

THIS DOCUMENT AND ANY ACCOMPANYING DOCUMENTS ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take, you are recommended to seek immediately your own personal financial advice from your stockbroker, bank manager, solicitor, accountant, fund manager or other appropriate independent financial adviser, who is authorised under the Financial Services and Markets Act 2000 (the "FSMA") if you are in the UK or, if not, from another appropriately authorised independent financial adviser.

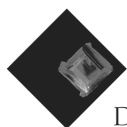
If you sell or have sold or otherwise transferred all of your Existing Shares held in certificated form prior to 24 June 2009 (the "Ex-entitlement Date"), please send this document, together with any Application Form (having completed Box 8 on the Application Form), at once to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee except that such documents should not be sent to any jurisdiction where to do so might constitute a violation of local securities laws or regulations, including but not limited to, subject to certain exceptions, the United States and the Excluded Territories. If you sell or have sold or otherwise transferred all or some of your Existing Shares held in uncertificated form before the Ex-entitlement Date, a claim transaction will automatically be generated by Euroclear UK which, on settlement, will transfer the appropriate number of Open Offer Entitlements to the purchaser or transferee. If you sell or have sold or otherwise transferred only part of your holding of Existing Shares held in certificated form before the Ex-entitlement Date, you should refer to the instruction regarding split applications in Part III ("*Terms and Conditions of the Open Offer*") of this document and in the Application Form.

The distribution of this document and/or the Application Form and/or the transfer of the New Shares into jurisdictions other than the UK may be restricted by law. Persons into whose possession these documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdictions. In particular, such documents should not be distributed, forwarded to or transmitted in or into the United States or the Excluded Territories.

This document, which comprises a prospectus relating to the New Shares prepared in accordance with the Prospectus Rules, has been approved by the Financial Services Authority (the "FSA") in accordance with Section 87A of the FSMA and made available to the public in accordance with Rule 3.2 of the Prospectus Rules.

The New Shares have not been and will not be registered under the US Securities Act or under the securities laws of any state or other jurisdiction of the United States and may not be offered, sold, resold, delivered or distributed, directly or indirectly, within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. There will be no public offer in the United States. Subject to certain exceptions, this document and/or the Application Form should not be distributed, forwarded to or transmitted in or into the United States or the Excluded Territories, or in or into any other jurisdiction where the extension or availability of the Firm Placing and Placing and Open Offer would breach any applicable law.

The Existing Shares are listed and admitted to trading on the London Stock Exchange's main market for listed securities. Application will be made to the UK Listing Authority and to the London Stock Exchange for the New Shares to be admitted to the Official List of the UK Listing Authority and to trading on the main market for listed securities of the London Stock Exchange, respectively. It is expected that Admission will become effective and that dealings on the London Stock Exchange in the New Shares will commence at 8.00 a.m. (London time) on 15 July 2009.



DEVELOPMENT
SECURITIES PLC

Development Securities PLC

(incorporated and registered in England and Wales with Registered No. 1528784)

**Firm Placing of 16,666,667 New Shares and Placing and Open Offer of 24,986,593 New Shares
at 240 pence per New Share**

Collins Stewart Europe Limited
Sponsor and Underwriter

Your attention is drawn to the letter from your Chairman which is set out on pages 27 to 34 of this document. You should read the whole of this document and any documents incorporated herein by reference. Shareholders and any other persons contemplating a purchase of the New Shares should review the risk factors set out on pages 10 to 19 of this document for a discussion of certain factors that should be considered when deciding on what action to take in relation to the Open Offer and deciding whether or not to purchase the New Shares.

The latest time and date for acceptance and payment in full under the Open Offer is expected to be 11.00 a.m. on 9 July 2009. The procedure for acceptance and payment is set out in Part III ("*Terms and Conditions of the Open Offer*") of this document and, where relevant, in the Application Form.

It is expected that Qualifying Non-CREST Shareholders, other than (subject to certain exceptions) those in the United States, or with registered addresses in, or who are otherwise located in, the Excluded Territories, will be sent an Application Form. Qualifying CREST Shareholders (who will not receive an Application Form), other than (subject to certain exceptions) those in the United States, or with registered addresses in, or who are otherwise located in, the Excluded Territories, will receive a credit to their appropriate stock accounts in CREST in respect of the Open Offer Entitlements which will be enabled for settlement at 8.00 a.m. on 25 June 2009. Qualifying CREST Shareholders who are CREST sponsored members should refer to their CREST sponsors regarding the action to be taken in connection with this document and the Open Offer. Holdings of Existing Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Open Offer as will holdings under different designations, in different accounts and on different registers.

This document does not constitute an offer to sell, or a solicitation of an offer to buy, any New Shares offered by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation.

EXCEPT AS OTHERWISE SET OUT IN THIS DOCUMENT, THE OPEN OFFER DESCRIBED IN THIS DOCUMENT IS NOT BEING MADE TO SHAREHOLDERS OR INVESTORS IN THE UNITED STATES.

Subject to certain exceptions, neither this document nor the Application Form constitutes or forms part of any offer or invitation to sell or issue, or any solicitation of any offer to acquire the New Shares to any person with a registered address, or who is otherwise located, in the United States or the Excluded Territories or in any jurisdiction in which such an offer or solicitation is unlawful.

Collins Stewart Europe Limited ("Collins Stewart"), which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting exclusively for the Company and for no one else in connection with the Firm Placing and Placing and Open Offer and will not regard any other person (whether or not a recipient of this document) as a client in relation to the Firm Placing and Placing and Open Offer and will not be responsible to anyone other than the Company for providing the protections afforded to its clients, nor for providing advice in connection with the Firm Placing and Placing and Open Offer or any other matter referred to herein.

Collins Stewart may engage in trading activity for the purpose of hedging its commitment under the Placing Agreement. Such activity may include purchases and sales of securities of the Company and related or other securities or instruments. In connection with the Firm Placing and Placing and Open Offer, Collins Stewart and any of its affiliates, acting as investors on their own accounts, may take up New Shares in the Placing and Open Offer and in that capacity may retain, purchase or sell for their own account such New Shares or related investments otherwise than in connection with the Firm Placing and Placing and Open Offer. Accordingly, references in this document to New Shares being offered or placed should be read as including any offering or placement of New Shares to Collins Stewart or any of its affiliates acting in such capacity. Collins Stewart does not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

Apart from the responsibilities and liabilities, if any, which may be imposed on Collins Stewart by the FSMA, Collins Stewart accepts no responsibility whatsoever nor makes any representation or warranty, express or implied, for or in respect of the contents of this document, including its accuracy, completeness or verification or regarding the legality of an investment in the New Shares by an offeree or purchaser thereof under the laws applicable to such offeree or purchaser or for any other statement made or purported to be made by Collins Stewart, or on Collins Stewart's behalf, in connection with the Company, the Open Offer Entitlements, the New Shares or the Firm Placing and Placing and Open Offer, and nothing in this document is, or shall be relied upon as, a promise or representation in this respect, whether as to the past or future. Collins Stewart accordingly disclaims to the fullest extent permitted by applicable law all and any responsibility and liability whether arising in tort, contract or otherwise which it might otherwise be found to have in respect of this document or any such statement.

IMPORTANT INFORMATION

NOTICE TO US INVESTORS AND OVERSEAS SHAREHOLDERS

The New Shares are being offered and sold outside the United States in reliance on Regulation S and, subject to certain exceptions, may not be offered, sold, resold, transferred, delivered or distributed, directly or indirectly, within the United States unless in reliance on an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act. For a description of the restrictions on offers, sales and transfers of the New Shares and the distribution of this document, see Part III (“*Terms and Conditions of the Open Offer*”) of this document.

