 31st December 2003 (2002: £15,923,000) represents approximately 23.70 per cent of gross, fixed rate borrowings (2002: 23.5 per cent). The effect on net assets per share after tax of this adjustment would be a decrease of 32.3 pence (2002: 38.8 pence). As at 27th February 2004, the fair value adjustment had increased to £13,115,000, equivalent to a decrease of 32.6 pence 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 2003.

Notes to the financial statements continued

31st December 2003

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

Debt maturity

The maturity profile of the Group's borrowings is set out above in this note. Of the total of £44,149,000 of currently undrawn revolving credit facilities, £500,000 expire in 2004, £18,157,000 in 2007 and the remaining £25,492,000 in 2008.

Gearing

Gearing, measured as net debt to total shareholders' funds, has increased to 15.1 per cent (2002: nil per cent) as at 31st December 2003.

Currency Risk

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

15. DEFERRED TAX

	Group		Company	
	Provided 2003 £'000	Provided 2002 £'000	Provided 2003 £'000	Provided 2002 £'000
Deferred tax asset				
Short-term timing differences	53	281	281	281
Tax losses	228	–	–	–
Deferred tax asset at 31st December	281	281	281	281

Deferred tax has been recognised in accordance with Financial Reporting Standard No. 19 "Deferred Tax".

A deferred tax asset of £228,000 (2002: £nil) has been recognised on £760,000 of excess management expenses which are expected to be used to shelter future taxable income.

A deferred tax asset has not been recognised on £1,440,000 (2002: £nil) of carried forward trading losses, as it is not likely that future trading profits will arise in the companies with such losses in the foreseeable future.

There are no other amounts of deferred tax.

The movement in the year is:

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Deferred tax asset at 1st January	281	480	281	480
Profit and loss account movement	–	(199)	–	(199)
Deferred tax asset at 31st December	281	281	281	281

16. CALLED UP SHARE CAPITAL

	2003 £'000	2002 £'000
Authorised:		
37,000,000 ordinary shares of 50p (2002: 37,000,000 ordinary shares of 50p)	18,500	18,500
Issued, called up and fully paid:		
28,181,376 ordinary shares of 50p (2002: 28,705,794 ordinary shares of 50p)	14,091	14,353

Shares in issue at the date of this report Number of shares
28,181,376

During the year, £295,000 was received following the allotment of 115,582 ordinary shares as a consequence of the exercise of share options. Between 14th and 27th January 2003, 640,000 ordinary shares were purchased by the Company at prices between 310 pence and 320 pence per share for cancellation, at a total cost of £2,029,000.

Share option schemes:

As at 31st December 2003 and at the date of this Report the options outstanding under the Company's Share Option Schemes were exercisable as follows (price stated in pence per share):

1985 Share option scheme:

Date of grant	Number 31st December 2003	Number 23rd March 2004	Exercise dates	Price
7th April 1994	7,500	7,500	7th April 1997 to 6th April 2004	322.5
12th October 1994	143,735	143,735	12th October 1997 to 11th October 2004	250.0
	151,235	151,235		

Executive share option scheme 1995:

Date of grant	Number 31st December 2003	Number 23rd March 2004	Exercise dates	Price
6th June 1996	30,000	30,000	6th June 1999 to 5th June 2006	190.5
19th May 1997	20,000	20,000	19th May 2000 to 18th May 2007	250.0
21st May 1998	30,000	30,000	21st May 2001 to 20th May 2008	328.5
26th May 1998	214,395	214,395	26th May 2001 to 25th May 2008	326.5
27th March 2001	58,651	58,651	27th March 2004 to 26th March 2011	341.0
30th April 2001	100,000	100,000	30th April 2004 to 29th April 2011	400.5
	453,046	453,046		

Savings related share option scheme 1995:

Date of grant	Number 31st December 2003	Number 23rd March 2004	Exercise dates	Price
22nd October 2002	48,412	48,412	1st December 2005 to 31st May 2006	270.0

Notes to the financial statements continued

31st December 2003

17. RESERVES

a) Group

	Share premium account £'000	Investment property revaluation reserve £'000	Other property revaluation reserve £'000	Capital redemption reserve £'000	Capital reserve £'000
At 1st January 2003	62,779	2,165	211	1,111	44,188
Net proceeds of issue of new shares	237	–	–	–	–
Purchase of own shares	–	–	–	320	–
Net surplus/(deficit) on revaluation of properties	–	5,834	(216)	–	–
Revaluation surplus realised on disposal of properties	–	(1,856)	(90)	–	–
At 31st December 2003	63,016	6,143	(95)	1,431	44,188

