

29th August 2008

**DEVELOPMENT SECURITIES PLC – INTERIM RESULTS FOR THE  
SIX MONTHS ENDING 30th JUNE 2008**

Development Securities, the leading property development and investment company, today announces interim results for the six months ended 30th June 2008. Highlights:

- Net Asset decline of 6.7%, reducing to £213.6 million (31st December 2007: £228.9 million), equivalent to 526 pence per share (31st December 2007: 564 pence per share)
- Gross Profits of £16.9 million (30th June 2007: £4.6 million) reflecting success at PaddingtonCentral and Southampton
- Successful £65.0 million disposal in April of Kirkby Shopping Centre in the face of a difficult market, equating to book value
- Modest level of net gearing at 29% (31% at 31st December 2007), which benefited considerably from the disposal of Kirkby
- Dividend maintained at 2.40p per share

**Financial highlights**

unaudited for the six months ended 30th June 2008

|                                                   | <b>30th June 2008<br/>unaudited<br/>£million</b> | 30th June 2007<br>unaudited<br>£ million | 31st Dec 2007<br>audited<br>£ million |
|---------------------------------------------------|--------------------------------------------------|------------------------------------------|---------------------------------------|
| (Loss)/profit after taxation                      | <b>(14.4)</b>                                    | 1.3                                      | 0.0                                   |
| Net assets                                        | <b>213.6</b>                                     | 231.7                                    | 228.9                                 |
| Net borrowings*                                   | <b>(62.3)</b>                                    | (53.5)                                   | (71.6)                                |
| (Loss)/earnings per share (pence)                 | <b>(35.5)</b>                                    | 3.2                                      | 0.0                                   |
| Net assets per share <sup>#</sup> (pence)         | <b>526</b>                                       | 566                                      | 564                                   |
| Dividends per share declared <sup>#</sup> (pence) | <b>2.4</b>                                       | 2.4                                      | 7.2                                   |

**David Jenkins, Chairman of Development Securities PLC, commented:**

“The reduction in earnings compared to the previous financial year arose from the continuing and deepening decline of property values that began in the second half of 2007. The difficulties in the financial sector remain and property values are likely to fall further with little prospect of immediate recovery.

“As our business model, developing large-scale urban regeneration projects, is based on partnership with institutional equity, we have limited exposure to debt financing. We believe we are well-positioned to manage the impact of the challenges now facing the UK’s commercial property market. Throughout the current cycle, we have maintained relatively low levels of net gearing and consequently have a strong balance sheet.

“Current development activity within our pipeline is progressing well on our significant projects at PaddingtonCentral, Southampton and Manchester. The recent lettings achieved at PaddingtonCentral leave only 15 per cent of the recently completed One Kingdom Street unlet.

“Within our investment portfolio, whilst we have seen a decline of 7 per cent in capital values during the first six months of 2008, good value is beginning to emerge in selected locations. We will continue with our strategy to deliver superior investment portfolio returns through stock selection, sector rotation and asset management. In May, we acquired Atlantic Village, Bideford, our first significant investment acquisition since 2005 and one that is perfectly suited to our asset management strategy.

“We are approaching the low point of the current downturn in economic activity which we expect to be reached next year and it is then that we expect suitable sites to come forward for large-

scale development at realistic values either for redevelopment or intense active management. We are preparing ourselves accordingly.”

# Refer note 14

\* Refer note 7(a) and 14.

## **Chairman’s statement**

The continuing and deepening decline of property values that began in the second half of 2007 has led to a reduction in earnings in your Company, which reports a loss after taxation for the first six months of 2008 amounting to £14.4 million. This compares to a profit after taxation of £1.3 million achieved on a comparable basis for the same period of 2007.

Shareholder equity reduced to £213.6 million, equivalent to 526 pence per share from £228.9 million or 564 pence per share at 31st December 2007, representing a decline of 6.7 per cent.

The significant reduction in earnings arose from the continuing decline of property values that began to manifest itself in the second half of 2007 and which has now impacted further upon our own property portfolio together with a £6.1 million redemption fee following the early repayment of a fixed-rate bank loan. The downward revaluation of £15.6 million includes £9.4 million arising from our investment properties, with the remainder from revaluation of long-term land holdings. In addition, valuation deficits arising from land held for development activities amounted to £3.5 million and those deriving from land and property held within our joint ventures were £10.4 million. The impact of the economic slowdown about which I expressed concerns when reporting our 2007 annual results in April, has been deeper and speedier than envisaged. The successful disposal of Kirkby Shopping Centre for £65.0 million in April has limited the impact of the downturn on our balance sheet as well as reducing the level of net gearing. The difficulties within the financial sector remain, with little prospect of immediate resolution. Furthermore, from a business point of view, the general anxiety persists that consumer and occupier demand will fail to withstand the mounting economic pressures accumulating against them. Higher energy and food costs are adding to inflationary pressures which, together with reduced liquidity in the banking system and consequent increases in bank margins may well further undermine confidence. It will not take much, in these circumstances, for unemployment in certain sectors to increase and for the decline in house prices to accelerate, bringing further pressure on both consumer and occupier.

Nevertheless, given the financial strength within our balance sheet your Board has declared a dividend of 2.4 pence per share equal to the equivalent interim dividend paid in 2007, to be paid on 28th October 2008 to shareholders on the register on 26th September 2008.

## **DEVELOPMENTS**

### **PaddingtonCentral**

Significant progress has been achieved in many respects on this major central London regeneration project. Practical completion of One Kingdom Street was achieved in February this year and it is gratifying to report that 145,500 sq.ft. has now been leased to Statoil UK Limited and Vodafone to add to the 73,000 sq.ft. taken by Misys plc last year. There remains only 37,500 sq.ft. and when this is placed under offer, a more than satisfactory conclusion will have been reached on this second phase of the PaddingtonCentral development. The 206-room four star hotel, let to Accor, at Three Kingdom Street, is very close to completion, and will open in the autumn.

In January, Morley Fund Management and Quinlan Private formed a joint-venture partnership to fund Two Kingdom Street, the latest speculative development phase to be initiated, with a gross development value of £275 million representing 230,000 sq.ft. net of prime office accommodation and 22,000 sq.ft. of high-end studio space. Construction started in February 2008 and is programmed for completion in early 2010.

**Colindale, London NW9**

In November last year, we completed the sale of 399 Edgware Road, London NW9 to a private investor for £68.0 million, with the consideration comprising both cash and loan notes payable on or before 30th June 2008. Subsequently, by mutual agreement, the due date on the outstanding £52.0 million loan notes has been extended to 15th September 2008, to assist the purchaser in completing his financing arrangements. It is probable that, as part of these financing arrangements, a minority proportion of the monies due under the loan notes may be deferred for an extended period beyond 12 months after September 2008. All payments under the loan notes are currently secured by way of a first charge on the property in favour of Development Securities. An amount equal to approximately 24.0 per cent of the disposal price has already been paid by the purchaser and we continue to hold this payment as a non-refundable advance against the property which remains in our books at £40.0 million. Since approximately 76.0 per cent of the original consideration fell due for redemption subsequent to 2007, shareholders will recall that it was felt inappropriate to include the revenue and resultant profit from our 2007 results. This accounting treatment has been maintained as at 30th June 2008. Interest on the loan notes has been paid by the purchaser and included within other income in the interim results.

**CityPark, Manchester**

Construction is on schedule on the 147,000 sq.ft. office building, which was forward sold in October 2007 to a private investor for part owner occupation. The scheme is financed on our own balance sheet against the bank-guaranteed sale contract.

**Hammersmith Grove, London W6**

In September 2007, we exchanged contracts with London Underground Limited, conditional upon financing and planning for the acquisition of a 1.5-acre site in Hammersmith town centre, immediately adjacent to the Hammersmith and City Line underground station. Our development will contain 325,000 sq.ft. of offices together with ancillary retail and leisure space. Whilst it proved possible to assemble the long-term equity partners required to finance this transaction, the lack of any currently available bank finance for the development stage left our original equity co-investors unable to proceed with the project as originally planned. Constructive discussions are now taking place in order that the development can proceed without the need for banking finance.