The New Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the New Shares or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

All Overseas Shareholders and any person (including, without limitation, a nominee or trustee) who has a contractual or legal obligation to forward this document or any Application Form, if and when received, or other document to a jurisdiction outside the UK, should read paragraph 6 of Part III (“*Terms and Conditions of the Open Offer*”) of this document.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO EUROPEAN ECONOMIC AREA INVESTORS

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a “relevant member state”) (except for the UK), with effect from and including the date on which the Prospectus Directive was implemented in that relevant member state (the “relevant implementation date”), no New Shares have been offered or will be offered pursuant to the Open Offer to the public in that relevant member state prior to the publication of a prospectus in relation to the New Shares which has been approved by the competent authority in the relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in the relevant member state all in accordance with the Prospectus Directive, except that, with effect from and including the relevant implementation date, offers of the New Shares may be made to the public in that relevant member state at any time:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43 million; and (iii) an annual turnover of more than €50 million, as shown in its last annual or consolidated accounts; or

- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of New Shares shall result in a requirement for the publication by the Company or Collins Stewart of a prospectus pursuant to Article 3 of the Prospectus Directive.

For this purpose, the expression “an offer of any New Shares to the public” in relation to any New Shares in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the Open Offer and any New Shares to be offered so as to enable an investor to decide to acquire any New Shares as the same may be varied in that relevant member state by any measure implementing the Prospectus Directive in that relevant member state.

In the case of any New Shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the New Shares acquired by it in the Open Offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any New Shares to the public other than their offer or resale in a relevant member state to qualified investors as so defined or in circumstances in which the prior consent of the Company and Collins Stewart has been obtained to each such proposed offer or resale.

NOTICE TO DUTCH INVESTORS

In respect of the Open Offer, Development Securities is not required to obtain a licence as an investment institution pursuant to the Dutch Financial Supervision Act (*Wet op het financieel toezicht*) and is not subject to market conduct supervision of the Netherlands Authority for the Financial Markets (*Autoriteit Financiële Markten*) and prudential supervision of the Dutch Central Bank (*De Nederlandsche Bank N.V.*).

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SUMMARY

The following summary information should be read as an introduction to the more detailed information appearing elsewhere in this document. Any investment decision relating to the New Shares should be based on the consideration of the document as a whole and not solely on this summarised information. Where a claim relating to the information contained in this document is brought before a court, the plaintiff investor might, under the national legislation of the member states of the European Economic Area, have to bear the costs of translating this document before the legal proceedings are initiated. Civil liability attaches to those persons who are responsible for this summary, including any translation of this summary, but only if this summary is misleading, inaccurate or inconsistent when read together with other parts of this document.

1. Introduction

On 24 June 2009, the Board announced a share issue to raise proceeds of approximately £94.0 million, net of expenses by way of a Firm Placing and a Placing and Open Offer. The Issue Price represents a 9.1 per cent. discount to the closing middle-market price of 264 pence per Ordinary Share on 23 June 2009, being the last Business Day before the announcement of the Firm Placing and Placing and Open Offer. 16,666,667 New Shares will be issued through the Firm Placing and 24,986,593 New Shares will be issued through the Placing and Open Offer.

2. Background to and reasons for the Firm Placing and Placing and Open Offer

Development Securities' business focuses on UK commercial property development and also UK property investment. Its principal objective is to carry out substantial and complex development in a risk-averse manner with a view to generating returns for its shareholders. The property development business, through the Trading and Development division, focuses on large-scale, multi-phase, urban developments in the office, retail and leisure sectors, with sites in central and suburban London and main provincial UK cities. In addition, the Company develops more modest schemes, either solely or in joint venture, with a focus on shorter term generation of profits and recycling of working capital. The property investment business, through the Investment division, invests in properties in the UK and provides a stable base of income to contribute to overheads and interest costs. The Company also undertakes a serviced office business through its Operating division. In recent years, commercial development projects have provided a greater contribution to shareholder returns than property investment.

Since the peak in the UK's capital values in 2007, values have declined markedly, reflecting primarily softening yields and falling rental values. The Directors believe that this decline in values will continue further. However, given the rapid rate of this decline in values, the Directors believe that properties potentially suitable for development or refurbishment may be available to be purchased at attractive levels.

In order for the Company to benefit from any upturn in the property cycle, the Directors believe they need to position the Company so as to be able to secure development roles in the near term. At this relatively early stage of the property cycle, property development frequently requires developers to provide a higher level of financing or equity commitment to developments than is normally the case. Therefore, in order to take full advantage of the expected upturn, both in central London and in wider London and provincial property markets, the Group will require additional financial resources to enable it to make the equity commitments required to co-invest and to secure a participation in these development projects.

Current market conditions, and the constraint on bank lending to development projects, are resulting in a number of smaller, shorter term opportunities for the Company's Trading and Development activity. In addition, the Directors believe that these conditions offer opportunities to strengthen the Group's investment property portfolio including some opportunities to acquire assets which may, in the longer term, represent redevelopment projects.

The proposed Firm Placing and Placing and Open Offer is focused on enabling Development Securities to invest in assets that have declined since market highs, as opposed to applying the funds to the repayment of debt.

3. Use of proceeds

The Firm Placing and Placing and Open Offer is expected to raise approximately £94.0 million net of expenses. The Net Proceeds from the Firm Placing and Placing and Open Offer will be used by Development Securities to seek to capitalise on new opportunities early in the property development cycle as well as to enhance the Group's investment portfolio as and when attractive opportunities are identified. In particular, the Directors are likely to seek acquisitions of tenanted properties that offer Development Securities continuing rental income, with the option of later redevelopment. The Net Proceeds have not been allocated to specific projects as no commitments have been made; however, the Directors are appraising a number of opportunities, both in central London and in wider London and provincial markets.

To participate in development opportunities early in the property cycle invariably requires an element of equity investment or financing commitment from the developer. The Net Proceeds of the Firm Placing and Placing and Open Offer will strengthen Development Securities' negotiating position with potential vendors, forward-funding partners and occupiers.

Although the Directors believe that lending covenants in a large number of loans financing development and investment properties in the UK are close to being breached, there is little evidence of lenders requiring the sale of such properties. In order to maximise the Group's opportunities, the Group may seek alternative access to properties in the UK, by participating in the acquisition from lenders of existing loans secured on such properties. The Company's focus will be on commercial property rather than residential property. Such acquisitions would only relate to specific properties that have been extensively researched by the Group and should offer the prospect of attractive returns and, where the security is eventually enforced in the event of a possible borrower default, the potential for the Group to participate in the underlying property by way of development or further added value initiatives relating to the property. Any such acquisitions are likely to be made in conjunction with a funding partner, although more modest targets could be acquired by the Company on its own. In any event, the Directors anticipate that any such purchases would represent a relatively small proportion of the Company's business, and it is unlikely that the Company's participation in any one loan would exceed £5 million.