The cumulative goodwill written off at 31st December 2003 is £5,301,000 (2002: £5,301,000). This goodwill was eliminated against reserves in accordance with the Group's accounting policy prior to 1998.

b) Company

	Share premium account £'000	Capital redemption reserve £'000
At 1st January 2003	62,779	1,111
Net proceeds of issue of new shares	237	–
Purchase of own shares	–	320
At 31st December 2003	63,016	1,431

18. PROFIT AND LOSS ACCOUNT

	Group £'000	Company £'000
At 1st January 2003	(3,289)	21,617
Purchase of own shares	(2,029)	(2,029)
Revaluation reserve realised on disposal of investment properties and other properties	1,946	–
Retained (loss)/profit for the year	(340)	1,951
At 31st December 2003	(3,712)	21,539

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 £3,471,000 (2002: £11,852,000).

19. FINANCIAL COMMITMENTS

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

	2003 £'000	2002 £'000
Financial commitments	2,746	4,191
Annual commitments in respect of operating leases expiring within five years	579	577

20. CONTINGENT LIABILITIES

Performance bonds of Group companies are guaranteed by banks in favour of third parties for a total of £401,435 (2002: £429,935). The due performance of obligations under various leases entered into by Group companies, expiring subsequent to 2014, amount to £1,460,580 per annum (2002: £1,593,000). The net present value after tax of estimated negative cash flows over the term of certain leases to Stead & Simpson Limited amounted to £2,250,000 at 31st December 2003 (2002: £2,400,000). Obligations in respect of a guarantee for the provision of finance to Stead & Simpson Group Limited amounted to £2,118,000 (2002: £2,118,000) (refer note 10).

21. PENSION SCHEME

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

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

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

Notes to the financial statements continued

31st December 2003

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

	2003 £'000	2003 £'000	2002 £'000	2002 £'000
Returns on investment and servicing of finance				
Interest received	2,999		1,784	
Interest paid	(8,244)		(6,722)	
Net cash outflow for returns on investment and servicing of finance		(5,245)		(4,938)
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(474)		(1,293)	
Receipts from sale of tangible fixed assets	85		407	
Receipts from sale of investment and operating properties	16,379		34,554	
Purchase of investment properties	(19,846)		(16,920)	
Purchase of investments	(212)		–	
Net cash (outflow)/inflow from capital expenditure and financial investment		(4,068)		16,748
Financing				
Issue of shares	295		1,330	
Purchase of own shares	(2,029)		–	
Debt falling due within one year				
– repayment of secured loan	(17,384)		(1,246)	
– decrease/(increase) in pledged cash	18,579		(5,920)	
Debt falling due after more than one year				
– movement in secured loan repayable in 2007	7,644		12,653	
Net cash inflow from financing		7,105		6,817

24. ANALYSIS OF NET FUNDS/(DEBT)

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

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 once during the year, comprises W Grant as Chairman, P V S Manduca, V M Mitchell and M S Soames. All four 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, M H Marx and C J Barwick and the Company Secretary, S A Lanes, the Committee sought professional advice from external consultants Hewitt Bacon & Woodrow Limited and with legal support from Linklaters. Hewitt Bacon & Woodrow Limited were appointed by the Remuneration Committee. Linklaters are also the Group's principal legal advisor.

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 dated June 1998 (the Hampel code) for Directors' remuneration annexed to the Listing Rules of the Financial Services Authority and this report contains the appropriate information detailed in Schedule B thereto. In addition, the report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002. As part of the Regulation requirements, sections 2 and 3 of this report have been audited.

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. They are also designed to ensure a significant proportion of the total remuneration package is performance related, thereby correlating with the interests of shareholders through the attainment of net asset value per share growth.

a) Salary

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

b) Annual bonus

The non-pensionable annual bonus is based on the performance of the Company during the year, team achievements and the specific contribution of the individuals concerned. The maximum amount which any individual will be awarded will normally be limited to 75 per cent of salary (at the rate payable at the time the award is granted) for Executive Directors, 50 per cent for executives and 25 per cent for other staff. In addition to the annual bonus, unless a special discretionary bonus is awarded, a similar amount to the annual bonus will form the basis of the award under the long-term incentive plan described in (d) overleaf. The annual bonus in respect of the Executive Directors will be determined by the three main drivers for the creation of shareholder value in our business; namely, accurate reading of the economic and market cycles in which we operate, the quality of the pipeline of future development projects and the maintenance of the standards of excellence that are embedded within the Company's corporate culture.