**Broughton, Flintshire**

With regard to our 19-acre residential site, the Planning Inspector's final report is still anticipated by the end of 2008 although, given the history of slow progress with his review of the emerging unitary development plan (UDP), further delay should not be ruled out. We are encouraged that the status of our land is still designated as allocated for residential use in the emerging UDP. Given the clear slowdown in the housing market, we will need to give careful consideration as to how value can best be realised once the UDP has been ratified.

Negotiations continue with British Land PLC regarding the 171,000 sq.ft. extension to the existing Broughton Retail Park, in respect of which planning consent was obtained in March 2007 and part of which would be located on land owned by your Company.

**Hartfield Road, Wimbledon, London SW19**

Resolution to grant planning was obtained in May this year for 35,000 sq.ft. retail and 83,000 sq.ft. private apartments together with a number of affordable units. We are pleased that Merton Council remains a firm supporter of the project for which a pre-let of the retail component will act as a necessary precursor of construction.

### **West Quay, Southampton**

Good progress has been maintained on the development of the new Carnival PLC headquarters building which is fully forward-funded with Lime Property Fund Limited Partnership. Carnival PLC will take a 20-year lease on completion of the development, scheduled for the end of this year.

Negotiations in respect of a second phase of similar size on an adjoining site are still in hand with Southampton City Council.

### **Cambourne Business Park, Cambourne**

In recognition of current challenging market conditions, progress on the next 50,000 sq.ft. phase has been shelved at our 750,000 sq.ft. business park development near Cambridge in which we hold a 44.0 per cent interest in all subsequent phases. With the initial 10-year joint venture agreement now coming to the end of its term later this year, we are now in discussion with our joint venture partners, who between them hold equally the balance of equity, in respect of a period of extension.

### **The Royals Business Park**

Earlier this year, we received via The London Development Agency, £5.2 million which included reimbursement of infrastructure and other costs which we had incurred in recent years since this project began. Following the disposal of the initial 252,000 sq.ft. office facility which represented the first phase of development on this business park, we are now planning the second phase which we intend to contain two hotels and a speculative office building of up to 100,000 sq.ft. An application for detailed planning consent will be submitted in due course.

### **St Bride Street, London EC4**

Construction has now commenced in respect of this 54,000 sq.ft. office and leisure project forward funded with the Luxembourg-based Corpus Sireo Immobiliensfonds. Practical completion is scheduled for the first quarter of 2010.

### **Kirkby Shopping Centre, Liverpool**

In April this year, we disposed of our entire interest in Kirkby Shopping Centre for £65.0 million to Tesco. The consideration equalled the price we paid for the property 12 months previously, notwithstanding significantly more adverse market conditions.

### **Joint venture developments**

Over the course of the first half of the year, our joint venture partnerships have seen a high level of activity both in terms of existing projects and new opportunities.

In June this year, we achieved outline planning consent at Curzon Park, Birmingham for some 1.4 million sq.ft. of office, residential, hotel and leisure uses on the 10.5 acre site which we acquired, in equal partnership with Grainger PLC, in November 2006. It is intended that the first phase will incorporate a 100,000 sq.ft. speculative office building and a 200-bedroom hotel together with retail and leisure space. This location, situated close to New Street station in the centre of Birmingham will represent one of the city's major regeneration projects.

Following a successful letting campaign, Fiducia Group Plc has completed the sale of Oxley Park in Milton Keynes for £6.2 million, generating a profit share for your Company of £0.6 million. At Buckshaw Village, a £24.0 million mixed-use scheme, Fiducia has made significant progress with a site disposal and in securing a food store anchor for the scheme and hopes to submit a planning application in the near term. The programme envisages a start on site in the second quarter of 2009. Other current projects are progressing well and tenant demand continues to be robust in this retail sub-sector. Fiducia have made further acquisitions this year, including a £4.0 million mixed-use development site at Lawley Village, Telford which offers the opportunity for early

receipts through plot sales prior to a retail development scheme and a £1.0 million site with development potential at Bannerbrook, Coventry.

Our mixed-use project with Blue Sustainable Living in the South East is progressing well with a planning application to be submitted later this year following an extensive consultation exercise. In the meantime, a pipeline of other opportunities is beginning to emerge.

At Priory Road in Wells, in conjunction with Centros, our discussions with the Local Authority are progressing and we are encouraged by the strong level of pre-letting interest.

CTP have continued to make progress with their pipeline of projects, focusing on achieving exits via forward sales and fundings. In particular, CTP have seen strong demand for hotel uses on their sites.

We acquired a minority interest in the Colliers Capital managed Wessex Property Fund towards the end of 2007 for £0.7 million. In addition, we have advanced by way of loan a further amount of £2.2 million. The Fund currently comprises six properties with a combined value in excess of £23.0 million and focuses on development and asset management opportunities in the South West of the UK, utilising local development partners where appropriate. Refinancing terms for the Wessex Fund have been agreed with the lending bank. Individually, the fund assets show potential for value enhancement in the short to medium term through rental uplifts and planning gains.

## **INVESTMENT**

Investment property prices have returned to the levels seen in 2004/2005 and we believe that, in selected locations, good value is starting to appear. This was one of the factors behind the Company's first major investment acquisition since 2005, at Atlantic Village, Bideford, for £20.0 million in May this year. The scheme exhibits the three components that we seek in a retail asset - a food store anchor to drive footfall, adjoining well configured retail units where we can asset manage to improve rental and occupier levels and adjoining surplus land on which, over time, the Centre can be extended to provide enhanced critical mass and higher rental levels.

The revaluation of the Investment Portfolio at 30th June 2008 showed a capital decline of £9.4 million, representing a reduction of 6.3 per cent mainly due to outward yield shift. By comparison, the All Property IPD capital return for the first six months of 2008 was 8 per cent negative. At 30th June, the annual rent passing was £6.6 million representing a yield of 5.5 per cent compared to a significantly higher reversionary rental level of £8.6 million, representing a yield of 7.2 per cent. This step change in yield is one indication of the defensive quality of our investment portfolio. The current vacancy rate is 5.0 per cent, excluding those properties under offer or awaiting redevelopment.

It is clear in these uncertain times that focus must be on the three key drivers to deliver investment portfolio returns - stock selection, sector rotation and implementation of asset management initiatives, with particular emphasis on the last of these.

At Furlong Shopping Centre, Ringwood, following a lease surrender taken last year, we are creating an additional 5,100 sq.ft. of retail space, to be completed by early 2009, of which 1,500 sq.ft. is pre-let, consolidating rental evidence at £85 Zone A and supporting our view that market towns are relatively resilient to an economic slowdown. We have now introduced a new restaurant operator more aligned with the Centre's profile which will improve customers' dwell time. Pre-letting discussions are on-going, now that planning permission for phase two is to be heard at committee in August.

At the Company's retail scheme in Thatcham, we have received a number of supermarket enquiries which will provide the key to delivering the planned 50,000 sq.ft. retail extension. We

continue to be encouraged by prospective tenant interest and believe the extension will provide the catalyst to improve the Centre's letting and rental levels.

At Swanley, outward yield shift has significantly affected the viability of our redevelopment proposal, causing us to re-assess a refurbishment option driven by the introduction of new anchor tenants in preference to a comprehensive redevelopment. Whilst we believe we can capitalise on existing anchors to improve rental tone, covenants and lease lengths, this strategy would not preclude a redevelopment proposal once favourable economic conditions are re-established. We intend to make a planning application for a first phase of refurbishment later this year.

Income growth is central to any strategy at present and at our industrial estate in Brentford such positive growth is emerging, with the estate fully-let for the first time in five years and rental reversions crystallising through the rent review process.

Earlier this year, we sold the refurbished 159,000 sq.ft. warehouse and distribution facility at Stonecross Park, Wigan realising a surplus above book value of £0.8 million.

At Blackpool, we intend to hand over the remaining large unit to JD Wetherspoon in the autumn, which will see over 90.0 per cent of the available space being let. The opening of this 300-capacity public house and the nearby Hounds Hill Shopping Centre should improve lettable of the remaining basement space.

### **Winchester**

We have commenced development on site to deliver this 50,000 sq. ft neighbourhood retail centre by August 2009, with pre-lets to Waitrose, Boots and the Primary Healthcare Trust making up approximately 90.0 per cent of total rental income.