4. Current trading and prospects

The market challenges that were evident in 2008 have continued in 2009, reflecting softening yields and falling rental values. Specifically:

- since 1 January 2009, property valuations have continued to fall, with the IPD Index showing falls of 3.0 per cent., 3.1 per cent., 3.1 per cent., 2.3 per cent. and 1.6 per cent. respectively for January, February, March, April and May;
- the prospects for the UK economy in 2009 and 2010 remain uncertain, with HM Treasury's comparison of independent forecasts for the UK economy, published in May 2009, suggesting on average negative GDP growth of 3.8 per cent. in 2009, improving in 2010;
- bank lending to the property sector remains very tightly constrained;
- in the opinion of the Board, these current market conditions are likely to continue in the near term;
- further reductions in the Company's net asset value are anticipated, in line with the underlying property market trends; and
- the level of development earnings which Development Securities was able to generate in recent years is unlikely to be repeated in the next few years as no significantly profitable development projects will be concluded until the market enters a more positive phase.

However, the Directors believe that the Group's cash balances are strong, and borrowings remain close to the levels as at 31 December 2008. The Group continues to search for appropriate opportunities to invest surplus cash resources into investment property to take advantage of relatively high yields currently available. Since 1 January 2009, the Company has made offers on several investment properties with a typical size of 100,000 square feet and commitments ranging from £2 million to £15 million. In appraising such opportunities, the Company will consider the availability of appropriate debt finance, which, if required, would be secured before any commitment was undertaken. Such commitments would not be funded through the Net Proceeds. As at the date of this document, no commitments have been made but the Directors believe that some of these offers may proceed to contract in the near term, subject to financing. Similarly, the Group continues to evaluate prospective development projects, but has undertaken no new commitments since 31 December 2008. Since 31 December 2008 the Group has been in negotiations to make further investments in joint ventures of approximately £5 million over the next two to four years, which will be financed from existing cash resources.

5. Principal terms of the Firm Placing and Placing and Open Offer

Placing and Open Offer

Qualifying Shareholders, on and subject to the terms and conditions of the Open Offer, are being given the opportunity to apply for the Open Offer Shares at the Issue Price pro rata to their holdings of Existing Shares on the Record Date on the basis of:

8 Open Offer Shares for every 13 Existing Shares

The Issue Price of 240 pence per Open Offer Share represents a discount of 24 pence (9.1 per cent.) to the closing middle-market price of 264 pence per Ordinary Share on 23 June 2009, being the last Business Day prior to announcement of the Firm Placing and Placing and Open Offer.

The Open Offer is conditional upon, amongst other things, the passing of the Resolutions and Admission of the Open Offer Shares becoming effective by not later than 8.00 a.m. on 15 July 2009 (or such later time and/or date as the Company and Collins Stewart may agree).

The Placing and Open Offer has been fully underwritten by Collins Stewart and is conditional upon, amongst other things, the Placing Agreement becoming unconditional in all respects and not being terminated. Collins Stewart has agreed under the Placing Agreement to procure subscribers for New Shares not taken up under the Placing and Open Offer or, failing that, to subscribe itself for such New Shares.

For Qualifying Non-CREST Shareholders, completed Application Forms should be returned to the Receiving Agent so as to be received by no later than 11.00 a.m. on 9 July 2009. For Qualifying CREST Shareholders, the relevant CREST instructions must have settled by no later than 11.00 a.m. on 9 July 2009. It is expected that Admission of the New Shares will become effective on 15 July 2009 and that dealings for normal settlement in the New Shares will commence at 8.00 a.m. on the same day.

Firm Placing

Development Securities is proposing to issue 16,666,667 Firm Placed Shares pursuant to Placee Commitment Letters. The Firm Placing has been fully underwritten by Collins Stewart pursuant to the Placing Agreement and is conditional, amongst other things, upon Admission.

Upon completion of the Firm Placing and the Placing and Open Offer, the New Shares will represent approximately 50.6 per cent. of the Company's Enlarged Issued Share Capital and the Existing Shares will represent approximately 49.4 per cent. of the Company's Enlarged Issued Share Capital. New Shares issued through the Placing and Open Offer and New Shares issued through the Firm Placing will account for approximately 60.0 and 40.0 per cent., respectively, of the total New Shares issued through the Firm Placing and Placing and Open Offer.

6. Selected financial information on Development Securities

The financial information for the years ended 31 December 2008, 2007 and 2006 as set out below has been extracted without material adjustment from, and should be read together with, Development Securities' audited consolidated financial statements included in its Annual Report and Accounts for each of the years ended 31 December 2008, 2007 and 2006 which are incorporated by reference into this document.

	<i>For the year ended 31 December</i>		
	<i>2008</i>	<i>2007</i>	<i>2006</i>
<i>Key income statement data</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Revenue	171,114	60,358	48,727
Operating (loss)/profit	(42,760)	7,615	26,943
(Loss)/profit before tax	(65,640)	244	22,790
(Loss)/earnings per share (pence)	(149.2)p	0.0p	63.4p
Annual dividends per share (pence)	4.8p	7.2p	6.75p
	<i>As at 31 December</i>		
	<i>2008</i>	<i>2007</i>	<i>2006</i>
<i>Key balance sheet data</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Investment properties	134,084	154,811	139,461
Inventory – development and trading properties	59,365	155,544	74,663
Total assets	345,749	449,618	363,786
Net borrowings	(87,182)	(71,514)	(14,398)
Net assets	161,045	228,916	231,413
Net assets per share (pence)	397p	564p	568p

7. Summary of risk factors

Shareholders should carefully consider the following key risks:

Risks relating to Development Securities' business

- The Group is exposed to the global economic downturn and a deterioration in the commercial real estate markets.
- Property valuation is inherently subjective and uncertain and the Group's balance sheet may be significantly affected by fluctuations in the fair market valuation of its investment properties and the net realisable value of its Trading Properties.
- Future developments may be limited by the failure to identify suitable co-funders for any properties, default by such co-funders, the failure to identify and acquire suitable property (which may also impact on acquisitions of investment property) and difficulties in obtaining planning permission.
- The Group's developments may be subject to delays or disruptions and are subject to certain risks, some of which may be beyond the Group's control, which could result in a decrease in the value of the development or the revenue obtained from such development.
- The unavailability or insolvency of suppliers, contractors, sub-contractors and other service providers may cause cost overruns, programme delays and the acceptance of riskier contractor covenants.
- Rent reviews could be lower than expected and there may be difficulties in finding tenants.
- A default by a major tenant could result in a significant loss of letting income, void costs, a reduction in asset value and increased bad debts.
- An adverse change in competitive dynamics in the occupational property market could affect the value of the Group's investment and development property portfolio.
- There are a number of investment risks relating to the acquisition and disposal of properties.

- The Group is party to a number of joint ventures which expose it to a number of risks not associated with the business conducted by the Group on its own.
- The Group may invest in existing loans secured against specific properties which may expose it to risks not associated with its core business.

Risks relating to the Group

- The departure of key personnel or the failure to attract and retain skilled personnel could materially adversely affect the Group's business.
- The current global economic downturn and serious dislocation of the financial markets may, in the longer term, affect the Group's ability to access funding.
- The Group's credit facilities contain various covenants which, if not complied with, could, in the longer term, materially adversely affect the Group's liquidity, financial condition and results of operations.
- The Group's property portfolio may expose the Group to environmental liabilities and costs.
- The Group is exposed to market risks including interest rate and foreign currency risk.
- The risk of litigation is inherent in the Group's operations.
- The Group may be insufficiently insured against all losses, damage and limitations of use of its properties.