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 £2.0 million and the return on the Company's equity employed in the transaction exceeds 20 per cent. No more than ten per cent of the profits of the transaction will be awarded in total and no individual will receive more than five 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. In recognition of the efforts required to secure such transactions, normally 20 per cent of the anticipated special discretionary bonus will be paid on account to the specified individuals. The balance of the bonus is dependent upon the amount of profit actually realised.

In awarding annual and special discretionary bonuses there will be no "double-counting". The contribution 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.

£75,800 was paid to C J Barwick during the year in respect of his discretionary bonus entitlement, upon receipt of a further development profit distribution on the first phase of PaddingtonCentral.

In addition to awarding special discretionary bonuses in securing development opportunities, the Remuneration Committee retains the discretion to award bonuses to Executive Directors and other executives at any time for making an exceptional contribution towards the Company. No awards were made during the year. Such awards will not be applied in securing any corporate acquisitions.

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. The award will be paid in cash, all of which will be used to buy shares in the Company, except where participants are subject to tax and social security in respect of the award, they will, to that extent, receive cash only. At the end of each year, the Group's net asset value per share will be calculated. If the increase in the Group's net asset value per share is at least equal to that of the median of a group of 20 listed property companies, then the deferred bonus will vest as to one-sixth of the maximum amount which can be awarded. If growth reaches the upper quartile level, the deferred bonus will vest as to one-third of the maximum amount which can be awarded. Between these criteria, the deferred bonus will vest pro rata. If the Group's net asset value is below the median for any year, the deferred bonus will not vest at all in respect of that year. The selected 20 listed property companies being: Ashtenne Holdings PLC, The British Land Company PLC, Brixton PLC, CLS Holdings PLC, Capital & Regional PLC, Chelsfield PLC, Daejan Holdings PLC, Derwent Valley Holdings PLC, Estates & General PLC, Great Portland Estates PLC, Hammerson PLC, Helical Bar PLC, Land Securities Group PLC, Liberty International PLC, London Merchant Securities PLC, McKay Securities PLC, Pillar Property PLC, Rugby Estates PLC, Slough Estates PLC and Tops Estates PLC. 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 two per cent for the first performance year, four per cent over the first two years for the second year and six per cent over all three years for the third year. The primary performance condition is considered appropriate as it measures the Company's added value against a representative peer group of companies.

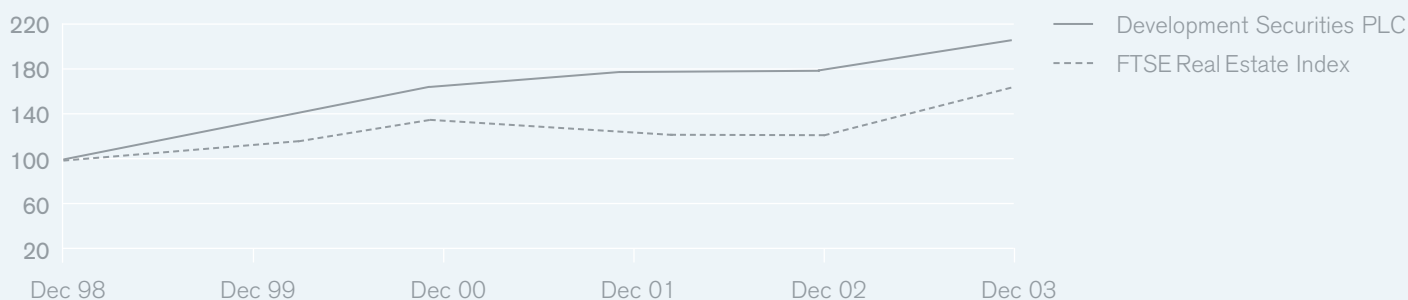
On 7th May 2003, a deferred bonus under the long-term incentive plan was granted to the two Executive Directors and 29 members of staff with a maximum award of £1,614,600 in total, including £345,000 each in respect of C J Barwick and M H Marx. Deferred bonuses representing £110,000 of the total maximum award have subsequently lapsed.