### **Financial**

In February, we completed the refinancing of part of the Company's debt by prepaying a £34.4 million, 8.3 per cent fixed-rate, secured term loan that was due for expiry in 2018. As part of the prepayment arrangements, the Company paid a settlement amount of £6.1 million to the loan provider. The property collateral released as a result of this loan repayment has now been charged to a medium-term £38.0 million floating rate, revolving facility with Bank of Scotland Corporate. In addition, Bank of Scotland Corporate are providing a medium-term £28.0 million secured facility to finance the planned phases of future development of those properties charged to this facility.

At 30th June, our level of net debt was £62.3 million, equivalent to 29.2 per cent of shareholder funds, compared to 31.2 per cent at the end of the previous financial year. Net gearing, excluding £24.2 million net debt arising from our Subordinated Unsecured Loan Note facility, was 17.8 per cent. Our average cost of debt was 7.7 per cent at 30th June on a debt portfolio of 9.3 years weighted unexpired term.

The placing into Administration of Stead & Simpson Limited, in January this year, crystallised against your Company certain rental liabilities under guarantee obligations entered into in 1991. Provision for the estimated net present value after taxation of such exposures, amounting to £1.0 million net, has been made in the results for the six months to 30th June 2008.

The basic business model for your Company has remained unchanged since we last reported to you in respect of our 2007 annual financial results. The considerations regarding our approach to risk, diversity and balance in our activities as set out on pages 4 to 11 of our 2007 Annual Report are still applicable. As outlined earlier, the nature of these risks and uncertainties is unchanged and will remain relevant for at least the next six months. The most significant risks relate to property valuation and funding.

Property valuations affect our investment and development activities and the current bearish climate generates significant uncertainty over the future direction and quantum of valuation movements. Funding is also relevant to all of our activities. The business has significant balance sheet and cash flow strength, but the forward-funding development model is dependent upon the return of healthy investor and occupier markets.

We were particularly pleased to announce the appointment of Graham Prothero as Finance Director, succeeding Michael Marx in one of the roles he has held since 1994. Graham, formerly a partner in Ernst & Young LLP since 2001, will be taking up his position with us towards the end of this year. Prior to this he held a number of senior positions at construction company Taylor Woodrow and within the cement group Blue Circle Industries. Michael Marx will continue as the Group's Chief Executive.

**D S Jenkins**  
**Chairman**  
**29th August 2008**

## **Portfolio analysis**

### Tenant profile

|                    |     |
|--------------------|-----|
| FTSE 100           | 1%  |
| Government         | 2%  |
| PLC/Nationals      | 52% |
| Regional Multiples | 13% |
| Local Businesses   | 32% |

### Lease profile

|             |     |
|-------------|-----|
| 0-5 years   | 37% |
| 5-10 years  | 26% |
| 10-15 years | 12% |
| 15-20 years | 15% |
| 20 years +  | 10% |

### Location profile

|            |     |
|------------|-----|
| London     | 10% |
| South East | 57% |
| North      | 17% |
| South West | 16% |

### Analysis by sector

|             |     |
|-------------|-----|
| Retail      | 70% |
| Office      | 14% |
| Industrial  | 11% |
| Residential | 5%  |

Income generating properties as at 31st July 2008. 399 Edgware Road, Colindale is excluded from the analysis above.

#### Principal properties

Retail Kingsland Shopping Centre, Thatcham, Berkshire  
131 The Broadway, Bexleyheath, Kent  
The Furlong Centre, Ringwood, Hampshire  
Swanley Shopping Centre, Swanley, Kent  
Atlantic Village, Bideford

Offices The Genesis Centre, Birchwood, Warrington, Cheshire

Industrial Great West Trading Estate, Great West Road, Brentford, Middlesex

#### Consolidated income statement

unaudited for the six months ended 30th June 2008

|                                                                                                      | Notes | Six months to<br>30th June 2008<br>unaudited<br>£ million | Six months to<br>30th June 2007<br>unaudited<br>£ million | Year ended<br>31st Dec 2007<br>audited<br>£ million |
|------------------------------------------------------------------------------------------------------|-------|-----------------------------------------------------------|-----------------------------------------------------------|-----------------------------------------------------|
| <b>Revenue</b>                                                                                       | 2     | <b>127.3</b>                                              | 11.6                                                      | 60.3                                                |
| Direct costs                                                                                         | 2     | <b>(110.4)</b>                                            | (7.0)                                                     | (45.9)                                              |
| <b>Gross profit</b>                                                                                  | 2     | <b>16.9</b>                                               | 4.6                                                       | 14.4                                                |
| Operating costs                                                                                      | 2     | <b>(4.9)</b>                                              | (4.3)                                                     | (11.4)                                              |
| Gain on disposal of investment properties                                                            | 2     | -                                                         | 0.1                                                       | -                                                   |
| (Loss)/gain on revaluation of investment property portfolio                                          | 2     | <b>(15.6)</b>                                             | 2.8                                                       | 5.1                                                 |
| Deficit on revaluation of operating properties                                                       | 2     | -                                                         | (0.8)                                                     | (0.8)                                               |
| Net foreign currency differences                                                                     | 2     | <b>0.4</b>                                                | -                                                         | 0.3                                                 |
| <b>Operating (loss)/profit</b>                                                                       |       | <b>(3.2)</b>                                              | 2.4                                                       | 7.6                                                 |
| Other income                                                                                         | 2     | <b>2.3</b>                                                | -                                                         | 0.4                                                 |
| Share of results of associates and joint ventures                                                    |       | <b>(6.4)</b>                                              | (0.1)                                                     | (0.7)                                               |
| Provision against investment in and financial assets within associates                               |       | <b>(2.3)</b>                                              | -                                                         | -                                                   |
| Profit on sale of other fixed assets                                                                 |       | <b>0.1</b>                                                | -                                                         | -                                                   |
| Profit on sale of investments                                                                        |       | <b>0.3</b>                                                | -                                                         | -                                                   |
| Loss from financial assets                                                                           |       | -                                                         | -                                                         | (0.1)                                               |
| Impairment provision of financial assets                                                             |       | -                                                         | -                                                         | (0.5)                                               |
| <b>(Loss)/profit before interest and taxation</b>                                                    |       | <b>(9.2)</b>                                              | 2.3                                                       | 6.7                                                 |
| Finance income                                                                                       |       | <b>1.7</b>                                                | 2.1                                                       | 3.8                                                 |
| Finance costs                                                                                        |       | <b>(5.5)</b>                                              | (3.9)                                                     | (10.3)                                              |
| Finance costs – loan repayment fees                                                                  | 7(c)  | <b>(6.1)</b>                                              | -                                                         | -                                                   |
| <b>(Loss)/profit before taxation</b>                                                                 |       | <b>(19.1)</b>                                             | 0.5                                                       | 0.2                                                 |
| Taxation                                                                                             | 3     | <b>4.7</b>                                                | 0.8                                                       | (0.2)                                               |
| <b>(Loss)/profit after taxation for the period attributable to equity shareholders of the parent</b> |       | <b>(14.4)</b>                                             | 1.3                                                       | -                                                   |
| <b>Basic (loss)/earnings per share (pence)</b>                                                       | 5     | <b>(35.5)p</b>                                            | 3.2p                                                      | 0.0p                                                |
| <b>Diluted (loss)/earnings per share (pence)</b>                                                     | 5     | <b>(35.5)p</b>                                            | 3.2p                                                      | 0.0p                                                |