Risks relating to the Firm Placing and Placing and Open Offer and New Shares

- Development Securities' share price may fluctuate.
- Development Securities' ability to continue to pay dividends on the Ordinary Shares will depend on the availability of distributable reserves.
- Shareholders who do not acquire New Shares in the Firm Placing and Placing and Open Offer will experience dilution in their ownership of Development Securities.
- Any future issues of Development Securities' shares will further dilute the holdings of current Development Securities Shareholders and could adversely affect the market price of Ordinary Shares.
- Shareholders outside the UK may not be able to subscribe for the New Shares in the Firm Placing and Placing and Open Offer or for future issues of shares.
- The ability of Overseas Shareholders to bring actions or enforce judgments against Development Securities or the Directors may be limited.

RISK FACTORS

An investment in the Ordinary Shares involves certain risks. Shareholders should carefully consider the risks set forth below and all of the information set forth in this document prior to making any investment decision with respect to the Ordinary Shares. Any of the risks described below could have a material adverse effect on the Company's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares and it is possible that Shareholders could lose all or part of their investment in the Ordinary Shares. All risks of which the Directors are aware at the date of this document relating to Development Securities, its industry and the New Shares, and which they consider material, are set out below. However, the risks below are not the only risks to which the Company may be subject. The Company may be unaware of certain risks or believe certain risks to be immaterial which later prove to be material or otherwise have an adverse effect on the Company. Shareholders should read this section in conjunction with the Letter from the Chairman of Development Securities contained in Part I ("Letter from the Chairman of Development Securities PLC") of this document.

1. Risks related to Development Securities' business

The Group is exposed to the global economic downturn and a deterioration in the commercial real estate markets

The value of the Group's development interests and property assets and the return generated from in the UK.

The liquidity crisis and the withdrawal of bank finance from the real estate markets have caused a significant reduction in the volume of property transactions and resulted in significantly lower prices for property assets. Property yields have softened significantly and continue to move as shown by the IPD Index which has shown an outward movement in yields of 1.0 per cent. from the end of December 2008 to the end of May 2009. The wider economy has fallen into recession, prompting a reduction in tenant demand for property and causing some existing tenants to experience trading difficulties and business failure.

These conditions may affect the profitability of existing development projects, the prospective viability of new projects and the appetite of potential funding partners for major projects, which may restrict the Group's ability to generate profits from development. In addition, the net realisable value of the Group's Trading Properties may be reduced, which may require further provisions to be made in the Company's consolidated balance sheet.

The Group's investment portfolio is carried in the Group's financial statements at fair market value which is a function of market yields applied to rental income. Further softening of market yields will cause further revaluation declines in the investment portfolio. Falls in market rents will affect revenue received from investment property and the estimate of rents to be earned from the portfolio, and will also reduce the valuations. This will be compounded by any tenant failures.

These conditions may, depending on the performance of the Group's business, cause pressure on covenants within bank loan agreements as a result of declining property values. The Directors have planned for the impact of these conditions including further declines in property values in accordance with a range of economic forecasts. Significant further declines over and above current market expectations would, in the longer term, result in the need to make further partial loan repayments in accordance with the terms of such loan agreements or to seek to renegotiate covenant levels or to refinance certain facilities. This may limit the Company's ability to take advantage of further real estate opportunities and, in the longer term, may require the Company to dispose of assets at values that are lower than might otherwise be expected, which could adversely affect the Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares.

The Group cannot predict for how long economic conditions will continue to impact these markets adversely, or to what degree these economic conditions may deteriorate further. Continuing declines in the performance of the UK commercial property markets could have a material adverse effect on

the Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares.

Property valuation is inherently subjective and uncertain and the Group's balance sheet may be significantly affected by fluctuations in the fair market valuation of its investment properties and the net realisable value of its Trading Properties

The valuation of the Group's property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental revenues from that property. As a result, the valuations the Group places on its property portfolio are subject to a degree of uncertainty and are made on the basis of assumptions which may prove to be inaccurate particularly in periods of volatility or low transaction flow in the commercial real estate market, as has recently been the case.

In the current economic environment, it is likely that real estate prices and values will continue to be subject to heightened volatility and may continue to decline significantly. The current illiquidity in the financial markets means that it may be difficult in the short term to achieve the sale of properties at prices reflected in the valuations of the Group's properties. In addition, the value of the Group's commercial properties can be affected by other factors outside the Group's control, including changing local supply and the attractiveness of real estate relative to other investment choices. Failure to achieve successful sales of properties at acceptable prices could, in the longer term, have a material adverse impact on the Group's business, financial condition, results of operations, future prospects or the price of Ordinary Shares.

Changes in the market value of the Group's Trading Properties will affect the amount at which such properties can be sold and the profit or loss made on realisation. Where the estimated disposal proceeds of each such property fall below the estimated total cost, the Group must provide for the amount of that shortfall. This may have a material impact on the Group's results.

The Group's investment properties are revalued on a semi-annual basis, and any increase or decrease in the value of its properties is recorded as a revaluation gain or loss in the Group's consolidated income statement for the period in which the revaluation occurs. As a result, the Group can have significant non-cash revenue gains and losses depending on the change in fair market value of its properties, regardless of whether such properties have been sold. If market conditions continue to deteriorate, revaluation losses from the Group's existing properties could, depending on the performance of the Group's business, put pressure on certain financial covenants in its debt instruments. The Directors have planned for the impact of these conditions including further declines in property values in accordance with a range of economic forecasts. Significant further declines over and above current market expectations would, in the longer term, result in the need to renegotiate covenant levels or to refinance certain facilities. This could, in the longer term, adversely affect the Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares.

Future developments may be limited by the failure to identify suitable co-funders for any properties, default by such co-funders, the failure to identify and acquire suitable property (which may also impact on acquisitions of investment property) and difficulties in obtaining planning permission

The Group typically enters into arrangements with third party investors in relation to proposed developments in order to share risk and to obtain forward-funding of development projects. Future property developments may be restricted by the Group's ability to identify suitable co-funders with whom to invest or to agree attractive arrangements with such co-funders. Failure to find and enter into arrangements with such co-funders is likely to mean that the Group is unable to take advantage of such development opportunities. In addition, where co-funders are put in place, there is a risk that such co-funders may default on their obligations in relation to the development (including their obligation to provide financing). Such defaults may jeopardise the success of the Group's developments and may have a material adverse effect on the Group's development business.

Both the Group's development business and its investment property portfolio rely on its ability to identify and acquire suitable property at satisfactory prices. The commercial real estate market in the

UK is facing continuing illiquidity and the Group is likely to experience continuing difficulty in acquiring suitable property.

Planning permission for developments may be delayed or refused or granted on onerous terms. Refusal of planning permission will result in a development not proceeding as intended and costs may have been incurred by the Group which it may not be able to reclaim. Delays in planning permission could result in developments not progressing in a timely manner or incurring significant additional cost which could materially impact on the expected rate of return. The success or failure of a development will rely, among other things, on the grant of suitable planning permission.

Failure to find suitable co-funders, default by such co-funders, failure to acquire suitable properties or to obtain planning permission on suitable terms could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects or the price of the Ordinary Shares.

The Group's developments may be subject to delays or disruptions and are subject to certain risks, some of which may be beyond the Group's control, which could result in a decrease in the value of the development or the revenue obtained from such development

The development process from which the Group historically obtains the majority of its revenues can be lengthy and complex. It typically involves site identification and gaining control over the relevant land, obtaining planning permission, concluding funding arrangements for both the development phase and the completed building, procuring design and construction of the building, project management, marketing and letting. Failure to manage any of these elements may expose the Group to underperformance and loss. There can be no assurance that any developments undertaken by the Group will be completed and let on time or on budget.