Development Securities PLC ranked seventh against the comparator group of companies in respect of the second year of vesting for the deferred bonus granted under the long-term incentive plan on the 2nd May 2001 and the first vesting of the deferred bonus granted on 8th May 2002. The total value of the second vesting of the 2nd May 2001 grant is £308,850, including £95,400 each in respect of C J Barwick and M H Marx and £401,550 relating to the first vesting of the 8th May 2002 grant, including £101,250 each in respect of C J Barwick and M H Marx. Remittance of the vestings are subject to the Rules of the Scheme, normally once the full three years of vesting have been determined by the Remuneration Committee, following which the deferred bonus is then capable of exercise during the period of 42 days from the announcement of the Company's results.

Following the declaration of a 28.5 pence special dividend on 19th February 2003, as permitted under the Plan Rules, the performance conditions have been adjusted for outstanding vestings, in order to represent a fairer measure.

The graph below demonstrates Development Securities PLC total shareholder return as represented by share price growth plus reinvested dividends, against the FTSE Real Estate Index also measured by total shareholder return over the past five financial years. The FTSE Real Estate Index is considered the most appropriate index for comparison of the Company's business performance against that of its competitors.

Return index



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.

No new grants have been made during the year and none are currently outstanding.

f) Share option schemes

The original executive share option 1985 scheme was approved in that year and following its ten-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. The performance condition is that the net assets per ordinary share of the Company are equal to or in excess of the average growth in the All Properties Capital Growth Index, published by Investment Property Databank Limited, during the same period over three consecutive financial years of the Company. The performance condition is considered appropriate as the index measures against the Company's added value. Notwithstanding the Executive Directors receiving awards under the relevant executive option scheme of four times salary shortly following their original appointment, it is the Remuneration Committee's subsequent policy to phase the grant of executive options. No grants were made during the year. Options over 72,265 shares were exercised during the year by M H Marx at 250 pence per share and 15,000 by an executive. M H Marx sold 23,769 of the shares at 366.5 pence per share and 26,152 shares at 360 pence, realising a profit of £56,458, with the remaining 22,344 shares then retained.

Following the declaration of a 28.5 pence special dividend on 19th February 2003, the Remuneration Committee have resolved that option holders may receive a cash bonus upon exercise, equivalent to the special dividend as equitable compensation.

Remuneration report continued

g) Savings related option scheme

The grant made on the 14th November 2000 under a three-year term at an option price of 233.5 pence per share matured on the 1st December 2003, resulting in 28,317 shares being allotted, following exercise, to 15 members of staff, including 4,148 shares in favour of M H Marx.

The options granted on 22nd October 2002 at 270 pence per share may be exercised after three years. The Option price represents 80 per cent of the market value of the shares at the time of invitation.

In a similar manner to that described in (f) above, option holders will receive an equivalent cash bonus upon exercise as compensation for payment of the special dividend.

h) Directors' contracts and retirement benefits

M H Marx's contract of employment dated 24th June 1994 and that of C J Barwick dated 12th May 1998 may be terminated upon 12 months' notice by either party. The contract does not specify an expiry date, or compensation for early termination. In the event of early termination, the contractual entitlement includes salary, pension, benefits in kind and any awards outstanding under the sections described above, subject to the rules of the individual schemes and plans. R M Dantzig, W Grant, P V S Manduca, V M Mitchell and M S Soames serve for fixed terms expiring at the date of the Annual General Meetings to be held in 2007, 2006, 2005, 2006 and 2006 respectively. R M Dantzig's letter of appointment may be terminated with 12 months' notice by either party and those for W Grant, P V S Manduca, V M Mitchell and M S Soames may be terminated with six months' notice by either party.

A consultancy service agreement has been executed with Executive Services Overseas Inc for the provision of M R Landau, a former Director's services on a non-exclusive basis for the period 1st January 2003 to 31st December 2005 on a number of specific potential development projects. A fee of £20,000 per annum is payable, together with in broad terms 10 per cent of the development profits on completed projects, with a deduction of £675,000 from any profit entitlement in respect of future development at Broughton Park, near Chester.

The fees of the Non-executive Directors are determined by the Board within the aggregate limit set by the Articles of Association. No Director participates in any discussion about their own particular remuneration. Following a review of Non-executive Director fees, taking advice from Hewitt Bacon & Woodrow Limited as to evidence in the same business sector, it was agreed to increase the fee level from £20,000 per annum to £25,000 per annum with effect from 1st January 2004, with an additional £7,500 per annum awarded to W Grant for Chairmanship of the Remuneration Committee. The fees paid to the Chairman remain at the previous level of £50,000 per annum, with no additional contribution for Committee Chairmanship.