#### Consolidated balance sheet

unaudited as at 30th June 2008

| 30th June 2008<br>unaudited | 30th June 2007<br>unaudited | 31st Dec 2007<br>audited |
|-----------------------------|-----------------------------|--------------------------|
|-----------------------------|-----------------------------|--------------------------|

|                                                                 | Notes | £ million      | £ million | £ million |
|-----------------------------------------------------------------|-------|----------------|-----------|-----------|
| <b>Non-current assets</b>                                       |       |                |           |           |
| Property, plant and equipment                                   |       |                |           |           |
| – Operating properties                                          | 6(a)  | 2.1            | 7.1       | 2.4       |
| – Other non-current assets                                      | 6(b)  | 3.1            | 3.4       | 2.4       |
| Investment properties                                           | 6(c)  | 164.1          | 144.6     | 154.8     |
| Financial assets                                                |       | 17.8           | 6.1       | 16.5      |
| Investments in joint ventures                                   |       | 0.9            | 8.7       | 8.4       |
| Investments in associates                                       |       | 0.5            | 0.7       | 0.8       |
| Trade and other receivables                                     |       | 1.1            | 1.5       | 0.7       |
| Deferred tax asset                                              |       | 6.2            | 5.2       | 5.0       |
| Derivative financial instrument                                 | 7     | 5.3            | -         | -         |
|                                                                 |       | <b>201.1</b>   | 177.3     | 191.0     |
| <b>Investment in joint venture – held for sale</b>              |       | -              | -         | 0.6       |
| <b>Current assets</b>                                           |       |                |           |           |
| Inventory - developments and trading properties                 |       | 81.4           | 156.2     | 155.6     |
| Financial assets                                                |       | 10.3           | 11.0      | 12.7      |
| Trade and other receivables                                     |       | 50.2           | 18.2      | 16.6      |
| Cash and short-term deposits                                    | 7     | 64.4           | 89.0      | 73.1      |
|                                                                 |       | <b>206.3</b>   | 274.4     | 258.0     |
| <b>Total assets</b>                                             |       | <b>407.4</b>   | 451.7     | 449.6     |
| <b>Current liabilities</b>                                      |       |                |           |           |
| Trade and other payables                                        |       | (50.9)         | (65.7)    | (62.9)    |
| Financial liabilities                                           | 7     | (7.9)          | (33.5)    | (0.9)     |
|                                                                 |       | <b>(58.8)</b>  | (99.2)    | (63.8)    |
| <b>Non-current liabilities</b>                                  |       |                |           |           |
| Financial liabilities                                           | 7     | (124.1)        | (109.0)   | (143.8)   |
| Deferred tax liabilities                                        |       | (8.4)          | (10.3)    | (11.7)    |
| Provisions                                                      |       | (2.5)          | (1.5)     | (1.4)     |
|                                                                 |       | <b>(135.0)</b> | (120.8)   | (156.9)   |
| <b>Total liabilities</b>                                        |       | <b>(193.8)</b> | (220.0)   | (220.7)   |
| <b>Net assets</b>                                               |       | <b>213.6</b>   | 231.7     | 228.9     |
| <b>Equity</b>                                                   |       |                |           |           |
| Share capital                                                   | 8     | 20.3           | 20.5      | 20.3      |
| Other reserves                                                  | 9     | 159.7          | 156.2     | 158.5     |
| Retained earnings                                               | 9     | 33.6           | 55.0      | 50.1      |
| <b>Equity attributable to equity shareholders of the parent</b> |       | <b>213.6</b>   | 231.7     | 228.9     |
| <b>Basic net assets per share</b>                               | 5     | <b>526p</b>    | 566p      | 564p      |
| <b>Diluted net assets per share</b>                             | 5     | <b>525p</b>    | 565p      | 563p      |

**Consolidated statement of recognised income and expense**  
unaudited as at 30th June 2008

Six months to 30th June 2008      Six months to 30th June 2007      Year ended 31st Dec 2007

|                                                                                                 | unaudited<br>£ million | unaudited<br>£ million | audited<br>£ million |
|-------------------------------------------------------------------------------------------------|------------------------|------------------------|----------------------|
| (Loss)/gain on revaluation of operating properties                                              | (0.2)                  | -                      | 0.2                  |
| Gain/(loss) on valuation of cross-currency interest rate swap                                   | 5.3                    | -                      | (0.1)                |
| Fair value adjustment of Euro denominated loan                                                  | (4.3)                  | -                      | -                    |
| Gain on valuation of available-for-sale financial assets                                        | 0.2                    | -                      | 1.9                  |
| Deferred tax                                                                                    | (0.2)                  | -                      | (0.6)                |
| <b>Net income recognised directly in equity</b>                                                 | <b>0.8</b>             | <b>-</b>               | <b>1.4</b>           |
| (Loss)/profit for the period                                                                    | (14.4)                 | 1.3                    | -                    |
| <b>Total recognised income for the period attributable to equity shareholders of the parent</b> | <b>(13.6)</b>          | <b>1.3</b>             | <b>1.4</b>           |

## Consolidated cash flow statement

unaudited for the six months ended 30th June 2008

|                                                             | Notes | Six months to<br>30th June 2008<br>unaudited<br>£ million | Six months to<br>30th June 2007<br>unaudited<br>£ million | Year ended<br>31st Dec 2007<br>audited<br>£ million |
|-------------------------------------------------------------|-------|-----------------------------------------------------------|-----------------------------------------------------------|-----------------------------------------------------|
| <b>Net cash flow from operating activities</b>              | 10    | <b>29.8</b>                                               | (45.2)                                                    | (46.3)                                              |
| <b>Investing activities:</b>                                |       |                                                           |                                                           |                                                     |
| Interest received                                           |       | 2.2                                                       | 2.1                                                       | 3.8                                                 |
| Proceeds on disposal of plant and equipment                 |       | 0.1                                                       | -                                                         | 0.7                                                 |
| Proceeds on disposal of investment properties               |       | -                                                         | 5.8                                                       | 6.0                                                 |
| Proceeds on disposal of investment                          |       | 0.3                                                       | -                                                         | -                                                   |
| Proceeds from refinancing of joint ventures                 |       | -                                                         | 11.7                                                      | -                                                   |
| Purchase of property, plant and equipment                   |       | (0.9)                                                     | (0.1)                                                     | (0.8)                                               |
| Return on/(investment) in financial assets                  |       | 2.0                                                       | (11.3)                                                    | (22.0)                                              |
| Purchase of investment properties                           |       | (24.5)                                                    | (2.8)                                                     | (4.8)                                               |
| Purchase of investments                                     |       | (0.5)                                                     | -                                                         | (1.6)                                               |
| Cash (outflow)/inflow from joint ventures                   |       | (0.5)                                                     | -                                                         | 12.0                                                |
| <b>Net cash flow from investing activities</b>              |       | <b>(21.8)</b>                                             | 5.4                                                       | (6.7)                                               |
| <b>Financing activities:</b>                                |       |                                                           |                                                           |                                                     |
| Dividends paid                                              |       | -                                                         | -                                                         | (2.8)                                               |
| Issue of new shares                                         |       | -                                                         | 0.8                                                       | 0.9                                                 |
| Purchase of own shares                                      |       | -                                                         | -                                                         | (2.0)                                               |
| Repayments of borrowings                                    |       | (79.0)                                                    | (0.1)                                                     | (42.7)                                              |
| New bank loans raised                                       |       | 59.3                                                      | 44.7                                                      | 89.5                                                |
| <b>Net cash flow from financing activities</b>              |       | <b>(19.7)</b>                                             | 45.4                                                      | 42.9                                                |
| <b>Net (decrease)/increase in cash and cash equivalents</b> |       | <b>(11.7)</b>                                             | 5.6                                                       | (10.1)                                              |
| Cash and cash equivalents at the beginning of the period    |       | 72.5                                                      | 82.6                                                      | 82.6                                                |
| <b>Cash and cash equivalents at the end of the period</b>   |       | <b>60.8</b>                                               | 88.2                                                      | 72.5                                                |
| <b>Cash and cash equivalents comprise:</b>                  |       |                                                           |                                                           |                                                     |
| Cash at bank and in hand                                    |       | 25.5                                                      | 48.6                                                      | 27.8                                                |
| Pledged cash held as security against financial liabilities | 7     | 38.9                                                      | 40.4                                                      | 45.3                                                |
| Cash and short-term deposits                                |       | 64.4                                                      | 89.0                                                      | 73.1                                                |
| Bank overdrafts                                             |       | (3.6)                                                     | (0.8)                                                     | (0.6)                                               |
| <b>Cash and cash equivalents at the end of the period</b>   |       | <b>60.8</b>                                               | 88.2                                                      | 72.5                                                |

| Notes | Six months to<br>30th June 2008<br>unaudited<br>£ million | Six months to<br>30th June 2007<br>unaudited<br>£ million | Year ended<br>31st Dec 2007<br>audited<br>£ million |
|-------|-----------------------------------------------------------|-----------------------------------------------------------|-----------------------------------------------------|
|-------|-----------------------------------------------------------|-----------------------------------------------------------|-----------------------------------------------------|

|                                         |          |               |               |
|-----------------------------------------|----------|---------------|---------------|
| <b>Net debt comprises:</b>              |          |               |               |
| Cash and short-term deposits            | 64.4     | 89.0          | 73.1          |
| Derivative financial hedging instrument | 5.3      | -             | -             |
| Financial liabilities:                  |          |               |               |
| Current liabilities                     | (7.9)    | (33.5)        | (0.9)         |
| Non-current liabilities                 | (124.1)  | (109.0)       | (143.8)       |
| <b>Net debt</b>                         | <b>7</b> | <b>(62.3)</b> | <b>(71.6)</b> |

Net debt includes a net liability of £24.2 million (30th June 2007: £nil, 31st December 2007: £24.3 million) in respect of 20-year Subordinated Unsecured Loan Notes issued in September 2007.