Delays or cost overruns may be caused by a range of factors, including failure to control the design and construction process, contractor failure, inability of contractors to deliver expected levels of capacity and capability, issues relating to third party rights and additional works required by law or regulation. Construction may be delayed or disrupted by a number of factors, such as inclement weather, acts of nature, industrial accidents and defective building methods or materials. In addition, the costs of construction depend primarily on the costs of materials and labour, both of which are subject to unforeseen changes. There can also be no assurance that the development, once completed will be free of defects.

Any such issues may result in payments being required from the Group or claims made against the Group. The Group may not be able to recover cost overruns from insurance or from the responsible contractor or sub-contractor and the development may decrease in value. In addition, delays to completion of developments could cause a breach of covenant in relation to development specific financing, requiring renegotiation of the financing or repayment of the facility. This may require the Group to use existing cash resources to make partial loan repayments in accordance with the terms of such loan agreements, which may in turn limit the Company's ability to take advantage of further new real estate opportunities and may, in the longer term, require the Company to dispose of assets at values that are lower than might otherwise have been expected.

Revenues from developments may not meet expected levels where developments are not let in a timely manner. In addition, revenues may be lower than anticipated where expected tenants fail to take such property on completion of the development (as a result of insolvency or other reasons).

The Group's largest developments are sold to an equity partner (typically a pension fund) before the Group commits significant capital to the project. Some more modest developments are carried out on the Group's balance sheet. The precise impact of the risks described above in each case depends on the contractual arrangements of the development in question. In general, for developments held on the Group's balance sheet, the Group may suffer a direct cost or revenue deterioration; for those developments pre-sold to an equity partner, the Group may suffer an erosion of its profit share and a possible loss on any retained minority equity stake in the project.

In addition, the Group's development projects are subject to the hazards and risks normally associated with the construction and development of commercial real estate, including fire, regulatory

issues, personal injury and property damage. Although insurance may mitigate certain of these risks, the occurrence of any of these events could result in a significant increase to operating costs, reputational damage, fines, legal fees or criminal prosecution of the Group, and its Directors or management.

All of the above risks could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects or the price of the Ordinary Shares.

The unavailability or insolvency of suppliers, contractors, sub-contractors and other service providers may cause cost overruns, programme delays and the acceptance of riskier contractor covenants

The Group's process for development of prime commercial real estate requires that it hires skilled third party contractors to provide construction, engineering and certain other services for the properties it is developing. There is a limited pool of high-quality contractors operating in the UK property market. As a result, the Group may be unable to retain skilled contractors on financially and contractually efficient terms due to a high level of demand for the most reputable contractors. Furthermore, the Group may hire a contractor that subsequently becomes insolvent, causing cost overruns, programme delays and the acceptance of riskier contractor covenants. The risk that a suitable contractor is unavailable or becomes insolvent is heightened in current market conditions. The risk of such insolvency similarly increases the risk of the Group being unable to recover costs in relation to any future latent defects subject to repair covenants given by the Group, to the extent that such costs are not otherwise covered by latent defect insurance. The unavailability of high-quality contractors or the insolvency of a contractor currently working on one or more of the Group's development projects could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects or the price of the Ordinary Shares.

Rent reviews could be lower than expected and there may be difficulties finding tenants

Rent reviews carried out in relation to leases of investment properties held by the Group may fail to meet expectations, which could have a material adverse impact on the performance of the Group's portfolio in the longer term. Failure to meet expectations in rent review negotiations could be as a result of changing trends in the market.

The ability of the Group to attract new tenants for both its investment properties and development properties will depend on demand for space at the relevant property and on the economic conditions in the relevant area, which can be influenced by a number of factors. Rental levels, the size and quality of the building, the facilities offered, the location and local environment of the relevant property, the amount and type of competing space available, the transport infrastructure, the other tenants renting adjacent and nearby properties, the age and facilities of the building in comparison with the alternatives and changing trends in the relevant occupational market are all examples of factors which influence tenant demand. Similarly, changes to the infrastructure, demographics, planning regulations and economic circumstances relating to the surrounding areas on which the relevant property depends for its tenant base may adversely affect the demand for such property.

There can be no assurance that the Group's existing tenants will renew their leases at the end of their current tenancies or, if they do not, that new tenants of equivalent standing (or any new tenants) will be found to take up replacement leases. This is particularly the case where a property requires refurbishment or redevelopment following the expiry of a tenancy.

During periods in which the property is not let, the Group will suffer a rental shortfall and incur additional expenses until the property is re-let. Even if renewals or replacements are secured, there can be no assurance that such renewals or replacements will be on terms (including rental levels and rent review terms) that are as favourable to the Group as before or that new tenants will be as creditworthy as previous tenants. Loss of an anchor tenant may increase the difficulty of re-letting adjacent retail property.

All of the above risks could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects or the price of the Ordinary Shares.

A default by a major tenant could result in a significant loss of letting income, empty property costs, a reduction in asset value and increased bad debts

Major tenants generally pay a significant portion of the total rents at a property and, in some cases, contribute to the success of the asset in securing other tenants by attracting customers to the property. A downturn in business, bankruptcy or insolvency could force a major tenant to default on its rental obligations and/or vacate the premises. Such a default could result in the loss of rental income, costs associated with an empty property, an increase in bad debts and a decrease in the value of property. In particular, the Group derives a material portion of its income from its investment property business from retail tenants and the Group is therefore exposed to factors that affect the retail environment generally. A significant decline in overall tenant revenues or the insolvency of significant numbers of tenants or significant individual tenants would decrease the Group's revenues and the reserves available to the Group for investment in future development projects and would also lower the value of the Group's properties.

Such defaults could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects or the price of Ordinary Shares.

An adverse change in competitive dynamics in the occupational property market could affect the value of the Group's investment and development property portfolio

The current economic downturn in the UK with the general decline in retail sales, increased competition in the retail market and general contraction of business activity may impact on all businesses and decrease demand for occupational property. This may result in difficulties letting vacant space at rents in line with the Group's expectations, the need for increased rental incentives to attract tenants, difficulty in maintaining rental levels at its investment properties, difficulty obtaining tenants for its development projects on budgeted rents, a further softening of yields and a decrease in property valuations which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects or the price of Ordinary Shares.

There are a number of investment risks relating to the acquisition and disposal of properties

The Group's management of its property portfolio including decisions to hold, buy or sell properties may not deliver the expected returns or may fail to meet value or performance expectations, as a result of, among other factors, the impact of the economic downturn on consumer confidence and spending and rental growth or occupancy levels, or due to cost inflation, particularly in respect of construction costs. The disposal of properties may lead to claims against members of the Group relating to defects in the sold property. The acquisition of properties involves certain legal and commercial risks including where unexpected problems or liabilities (such as the existence of hazardous substances) may emerge following the acquisition. If any of these risks materialises, it could have a material adverse effect on the Group's business, financial position, results of operations, future prospects or the price of the Ordinary Shares.

The Group is party to a number of joint ventures which expose it to a number of risks not associated with the business conducted by the Group on its own

The Group conducts some of its business with strategic joint venture partners. The success of such arrangements relies in part on choosing robust entities to work with and also in maintaining a good relationship with such joint venture partners but there are a number of operational risks, costs and difficulties which can also impact on their success.