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.

i) Executive Directors' share qualification

During 2003, it was determined that Executive Directors should align themselves with shareholders' interests, with any new Executive Director obliged to establish a beneficial shareholding to the value of one-half of their basic salary within two years of appointment, rising to an amount equivalent to basic salary after four years. The existing Executive Directors are required to secure and maintain a beneficial shareholding to an amount equivalent to basic salary by 1st April 2006, where this is not already the case. The Remuneration Committee retain the discretion to reduce this requirement in the event of corporate or personal constraints.

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

2. DIRECTORS' EMOLUMENTS (AUDITED)

The total Directors' remuneration was as follows:

	2003 £'000	2002 £'000
Emoluments	924	1,796
Company contributions to money purchase pension schemes	76	75
Gain on exercise of share options	84	541
	1,084	2,412

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

	Salaries and Fees £'000	Bonus £'000	Benefits in kind £'000	Total 2003 £'000	Total 2002 £'000	Pension contributions 2003 £'000	Pension contributions 2002 £'000
Chairman:							
R M Dantzig: (Non-executive Director from 21st May 2003, Chairman from 17th September 2003)	21	–	–	21	–	–	–
H R Jenkins CBE (to 17th September 2003)	36	–	–	36	50	–	–
Executive Directors:							
C J Barwick (highest paid Director)	235	166	19	420	1,240	38	38
M H Marx	235	112	20	367	421	38	37
Non-executive Directors:							
W Grant	20	–	–	20	20	–	–
P V S Manduca	20	–	–	20	20	–	–
M S Soames	20	–	–	20	7	–	–
V M Mitchell	20	–	–	20	7	–	–
	607	278	39	924	1,765	76	75

Benefits in kind received during the year comprise motor vehicles, cash in lieu of a motor vehicle, fuel and medical insurance.

Remuneration Report continued

3. DIRECTORS' SHARE INTERESTS (AUDITED)

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

Ordinary Shares:	2003 Number	2002 Number
R M Dantzig	5,000	–
M H Marx	90,631	64,139
C J Barwick	22,302	14,602
W Grant	5,000	5,000
V M Mitchell	1,350	–
M S Soames	5,000	–
	129,283	83,741

Options:

	1st January 2003 Number	Granted	Exercised	31 December 2003 Number	Exercise price Pence	Market price at exercise Pence	Gain on exercise £'000	Date from which exercisable	Expiry date
M H Marx									
1985 option scheme	216,000	–	72,265	143,735	250.0	360.0	79	12.10.97	11.10.04
Savings related scheme	4,148	–	4,148	–	233.5	361.5	5	1.12.03	31.05.04
C J Barwick									
Executive option scheme 1995	214,395	–	–	214,395	326.5	–	–	26.05.01	25.05.08
Savings related scheme	3,500	–	–	3,500	270.0	–		1.12.05	31.05.06
							84		

Long-term incentive plan:

	Date of grant	1st January 2003 maximum award £'000	Awarded during year maximum award £'000	31st December 2003 maximum award £'000	Vested during year £'000	Final vesting date
M H Marx	02.05.01	318	–	318	95	31.12.03
	08.05.02	337	–	337	101	31.12.04
	07.05.03	–	345	345	–	31.12.05
C J Barwick	02.05.01	318	–	318	95	31.12.03
	08.05.02	337	–	337	101	31.12.04
	07.05.03	–	345	345	–	31.12.05

- The final vesting dates represent the dates at which the Group's net assets are compared against the 20 listed property companies as outlined in section 1(d). In practice, however, it is several months thereafter that the relevant annual report and accounts are published, in order that the final vesting can be determined.
- None of the Directors had a beneficial interest in the shares of any subsidiary company.
- The mid-market price of the shares as at 31st December 2003 was 353.5 pence and the range during 2003 was 264 pence to 396 pence.
- No options lapsed or were exercised during the year, except as disclosed above.

There were no transactions between 31st December 2003 and the date of this report.

Approved by the Board and signed on its behalf by

W Grant
Chairman of the Remuneration Committee
23rd March 2004

Development Securities PLC
Portland House
Stag Place
London SW1E 5DS

www.developmentsecurities.com