## Notes to the interim financial statements

unaudited for the six months ended 30th June 2008

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

#### a) General information

The Consolidated interim financial statements of the Group for the six months ended 30th June 2008 comprise the results of the Company and its subsidiaries and were authorised by the Board for issue on 29<sup>th</sup> August 2008.

#### b) Basis of preparation

The accounting policies applied in these consolidated interim financial statements are consistent with those reported in the Group's annual financial statements for the year ended 31st December 2007.

The condensed consolidated interim financial information for the six months ended 30th June 2008 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. The condensed consolidated interim financial information should be read in conjunction with the Group's annual financial statements as at 31st December 2007, which have been prepared in accordance with IFRSs as adopted by the European Union.

The interim report is unaudited and does not constitute statutory accounts within the meaning of S240 of the Companies Act 1985. The statutory accounts for 2007, which were prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union ("IFRS"), and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS, have been delivered to the Registrar of Companies. The auditors' opinion on these accounts was unqualified and did not contain a statement made under S237(2) or S237(3) of the Companies Act 1985.

#### c) Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, assumptions and estimates that affect the application of accounting policies and amounts reported in the Income Statement and the Balance Sheet. Such decisions are made at the time the financial statements are prepared and adopted based on the best information available at the time. Actual outcomes may be different from initial estimates and are reflected in the financial statements as soon as they become apparent.

The key areas where such judgements are made are in the valuation of the investment property portfolio, the recoverability of the development and trading property assets, the recognition of development revenues and profits and the measurement of the fair value of financial assets and liabilities.

#### d) Accounting Standards

The following standards, amendments and interpretations are mandatory for the first time for the current accounting period but are not relevant to the Group's operations:

- IFRIC 12 'Service concession arrangements'
- IFRIC 13 'Customer loyalty programmes'
- IFRIC 14 'IAS 19 – the limit on a defined benefit asset, minimum funding requirement and their interaction'

The following new standards, amendments and interpretations have been issued, but are not effective for the financial period beginning 1st January 2008 and have not been early adopted:

- IAS 32 (amendment) 'Financial instruments: presentation', and consequential amendments to IAS 1, 'Presentation of financial statements', effective for annual periods beginning on or after 1st January 2009. This is not relevant to the Group, as the Group does not have any puttable instruments.
- IFRS 8, 'Operating segments', effective for annual periods beginning on or after 1st January 2009. IFRS 8 replaces IAS 14, 'Segmental reporting', and requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The expected impact is still being assessed in detail, but it appears unlikely that the number of reported segments will increase.
- IAS 23 (amendment), 'Borrowing costs', effective for annual periods beginning on or after 1st January 2009. This amendment is not expected to have an impact on the financial statements as its requirements are already being applied.
- IFRS 2 (amendment), 'Share-based payment', effective for annual periods beginning on or after 1st January 2009. Management is assessing the impact of changes to vesting conditions and cancellations on the Group's SAYE schemes. These are not expected to be material.
- IFRS 3 (amendment), 'Business combinations' and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates' and IAS 31, 'Interests in joint ventures', effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July 2009. Management is assessing the impact of the new requirements regarding acquisition accounting, consolidation and associates on the Group.
- IAS 1 (amendment), 'Presentation of financial statements', effective for annual periods beginning on or after 1st January 2009. Management will develop proforma accounts under the revised disclosure requirements of this standard.

## 2. SEGMENTAL ANALYSIS

For management purposes, the Group is currently organised into three operating divisions, whose principal activities are as follows:

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

These divisions are the basis on which the Group reports its primary segmental information. All operations occur and all assets are located in the United Kingdom, except assets of £0.8 million (30th June 2007: £1.3 million, 31st December 2007: £0.8 million), which are located in France and The Netherlands. Accordingly, no secondary segmental information is shown. All revenue arises from continuing operations.

|                                                                 | Six months to 30th June 2008 (unaudited) |                                         |                        |                    |
|-----------------------------------------------------------------|------------------------------------------|-----------------------------------------|------------------------|--------------------|
|                                                                 | Investment<br>£ million                  | Trading and<br>development<br>£ million | Operating<br>£ million | Total<br>£ million |
| <b>Segment revenue</b>                                          | 4.6                                      | 121.0                                   | 1.7                    | 127.3              |
| Direct costs                                                    | (2.3)                                    | (105.8)                                 | (2.3)                  | (110.4)            |
| <b>Segment result</b>                                           | 2.3                                      | 15.2                                    | (0.6)                  | 16.9               |
| Unallocated operating costs                                     |                                          |                                         |                        | (4.9)              |
| Net deficit on revaluation of property portfolio                | (15.6)                                   | -                                       | -                      | (15.6)             |
| Net foreign currency differences                                |                                          |                                         |                        | 0.4                |
| <b>Operating loss</b>                                           |                                          |                                         |                        | (3.2)              |
| Other income                                                    |                                          |                                         |                        | 2.3                |
| Share of profits of associates and joint ventures               |                                          |                                         |                        | 1.7                |
| Share of losses and provisions of associates and joint ventures |                                          |                                         |                        | (8.1)              |
| Provision against investment in and financial assets            |                                          |                                         |                        |                    |

|                                      |       |
|--------------------------------------|-------|
| within associates                    | (2.3) |
| Profit on sale of other fixed assets | 0.1   |
| Profit on sale of investments        | 0.3   |

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**Loss before interest and taxation** **(9.2)**

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Included within the trading and development result are losses of £3.5 million arising from provisions against the value of trading and development properties.

Other income of £2.3 million (31st December 2007: £0.4 million) for the period to 30th June 2008 comprises interest income from £52.0 million loan notes held by the Group as part consideration for the disposal in November 2007 of Oriental City, Colindale. The full details of this disposal are set out in the 2007 Annual Report.

|                                                   | Six months to 30th June 2007 (unaudited) |                                         |                        |                    |
|---------------------------------------------------|------------------------------------------|-----------------------------------------|------------------------|--------------------|
|                                                   | Investment<br>£ million                  | Trading and<br>development<br>£ million | Operating<br>£ million | Total<br>£ million |
| <b>Segment revenue</b>                            | 4.0                                      | 5.4                                     | 2.2                    | 11.6               |
| Direct costs                                      | (1.4)                                    | (3.0)                                   | (2.6)                  | (7.0)              |
| <b>Segment result</b>                             | 2.6                                      | 2.4                                     | (0.4)                  | 4.6                |
| Unallocated operating costs                       |                                          |                                         |                        | (4.3)              |
| Profit on disposal of investment properties       | 0.1                                      | -                                       | -                      | 0.1                |
| Net gain on revaluation of property portfolio     | 2.8                                      | -                                       | (0.8)                  | 2.0                |
| <b>Operating profit</b>                           |                                          |                                         |                        | 2.4                |
| Share of results of associates and joint ventures |                                          |                                         |                        | (0.1)              |
| <b>Profit before interest and taxation</b>        |                                          |                                         |                        | <b>2.3</b>         |

|                                                      | Year ended 31st December 2007 (audited) |                                         |                        |                    |
|------------------------------------------------------|-----------------------------------------|-----------------------------------------|------------------------|--------------------|
|                                                      | Investment<br>£ million                 | Trading and<br>development<br>£ million | Operating<br>£ million | Total<br>£ million |
| <b>Segment revenue</b>                               | 9.4                                     | 46.2                                    | 4.7                    | 60.3               |
| Direct costs                                         | (2.5)                                   | (37.2)                                  | (5.1)                  | (44.8)             |
| Business closure costs                               | -                                       | -                                       | (1.1)                  | (1.1)              |
| <b>Segment result</b>                                | 6.9                                     | 9.0                                     | (1.5)                  | 14.4               |
| Unallocated operating costs                          |                                         |                                         |                        | (11.4)             |
| Net gain/(loss) on revaluation of property portfolio | 5.1                                     | -                                       | (0.8)                  | 4.3                |
| Net foreign currency difference                      |                                         |                                         |                        | 0.3                |
| <b>Operating profit</b>                              |                                         |                                         |                        | 7.6                |
| Other income                                         |                                         |                                         |                        | 0.4                |
| Share of results of associates and joint ventures    | (0.7)                                   | -                                       | -                      | (0.7)              |
| Loss from financial assets                           | (0.1)                                   | -                                       | -                      | (0.1)              |
| Impairment provision of financial assets             |                                         |                                         |                        | (0.5)              |
| <b>Profit before interest and taxation</b>           |                                         |                                         |                        | <b>6.7</b>         |