The insolvency or financial distress of any of the Group's joint venture partners could materially adversely affect the joint venture, by inducing the termination or sale of the joint venture or leading to the failure of such joint venture partners to comply with their contractual funding or other obligations. The Group may have a right to acquire the joint venture or the relevant property but the Group may not wish to do so, or may not have sufficient funds available to do so, which could lead to a third party acquiring such interest or the joint venture's insolvency, both of which may have uncertain outcomes for the Group and may, in the longer term, materially adversely affect its business.

By definition, operational control of joint ventures is shared with the Group's joint venture partners, and the Directors cannot exclusively direct the strategy and operating decisions of such entities. In addition, the Group does not have direct day-to-day financial control over such entities. The Group is in part dependent upon its joint venture partners for the operating performance and financial control of such entities. Any failure of the joint venture may reduce the value of the Group's share of profits and net assets within the joint venture. Conflict with joint venture partners may lead to deadlock and result in the Group being unable to pursue its strategy or exit the joint venture other than on below market value terms.

If the Group were to experience difficulties with its joint venture partners or the joint venture entities, it may have to dispose of its interest or even terminate the arrangement which could have a material adverse effect on its business, financial condition, results of operations, future prospects or the price of the Ordinary Shares.

The Group may invest in existing loans secured against specific properties which may expose it to risks not associated with its core business

The Group may acquire certain existing loans secured against specific properties (see paragraph 5 of Part I ("Letter from the Chairman of Development Securities PLC") of this document for further details). While such investments would be intended to provide the Group with an alternative access to UK property assets, the Group would not be able to dictate at which point in time (if ever) it was able to take advantage of the asset itself, because security could only be enforced where there was either a borrower default of some kind and/or acceleration of the loan or other obligation, repayment of which is secured on the relevant property. Enforcement may be subject to limitations arising from bankruptcy, insolvency, liquidation, moratorium, reorganisation and other laws of general application relating to or affecting the rights of the creditors, meaning that the Group's ability to gain the rights to the relevant assets might be delayed due to the enforcement process or even denied. The Group may obtain rights in a property at a sub-optimal time in terms of the property cycle or in terms of the Group's development or investment portfolio at that point. In addition, there is a risk especially in these volatile markets that the value of the asset at the time of enforcement has dropped compared with the investment made by the Group which would have an impact on the Group's results. The risks associated with such investments could have a material adverse effect on the Group's business, financial position, results of operations, future prospects or the price of the Ordinary Shares.

2. Risks relating to the Group

The departure of key personnel or the failure to attract and retain skilled personnel could materially adversely affect the Group's business

The Group's success depends on the ability and experience of its Directors and management. The Group needs to attract and retain the services of its key employees to successfully execute its strategy. If key personnel were to depart, there is no guarantee that the Group could find effective replacements in good time, or at all. The loss of any of these Directors or members of senior management (in particular to industry competitors), or any delay in replacing the departed member, may result in the loss of core competencies and industry knowledge as well as relationships with agents, planners, lenders, joint venture partners, regulators and other industry personnel which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects or the price of the Ordinary Shares.

The current global economic downturn and serious dislocation of the financial markets may, in the longer term, affect the Group's ability to access funding

The current global economic downturn and serious dislocation of financial markets around the world has caused a number of the world's largest financial and other corporate institutions significant operational and financial difficulties. In the longer term, such macro-economic difficulties could inhibit the capability of a lender to the Group to honour its pre-existing lending arrangements, to provide access to deposits and could limit the Group's ability to access new funding. While the Group seeks to manage its risk by diversifying its lenders and deposit holders and reviewing its

position regularly, if, in the longer term, the Group is unable to access funding available under its existing credit facilities or is unable to access cash on deposit with financial institutions or if there is a significant increase in the cost or availability of further financing, this could adversely impact the Group's cash flows and liquidity and the ability of the Group, in the longer term: (i) to take advantage of further real estate opportunities; (ii) to meet its financial obligations (including interest payments, operating expenses and dividends) as they fall due; or (iii) to meet its capital commitments.

Any or all of the above risks could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects or the price of the Ordinary Shares.

The Group's credit facilities contain various covenants which, if not complied with, could, in the longer term, materially adversely affect the Group's liquidity, financial condition and results of operations

The Group's financing arrangements contain restrictions and covenants requiring the Group, among other things, to maintain certain financial ratios, including interest cover, loan to value and minimum net asset value. As at 23 June 2009, being the latest practicable date prior to the publication of this document, the Group was in compliance with these covenants. The Group's continued compliance with these covenants depends upon future performance of the Group's business, some elements of which are beyond the control of the Group. The Directors have planned for the impact of further declines in property values in accordance with a range of economic forecasts. Significant further declines over and above current market expectations would, in the longer term, result in the need to make further partial loan repayments or to seek to renegotiate the covenants or to refinance certain facilities. This may, in the longer term, limit the Company's ability to take advantage of further real estate opportunities and may require the Company to dispose of assets at values that are lower than might otherwise have been expected, which could adversely affect the Group's business, financial condition, results of operations, future prospects and the price of the Ordinary Shares. Any cross-default provisions could increase the impact of an individual default if such a provision were exercised by the lenders. Over the longer term, adverse changes in the Group's real estate assets could cause the amount of any re-financing proceeds to be insufficient to repay existing debt in full and the Group may be unable to fund any shortfall from other funds. If the Group is unable to dispose of sufficient assets to fund repayment of debt due, the Group risks, in the longer term, becoming insolvent or otherwise ceasing its operations.

Each of these risks could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects or the price of the Ordinary Shares.

The Group's property portfolio may expose the Group to environmental liabilities and costs

The Group is subject to various laws and regulations relating to the protection of the environment, sustainability, energy efficiency and health and safety. Liabilities, costs, penalties and operational restrictions may be imposed on or suffered by the Group in relation to any failure in respect of such environmental, sustainability, energy efficiency and health and safety issues that could have a material adverse effect on the Group's business, operations and financial condition. Under such laws and regulations and in the ordinary course of business, the Group may become responsible for the investigation and remediation of contamination and other environmental conditions relating to its current and former operations and properties. The Group could also be liable to third parties for harm caused to them or their property as a result of contamination, where it used to own, owns or acquires contaminated land. Further, the Group is subject to a substantial amount of regulation in relation to the sustainability of its new development projects and across its property portfolio, in particular with regard to its management of energy, waste and water. An evolving framework of climate change-related regulation may result in increased operating and development costs and/or regulatory compliance issues for the Group or an impact on the marketability of existing properties, which could have a material adverse effect on its business, financial condition and results of operations.

If the Group is found to be in breach of environmental regulations, including those in relation to sustainability or energy efficiency within the built environment, or in respect of environmental matters in any relevant agreement, it may face reputational damage, increased costs, regulatory compliance issues, reduced letting income and reduced asset valuations. Each of these issues could

have a material adverse effect on the Group's business, financial condition, results of operations, future prospects or the price of the Ordinary Shares.

The Group is exposed to market risks including interest rate and foreign currency risk

Changes in interest rates, foreign exchange rates, bond and equity prices, and other market factors have affected, will continue to affect and may affect to a greater degree the Group's business. Interest on its indebtedness is a significant cost for the Group. To the extent that the Group's existing or future indebtedness is variable rate and unhedged, changes in interest rates may increase its cost of borrowing, increasing interest expense and reducing operating cash flows. Interest rates are highly sensitive to many factors, including international and domestic economic and political conditions, and other factors beyond the Group's control. There is uncertainty over the level of interest rates due to disruption to financial markets and the current restricted availability of bank credit. If interest rates rise, the Group will be required to pay a greater proportion of its revenue to meet interest expenses on its floating rate debt, and on any new debt or other market security the Group issues. As the Group has a significant proportion of its current indebtedness at a fixed rate of interest, the Group will not fully benefit from the current low interest rate environment. In addition, IFRS require the Group to carry certain interest rate swaps at fair market value, increasing the volatility of net asset value outside of the Group's control.

Although the Group seeks to hedge its foreign exchange risk where appropriate, nonetheless fluctuations to foreign currency exchange rates may have a material impact on the Group's business. In particular, certain development costs including materials and subcontractors may be sourced outside the UK and paid in foreign currencies. Changes in exchange rates may cause material increases in costs, thereby reducing return on certain developments.

Each of these issues could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects or the price of the Ordinary Shares.

The risk of litigation is inherent in the Group's operations

In the ordinary course of the Group's business, legal actions, claims against and by the Group and arbitrations involving the Group may arise. The Group may be subject to litigation from suppliers, purchasers, tenants, current or former employees or third parties, including visitors to its properties. The publicity associated with, and the outcome of, such claims, arbitration and legal proceedings could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects or the price of the Ordinary Shares.

The Group may be insufficiently insured against all losses, damage and limitations of use of its properties

The Group does not have insurance cover for certain types of catastrophic losses, which are not insurable or for which economically reasonable insurance is unavailable. In addition, there can be no guarantee that the Group's current insurance coverage will not be cancelled or become unavailable on economically reasonable terms in the future. If the Group were to suffer damage to an asset for which it was uninsured, it may be forced to obtain additional financing, to repair or rebuild the damaged asset or to lose the value of the damaged asset altogether, which could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects or the price of the Ordinary Shares.

3. Risks related to the Firm Placing and Placing and Open Offer and the New Shares

Development Securities' share price may fluctuate

The market price of the Ordinary Shares could be subject to significant fluctuations due to a change in sentiment in the market regarding the Ordinary Shares. The fluctuations could result from national and global economic and financial conditions, the market's response to the Firm Placing and Placing and Open Offer, the plans and proposals of the UK, United States and other governments with respect to the current global financial crisis, market perceptions as to when the Company will be able to pay dividends on the Ordinary Shares and various other facts and events, including liquidity of financial markets, regulatory changes affecting the Company's operations, variations in

the Company's operating results and business developments of the Company and/or its competitors. Stock markets have recently experienced significant price and volume fluctuations that have affected the market prices for the Company's securities. Furthermore, the operating results and prospects from time to time may be below the expectations of market analysts and investors. Any of these events could result in a decline in the market price of the New Shares and/or the Ordinary Shares.

Development Securities' ability to continue to pay dividends on the Ordinary Shares will depend on the availability of distributable reserves

Development Securities' ability to pay dividends is limited under UK company law, which limits a company to only paying cash dividends to the extent that it has distributable reserves and cash available for this purpose. Development Securities' ability to pay dividends in the future is affected by a number of factors, including its ability to receive dividends from its subsidiaries which, in turn, depends upon the existence of distributable reserves and cash in such subsidiaries.

Shareholders who do not acquire New Shares in the Firm Placing and Placing and Open Offer will experience dilution in their ownership of Development Securities

If Shareholders, including Shareholders in the United States and other jurisdictions where their participation is restricted for legal, regulatory and other reasons, do not take up the offer of New Shares under the Firm Placing and Placing and Open Offer, their proportionate ownership and voting interests in Development Securities will be reduced and the percentage that their shares will represent of the total share capital of the Company will be reduced accordingly.

Any future issues of Development Securities' shares will further dilute the holdings of current Development Securities Shareholders and could adversely affect the market price of Ordinary Shares

The Group's ability to execute its business strategy depends on its access to an appropriate blend of debt financing including unsecured lines of credit and other forms of secured and unsecured debt, and equity financing. Although the Group currently has no plans to undertake any further equity raisings in the next 12 months, the interests of Shareholders may be diluted and/or there may be a material adverse impact on the market price of the Ordinary Shares if additional equity securities are issued to finance future developments or acquisitions, to repay debt or for any other purpose.

Shareholders outside the UK may not be able to subscribe for New Shares in the Firm Placing and Placing and Open Offer or for future issues of shares

In the case of an allotment of Ordinary Shares for cash, Shareholders have certain statutory pre-emption rights unless those rights are disapplied by a special resolution of the Shareholders at a general meeting, in which case such an issue could dilute the interests of the then existing Shareholders. Securities laws of certain jurisdictions may restrict Development Securities' ability to allow participation by Shareholders in the Firm Placing and Placing and Open Offer. In particular, holders of Ordinary Shares who are located in the United States may not be able to exercise their pre-emption rights unless a registration statement under the US Securities Act is effective with respect to such rights or an exemption from the registration requirements is available under the US Securities Act. The Firm Placing and Placing and Open Offer will not be registered under the US Securities Act. Securities laws of certain jurisdictions may restrict Development Securities' ability to allow participation by Shareholders in such jurisdictions in any future issue of shares carried out by the Company. Qualifying Shareholders who have a registered address in or who are resident in, or who are citizens of, countries other than the UK should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to acquire New Shares.

The ability of Overseas Shareholders to bring actions or enforce judgments against Development Securities or the Directors may be limited

The ability of an Overseas Shareholder to bring an action against Development Securities may be limited under law. Development Securities is a public limited company incorporated in England. The rights of holders of Shares are governed by English law and by Development Securities' Memorandum of Association and Articles of Association. These rights differ from the rights of shareholders in typical US corporations and some other non-UK corporations.

An Overseas Shareholder may not be able to enforce a judgment against some or all of the Directors and executive officers. All the Directors and executive officers are residents of the UK. Consequently, it may not be possible for an Overseas Shareholder to effect service of process upon the Directors and executive officers within the Overseas Shareholder's country of residence or to enforce against the Directors and executive officers judgments of courts of the Overseas Shareholder's country of residence based on civil liabilities under that country's securities laws. There can be no assurance that an Overseas Shareholder will be able to enforce any judgments in civil and commercial matters or any judgments under the securities laws of countries other than the UK against the Directors or executive officers who are residents of the UK or countries other than those in which judgment is made. In addition, English or other courts may not impose civil liability on the Directors or executive officers in any original action based solely on foreign securities laws brought against Development Securities or the Directors in a court of competent jurisdiction in England or other countries.

FIRM PLACING AND PLACING AND OPEN OFFER STATISTICS

Issue Price per Open Offer Share	240 pence
Issue Price per Firm Placed Share	240 pence
Number of Ordinary Shares in issue at the date of this document	40,603,214
Number of New Shares to be issued by the Company pursuant to the Placing and Open Offer	24,986,593
Number of New Shares to be issued by the Company pursuant to the Firm Placing	16,666,667
Number of Ordinary Shares in issue immediately following completion of the Placing and Open Offer and Firm Placing	82,256,474
New Shares as a percentage of the Enlarged Issued Share Capital of the Company immediately following completion of the Firm Placing ⁽¹⁾ and the Placing and Open Offer	50.6%
Estimated net proceeds receivable by the Company after expenses of the Firm Placing and the Placing and Open Offer	£94.0 million
Estimated expenses of the Firm Placing and the Placing and Open Offer	£6.0 million

Note:

- (1) On the assumption that no further Ordinary Shares are issued as a result of the exercise of any options or vesting of any awards under the Development Securities Employee Share Plans between the posting of this document and the closing of the Firm Placing and the Placing and Open Offer.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Each of the times and dates in the table below is indicative only and may be subject to change.