### 3. TAXATION

Corporation tax for the interim period is charged at 29.0 per cent (30th June and 31st December 2007: 30.0 per cent).

|                     | Six months to<br>30th June 2008<br>unaudited<br>£ million | Six months to<br>30th June 2007<br>unaudited<br>£ million | Year ended<br>31st Dec 2007<br>audited<br>£ million |
|---------------------|-----------------------------------------------------------|-----------------------------------------------------------|-----------------------------------------------------|
| UK corporation tax: |                                                           |                                                           |                                                     |

|                                       |       |       |     |
|---------------------------------------|-------|-------|-----|
| Adjustments in respect of prior years | -     | -     | -   |
| Deferred tax (credit)/charge          | (4.7) | (0.8) | 0.2 |
|                                       | (4.7) | (0.8) | 0.2 |

#### 4. DIVIDENDS

|                                                                     | Six months to<br>30th June 2008<br>unaudited<br>£ million | Six months to<br>30th June 2007<br>unaudited<br>£ million | Year ended<br>31st Dec 2007<br>audited<br>£ million |
|---------------------------------------------------------------------|-----------------------------------------------------------|-----------------------------------------------------------|-----------------------------------------------------|
| Amounts recognised as distributions to equity holders in the period | 1.9                                                       | 1.8                                                       | 2.8                                                 |
| Proposed dividend                                                   | 1.0                                                       | 0.9                                                       | 1.9                                                 |
|                                                                     | Pence                                                     | Pence                                                     | Pence                                               |
| Interim dividend per share                                          | 2.40                                                      | 2.40                                                      | 2.40                                                |
| Final dividend per share                                            | -                                                         | -                                                         | 4.50                                                |

The interim dividend was approved by the Board on 27th August 2008 and has not been included as a liability or deducted from retained earnings as at 30th June 2008. The interim dividend is payable on 28th October 2008 to Ordinary shareholders on the register at the close of business on 26th September 2008 and will be recorded in the financial statements for the year ending 31st December 2008.

#### 5. EARNINGS PER SHARE AND NET ASSETS PER SHARE

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

|                                                                                             | Six months to<br>30th June 2008<br>unaudited | Six months to<br>30th June 2007<br>unaudited | Year ended<br>31st Dec 2007<br>audited |
|---------------------------------------------------------------------------------------------|----------------------------------------------|----------------------------------------------|----------------------------------------|
| <b>(Loss)/earnings for the purposes of basic and diluted earnings per share (£ million)</b> | <b>(14.4)</b>                                | 1.3                                          | -                                      |
| <b>Number of shares (million)</b>                                                           |                                              |                                              |                                        |
| Weighted average number of Ordinary shares for the purposes of basic earnings per share     | 40.6                                         | 40.8                                         | 40.8                                   |
| Effect of dilutive potential Ordinary shares:<br>– Share options                            | -                                            | 0.1                                          | 0.4                                    |
| Weighted average number of Ordinary shares for the purpose of diluted earnings per share    | 40.6                                         | 40.9                                         | 41.2                                   |
| <b>Basic (loss)/earnings per share (pence)</b>                                              | <b>(35.5)</b>                                | 3.2                                          | 0.0                                    |
| <b>Diluted (loss)/earnings per share (pence)</b>                                            | <b>(35.5)</b>                                | 3.2                                          | 0.0                                    |

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

|                                                                    | Six months to<br>30th June 2008<br>unaudited | Six months to<br>30th June 2007<br>unaudited | Year ended<br>31st Dec 2007<br>audited |
|--------------------------------------------------------------------|----------------------------------------------|----------------------------------------------|----------------------------------------|
| <b>Net assets (£ million):</b>                                     |                                              |                                              |                                        |
| <b>Basic net assets</b>                                            | <b>213.6</b>                                 | 231.7                                        | 228.9                                  |
| Effect of dilutive potential Ordinary shares                       | 1.8                                          | 1.3                                          | 1.9                                    |
| <b>Diluted net assets</b>                                          | <b>215.4</b>                                 | 233.0                                        | 230.8                                  |
| <b>Number of shares (million):</b>                                 |                                              |                                              |                                        |
| <b>Number of shares in issue at the balance sheet date</b>         | <b>40.6</b>                                  | 40.9                                         | 40.6                                   |
| Effect of dilutive potential Ordinary shares                       | 0.4                                          | 0.3                                          | 0.4                                    |
| <b>Diluted number of shares in issue at the balance sheet date</b> | <b>41.0</b>                                  | 41.2                                         | 41.0                                   |

|                                             |            |     |     |
|---------------------------------------------|------------|-----|-----|
| <b>Basic net assets per share (pence)</b>   | <b>526</b> | 566 | 564 |
| <b>Diluted net assets per share (pence)</b> | <b>525</b> | 565 | 563 |

## 6. PROPERTY, PLANT AND EQUIPMENT

### a) Operating properties

|                                        | Freehold<br>£ million | Long leasehold<br>£ million | Total<br>£ million |
|----------------------------------------|-----------------------|-----------------------------|--------------------|
| <b>At valuation 1st January 2007</b>   | <b>6.7</b>            | <b>2.4</b>                  | <b>9.1</b>         |
| Deficit on revaluation                 | (0.8)                 | -                           | (0.8)              |
| <b>At valuation 30th June 2007</b>     | <b>5.9</b>            | <b>2.4</b>                  | <b>8.3</b>         |
| Additions - capital expenditure        | 0.5                   | -                           | 0.5                |
| Transfer to investment properties      | (6.4)                 | -                           | (6.4)              |
| Surplus on revaluation                 | -                     | 0.2                         | 0.2                |
| <b>At valuation 31st December 2007</b> | <b>-</b>              | <b>2.6</b>                  | <b>2.6</b>         |
| Deficit on revaluation                 | -                     | (0.2)                       | (0.2)              |
| <b>At valuation 30th June 2008</b>     | <b>-</b>              | <b>2.4</b>                  | <b>2.4</b>         |
| <b>Depreciation:</b>                   |                       |                             |                    |
| <b>At 1st January 2007</b>             | <b>0.8</b>            | <b>0.2</b>                  | <b>1.0</b>         |
| Charge for the period                  | 0.2                   | -                           | 0.2                |
| <b>At valuation 30th June 2007</b>     | <b>1.0</b>            | <b>0.2</b>                  | <b>1.2</b>         |
| Transfer to investment properties      | (1.0)                 | -                           | (1.0)              |
| <b>At 31st December 2007</b>           | <b>-</b>              | <b>0.2</b>                  | <b>0.2</b>         |
| Charge for the period                  | -                     | 0.1                         | 0.1                |
| <b>At valuation 30th June 2008</b>     | <b>-</b>              | <b>0.3</b>                  | <b>0.3</b>         |
| <b>Net book amount 30th June 2008</b>  | <b>-</b>              | <b>2.1</b>                  | <b>2.1</b>         |
| Net book amount 31st December 2007     | -                     | 2.4                         | 2.4                |
| Net book amount 30th June 2007         | 4.9                   | 2.2                         | 7.1                |

### b) Other plant and equipment

|                                        | Fixtures and fittings<br>£ million | Motor vehicles and other fixed assets<br>£ million | Total<br>£ million |
|----------------------------------------|------------------------------------|----------------------------------------------------|--------------------|
| <b>At valuation 1st January 2007</b>   | <b>6.4</b>                         | <b>0.7</b>                                         | <b>7.1</b>         |
| Additions                              | 0.2                                | -                                                  | 0.2                |
| Disposals                              | (0.1)                              | -                                                  | (0.1)              |
| <b>At valuation 30th June 2007</b>     | <b>6.5</b>                         | <b>0.7</b>                                         | <b>7.2</b>         |
| Additions                              | 0.1                                | -                                                  | 0.1                |
| Disposals                              | (1.6)                              | (0.3)                                              | (1.9)              |
| <b>At valuation 31st December 2007</b> | <b>5.0</b>                         | <b>0.4</b>                                         | <b>5.4</b>         |
| Additions                              | 0.8                                | 0.1                                                | 0.9                |
| Disposals                              | -                                  | (0.1)                                              | (0.1)              |
| <b>At valuation 30th June 2008</b>     | <b>5.8</b>                         | <b>0.4</b>                                         | <b>6.2</b>         |
| <b>Depreciation:</b>                   |                                    |                                                    |                    |
| <b>At 1st January 2007</b>             | <b>3.3</b>                         | <b>0.2</b>                                         | <b>3.5</b>         |
| Charge for the period                  | 0.4                                | -                                                  | 0.4                |
| Disposals                              | (0.1)                              | -                                                  | (0.1)              |
| <b>At valuation 30th June 2007</b>     | <b>3.6</b>                         | <b>0.2</b>                                         | <b>3.8</b>         |
| Charge for the period                  | 0.3                                | 0.1                                                | 0.4                |
| Disposals                              | (1.0)                              | (0.2)                                              | (1.2)              |
| <b>At 31st December 2007</b>           | <b>2.9</b>                         | <b>0.1</b>                                         | <b>3.0</b>         |
| Charge for the period                  | 0.1                                | -                                                  | 0.1                |
| <b>At valuation 30th June 2008</b>     | <b>3.0</b>                         | <b>0.1</b>                                         | <b>3.1</b>         |
| <b>Net book amount 30th June 2008</b>  | <b>2.8</b>                         | <b>0.3</b>                                         | <b>3.1</b>         |
| Net book amount 31st December 2007     | 2.1                                | 0.3                                                | 2.4                |

|                                |     |     |     |
|--------------------------------|-----|-----|-----|
| Net book amount 30th June 2007 | 2.9 | 0.5 | 3.4 |
|--------------------------------|-----|-----|-----|

(c) Investment properties

|                                        | Freehold<br>£ million | Long leasehold<br>£ million | Total<br>£ million |
|----------------------------------------|-----------------------|-----------------------------|--------------------|
| <b>At valuation 1st January 2007</b>   | <b>137.0</b>          | <b>2.4</b>                  | <b>139.4</b>       |
| Additions:                             |                       |                             |                    |
| - acquisitions                         | 0.4                   | -                           | 0.4                |
| - capital expenditure                  | 2.4                   | -                           | 2.4                |
| Disposals                              | (0.4)                 | -                           | (0.4)              |
| Surplus on revaluation                 | 2.8                   | -                           | 2.8                |
| <b>At valuation 30th June 2007</b>     | <b>142.2</b>          | <b>2.4</b>                  | <b>144.6</b>       |
| Additions:                             |                       |                             |                    |
| - acquisitions                         | 0.8                   | 0.2                         | 1.0                |
| - capital expenditure                  | 1.6                   | -                           | 1.6                |
| Transfer from operating properties     | 5.5                   | -                           | 5.5                |
| Disposals                              | -                     | (0.2)                       | (0.2)              |
| Surplus on revaluation                 | 2.3                   | -                           | 2.3                |
| <b>At valuation 31st December 2007</b> | <b>152.4</b>          | <b>2.4</b>                  | <b>154.8</b>       |
| Additions:                             |                       |                             |                    |
| - acquisitions                         | 21.1                  | -                           | 21.1               |
| - capital expenditure                  | 3.8                   | -                           | 3.8                |
| Deficit on revaluation                 | (15.4)                | (0.2)                       | (15.6)             |
| <b>At valuation 30th June 2008</b>     | <b>161.9</b>          | <b>2.2</b>                  | <b>164.1</b>       |

The deficit on revaluation of £15.6 million for the period ended 30th June 2008 comprises deficits on revaluation of investment properties (£9.4 million) and long-term land holdings (£6.2 million).

Interest of £1.0 million was capitalised in respect of development properties in the six months ended 30th June 2008 (30th June 2007: £nil, 31st December 2007: £0.7 million).

The Group's investment properties have been valued at 30th June 2008 by independent professional valuers, DTZ Debenham Tie Leung, Chartered Surveyors and Colliers CRE, Chartered Surveyors, except for those investment properties valued by the Directors. Investment properties have been valued on the basis of market value in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors. Included within the Group's investment properties are freehold land, buildings and investment properties under development of £58.2 million (30th June 2007: £62.5 million, 31st December 2007: £64.4 million) which are held at Directors' valuation. The amounts for investment properties held at Directors' valuation comprise investment properties, which have been valued by the Group's independent valuers of £39.1 million (30th June 2007: £44.6 million, 31st December 2007: £44.3 million) together with additional land holdings which have been acquired to extend or improve those investment properties.

## 7. CASH AND FINANCIAL LIABILITIES

a) Cash balances shown on the Balance sheet at 30th June 2008 include £38.9 million (30th June 2007: £40.4 million, 31st December 2007: £45.3 million) of cash held as security against borrowings or received in respect of specific property development funding which cannot be utilised for other purposes.

b) At 30th June 2008, an external valuation, undertaken by J C Rathbone Associates Limited, appraised the market value of the Group's fixed rate debt on a replacement basis, taking into account the difference between fixed interest rates for the Group's borrowings and the market value and prevailing interest rates of appropriate debt instruments, resulting in an excess of book value over fair value of £1.3 million before taxation (30th June 2007: £8.1 million deficit, 31st December 2007: £11.6 million deficit) at that date. The valuation, which is subject to daily fluctuations in line with money market movements, is only an indication of the notional effect on the net asset value of the Group at 30th June 2008 and is not recognised in the Balance sheet.

c) During the period, additional net borrowings of £59.3 million were drawn down (30th June 2007: £44.7 million, 31st December 2007: £89.5 million) and £79.0 million loans repaid (30th June 2007: £0.1 million, 31st December 2007: £42.7 million). As a result of the repayment of £34.4 million fixed-rate borrowings, an early repayment settlement of £6.1 million was also crystallised.

## 8. SHARE CAPITAL

|                                                                                                                                                                                                              | 30th June 2008<br>unaudited<br>£ million | 30th June 2007<br>unaudited<br>£ million | 31st Dec 2007<br>audited<br>£ million |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|------------------------------------------|---------------------------------------|
| <b>Authorised:</b><br>50,000,000 Ordinary shares of 50 pence<br>(30th June and 31st December 2007: 50,000,000 Ordinary<br>shares of 50 pence)                                                                | <b>25.0</b>                              | 25.0                                     | 25.0                                  |
| <b>Issued, called up and fully paid:</b><br>40,603,214 Ordinary shares of 50 pence(30th June 2007:<br>40,933,265 Ordinary shares of 50 pence, 31st December<br>2007: 40,565,524 Ordinary shares of 50 pence) | <b>20.3</b>                              | 20.5                                     | 20.3                                  |

## 9. RESERVES

|                                                            | Share<br>premium<br>£ million | Property<br>revaluation<br>reserve<br>£ million | Other<br>reserves<br>£ million | Total<br>£ million |
|------------------------------------------------------------|-------------------------------|-------------------------------------------------|--------------------------------|--------------------|
| <b>At 1st January 2007</b>                                 | <b>108.8</b>                  | <b>0.8</b>                                      | <b>45.8</b>                    | <b>155.4</b>       |
| Net proceeds of issue of new shares                        | 0.7                           | -                                               | -                              | 0.7                |
| Share based payments                                       | 0.2                           | -                                               | (0.1)                          | 0.1                |
| <b>At 30th June 2007</b>                                   | <b>109.7</b>                  | <b>0.8</b>                                      | <b>45.7</b>                    | <b>156.2</b>       |
| Net proceeds of issue of new shares                        | 0.1                           | -                                               | -                              | 0.1                |
| Net surplus on revaluation of operating properties         | -                             | 0.2                                             | -                              | 0.2                |
| Purchase of own shares                                     | -                             | -                                               | 0.2                            | 0.2                |
| Fair value of cross-currency interest rate swap            | -                             | -                                               | (0.1)                          | (0.1)              |
| Fair value adjustment to available-for-sale assets         | -                             | -                                               | 1.9                            | 1.9                |
| <b>At 31st December 2007</b>                               | <b>109.8</b>                  | <b>1.0</b>                                      | <b>47.7</b>                    | <b>158.5</b>       |
| Net proceeds of issue of new shares                        | 0.2                           | -                                               | -                              | 0.2                |
| Net loss on revaluation of operating properties            | -                             | (0.2)                                           | -                              | (0.2)              |
| Fair value adjustment to available-for-sale assets         | -                             | -                                               | 0.2                            | 0.2                |
| Fair value of Euro denominated loan and associated<br>swap | -                             | -                                               | 1.0                            | 1.0                |
| <b>At 30th June 2008</b>                                   | <b>110.0</b>                  | <b>0.8</b>                                      | <b>48.9</b>                    | <b>159.7</b>       |

|                                         | Retained<br>Earnings<br>£ million |
|-----------------------------------------|-----------------------------------|
| <b>At 1st January 2007</b>              | <b>55.6</b>                       |
| Retained profit for the period          | 1.3                               |
| Share based payments                    | (0.1)                             |
| Final dividend 2006                     | (1.8)                             |
| <b>At 30th June 2007</b>                | <b>55.0</b>                       |
| Retained loss for the period            | (1.3)                             |
| Purchase of own shares                  | (2.0)                             |
| Deferred tax charged directly to equity | (0.6)                             |
| Interim dividend 2007                   | (1.0)                             |
| <b>At 31st December 2007</b>            | <b>50.1</b>                       |
| Retained loss for the period            | (14.4)                            |
| Deferred tax charged directly to equity | (0.2)                             |
| Final dividend 2007                     | (1.9)                             |
| <b>At 30th June 2008</b>                | <b>33.6</b>                       |

## 10. NOTE TO THE CASH FLOW STATEMENT

|                                                                 | Six months to<br>30th June 2008<br>unaudited<br>£million | Six months to<br>30th June 2007<br>unaudited<br>£million | Year ended<br>31st Dec 2007<br>audited<br>£million |
|-----------------------------------------------------------------|----------------------------------------------------------|----------------------------------------------------------|----------------------------------------------------|
| <b>Operating (loss)/profit</b>                                  | <b>(3.2)</b>                                             | 2.4                                                      | 7.6                                                |
| <b>Adjustments for:</b>                                         |                                                          |                                                          |                                                    |
| Gain on disposal of investment properties                       | -                                                        | (0.1)                                                    | -                                                  |
| Net loss/(gain) on revaluation of property portfolio            | <b>15.6</b>                                              | (2.0)                                                    | (4.3)                                              |
| Share based payments                                            | -                                                        | 0.1                                                      | 0.4                                                |
| Depreciation of property, plant and equipment                   | <b>0.2</b>                                               | 0.6                                                      | 1.1                                                |
| <b>Operating cash flows before movements in working capital</b> | <b>12.6</b>                                              | 1.0                                                      | 4.8                                                |
| Decrease/(increase) in developments                             | <b>0.9</b>                                               | (4.7)                                                    | 2.9                                                |
| Decrease/(increase) in trading properties                       | <b>73.2</b>                                              | (75.1)                                                   | (83.8)                                             |
| Increase in receivables                                         | <b>(32.1)</b>                                            | (8.2)                                                    | (5.4)                                              |
| (Decrease)/increase in payables                                 | <b>(11.5)</b>                                            | 46.3                                                     | 45.3                                               |
| Increase in provisions                                          | -                                                        | -                                                        | 0.4                                                |
| <b>Cash generated by/(used in) operations</b>                   | <b>43.1</b>                                              | (40.7)                                                   | (35.8)                                             |
| Income taxes paid                                               | -                                                        | (0.1)                                                    | -                                                  |
| Interest paid                                                   | <b>(13.3)</b>                                            | (4.4)                                                    | (10.5)                                             |
| <b>Net cash flow from operating activities</b>                  | <b>29.8</b>                                              | (45.2)                                                   | (46.3)                                             |

## 11. CONTINGENT LIABILITIES

Performance bonds given on behalf of Group companies are guaranteed by banks in favour of third parties for a total of £0.2 million (30th June and 31st December 2007: £0.2 million). The due performance of obligations under various leases entered into by Group companies, expiring subsequent to 2014, amount to £1.3 million per annum (30th June and 31st December 2007: £1.3 million).

On 28th January 2008, Stead & Simpson Limited was placed into Administration, with the Administrators subsequently selling the majority of the business to another footwear retailer. The net present value after taxation of the maximum net cash outflow over the term of certain leases to Stead & Simpson Limited is £1.0 million at 30th June 2008 (30th June and 31st December 2007: £2.1 million), which has crystallised and been provided in the accounts at 30th June 2008. Under this agreement, the Company is also guarantor to a number of leases none of which are expected to result in liabilities.

## 12. RELATED PARTIES

During the period, the Group entered into transactions, in the ordinary course of business, with related parties.

Transactions entered into and balances outstanding at 30th June and 31st December with related parties are set out below. Only Directors are considered to be key management personnel. There were no transactions with Directors other than remuneration set out in the Remuneration report on pages 68 to 75 of the 2007 Annual Report.

|                       | Sales to related<br>parties<br>£ million | Purchases from<br>related parties<br>£ million | Amounts owed by<br>related parties<br>£ million | Amounts owed to<br>related parties<br>£ million |
|-----------------------|------------------------------------------|------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| <b>Joint ventures</b> |                                          |                                                |                                                 |                                                 |
| 30th June 2008        | -                                        | -                                              | 8.1                                             | -                                               |
| 30th June 2007        | -                                        | -                                              | 7.3                                             | -                                               |
| 31st December<br>2007 | -                                        | -                                              | 7.4                                             | -                                               |
| <b>Associates</b>     |                                          |                                                |                                                 |                                                 |
| 30th June 2008        | -                                        | -                                              | 10.4                                            | -                                               |
| 30th June 2007        | -                                        | -                                              | 0.9                                             | -                                               |

31st December  
2007

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11.0

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### **13. SUBSEQUENT EVENTS**

The Board proposed and declared an interim dividend of 2.4 pence per share (30th June 2007: 2.4 pence, 31st December 2007: 4.8 pence) at the Board meeting held on 27th August 2008. The dividend will be paid on 28th October 2008 to shareholders on the register on 26th September 2008.

### **14. GLOSSARY**

**Net borrowings:** Net borrowings are defined as total debt less cash, short-term deposits, including pledged cash, and associated loan hedging instruments.

**Net gearing:** Net gearing, expressed as a percentage, is measured as net borrowings divided by total equity.

**Basic net assets per share:** Net assets per share are defined as total equity as shown in the Group's balance sheet, divided by the number of equity shares in issue at the balance sheet date.

**Diluted net assets per share:** Diluted net assets per share are defined as total equity as shown in the Group's balance sheet and notional equity arising from the exercise of share options, divided by the number of equity shares and the total of equity shares under option in issue at the balance sheet date.

**Dividends per share:** Dividends per share, expressed as an amount in pence per share, is defined as the total dividend declared by the Directors divided by the number of equity shares qualifying for such dividend.

### **RESPONSIBILITY STATEMENT**

The Directors confirm to the best of their knowledge:

- a. The condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting'; and
- b. The interim management report includes a fair review of the information required by Sections DTR 4.2.7R and DTR 4.2.8R of the Disclosure and Transparency Rules of the UK Financial Services Authority.

M H Marx  
Chief Executive and Finance Director  
29th August 2008

## **Independent review report to Development Securities PLC**

### **Introduction**

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30th June 2008, which comprises the consolidated income statement, the consolidated balance sheet, the consolidated statement of recognised income and expense, the consolidated cash flow statement and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

## **Directors' responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1(b), the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

## **Our responsibility**

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30th June 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

## **PricewaterhouseCoopers LLP**

Chartered Accountants  
London  
29th August 2008