<i>Event</i>	<i>Time and/or date</i>
Record Date for entitlement under the Open Offer	close of business on 23 June 2009
Announcement and publication of this document and Application Form	24 June 2009
Ex-entitlement Date for the Open Offer	8.00 a.m. on 24 June 2009
Open Offer Entitlements credited to stock account of Qualifying CREST Shareholders in CREST	8.00 a.m. on 25 June 2009
Recommended latest time for requesting withdrawal of Open Offer Entitlements from CREST	4.30 p.m. on 3 July 2009
Latest time and date for depositing Open Offer Entitlements into CREST	3.00 p.m. on 6 July 2009
Latest time and date for splitting Application Forms (to satisfy <i>bona fide</i> market claims only)	3.00 p.m. on 7 July 2009
Latest time and date for receipt of completed Application Forms and payment in full under the Open Offer and settlement of relevant CREST instructions (as appropriate)	11.00 a.m. on 9 July 2009
Extraordinary General Meeting	2.30 p.m. on 10 July 2009
Admission and commencement of dealings in the New Shares	8.00 a.m. on 15 July 2009
New Shares in uncertificated form expected to be credited to accounts in CREST	as soon as possible on 15 July 2009
Despatch of definitive share certificates for the New Shares in certificated form	by 22 July 2009

General Notes:

- (1) The ability to participate in the Firm Placing and Placing and Open Offer is subject to certain restrictions relating to Shareholders with registered addresses outside the UK, details of which are set out in Part III ("*Terms and Conditions of the Open Offer*") of this document.
- (2) The times and dates set out in the expected timetable of principal events above and mentioned throughout this document may be adjusted by Development Securities in consultation with Collins Stewart, in which event details of the new times and dates will be notified to the UK Listing Authority, the London Stock Exchange and, where appropriate, Qualifying Shareholders.
- (3) Different deadlines and procedures for applications may apply in certain cases. For example, if you hold your Existing Shares through a CREST member or other nominee, that person may set an earlier date for application and payment than the dates noted above.
- (4) References to times in this document are to London times unless otherwise stated.

WHERE TO FIND HELP

Part II (“*Questions and Answers about the Placing and Open Offer*”) of this document answers some of the questions most often asked by shareholders about placings and open offers. If you have further questions, please telephone the Shareholder Helpline on the numbers set out below. This helpline is available from 9.00 a.m. to 5.00 p.m. on any London Business Day.

Shareholder Helpline

0871 664 0321 (from inside the UK)

or +44 20 8639 3399 (from outside the UK)

Calls to the Capita Registrars 0871 644 0321 number are charged at 10p per minute (including VAT) from a BT landline. Other service providers’ costs may vary. Calls to the Capita Registrars +44 20 8639 3399 number from outside the UK are charged at applicable international rates. Different charges may apply to calls made from mobile telephones and calls may be recorded and monitored randomly for security and training purposes. For legal reasons, the Shareholder Helpline will be unable to give advice on the merits of the Firm Placing and Placing and Open Offer or to provide financial, tax or investment advice.

IMPORTANT INFORMATION

Presentation of financial information

The Company publishes its financial statements in pounds sterling (“£” or “sterling”). The abbreviation “£m” represents millions of pounds sterling, and references to “pence” and “p” represent pence in the UK.

The financial information presented in a number of tables in this document has been rounded to the nearest whole number or the nearest decimal place. Therefore, the sum of the numbers in a column may not conform exactly to the total figure given for that column. In addition, certain percentages presented in the tables in this document reflect calculations based upon the underlying information prior to rounding and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

Sources of information

Financial information, unless otherwise stated, has been extracted from the audited consolidated financial statements of the Company and its subsidiaries for the years ended 31 December 2008, 2007 and 2006, all of which are incorporated by reference into this document. Where information has been extracted from the audited consolidated financial statements for the year ended 31 December 2008, 2007 or 2006, the information is audited unless otherwise stated.

International Financial Reporting Standards

As required by the Companies Act and Article 4 of the European Union IAS Regulation, the consolidated financial statements of the Group are prepared in accordance with IFRS issued by the IASB and interpretations issued by the IFRIC of the IASB as adopted by the European Union.

Non-GAAP financial measures

This document, including the Company’s consolidated financial statements incorporated by reference herein, provides data regarding the Company’s “IPD total return” and “total shareholder return”. These are “non-GAAP” financial measures within the meaning of Regulation G under the US Securities Act. These measures are designed to aid comparability between property companies and to assist in understanding the performance of the business. For a better understanding of “IPD total return” and “total shareholder return”, see paragraph 4 of Part V (“*Operating and Financial Review of Development Securities*”) of this document.

Forward-looking statements

This document contains certain forward-looking statements which may include reference to one or more of the following: the Group’s financial condition, results of operations, cash flows, dividends, financing plans, business strategies, operating efficiencies or synergies, budgets, capital and other expenditures, competitive positions, growth opportunities for existing products, plans and objectives of management and other matters. Statements in this document that are not historical facts are hereby identified as “forward-looking statements”. Such forward-looking statements, including, without limitation, those relating to future business prospects, revenue, capital needs, interest costs and income, in each case relating to Development Securities, wherever they occur in this document, are necessarily based on assumptions reflecting the views of Development Securities and involve a number of known and unknown risks, uncertainties and other factors that could cause actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements. Such forward-looking statements should, therefore, be considered in light of various important factors. Important factors that could cause actual results to differ materially from estimates or projections contained in the forward-looking statements include without limitation: economic and business cycles, the terms and conditions of Development Securities’ financing arrangements, foreign currency rate fluctuations, competition in Development Securities’ principal markets, acquisitions or disposals of businesses or assets and trends in Development Securities’ principal industries.

These forward-looking statements speak only as at the date of this document. Except as required by the FSA, the London Stock Exchange, the Part VI Rules (including the Listing Rules, the Prospectus Rules and/or the Disclosure and Transparency Rules) or applicable law, Development Securities does not have any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, further events or otherwise. Except as required by the FSA, the London Stock Exchange, the Part VI Rules (including the Listing Rules, the Prospectus Rules and/or the Disclosure and Transparency Rules) or applicable law, Development Securities expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in Development Securities' expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this report might not occur.

Notice to all investors

Any reproduction or distribution of this document and/or any Application Form, in whole or in part, and any disclosure of its contents or use of information in this document for any purpose other than considering an investment in the New Shares is prohibited. By accepting delivery of this document, you agree with the foregoing.

The distribution of this document and/or the Application Form and/or the transfer of the New Shares into jurisdictions other than the UK may be restricted by law. Persons into whose possession these documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdictions. In particular, such documents should not be distributed, forwarded to or transmitted in or into the United States or the Excluded Territories.

The New Shares are not transferable except in accordance with, and the distribution of this document is subject to, the restrictions set out in paragraph 6 of Part III ("*Terms and Conditions of the Open Offer*") of this document.

No action has been taken by the Company or by Collins Stewart that would permit an offer of the New Shares or rights thereto or possession or distribution of this document or any other offering or publicity material in any jurisdiction where action for that purpose is required, other than in the UK.

No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been authorised by the Company or Collins Stewart. Neither the delivery of this document nor any subscription or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date of this document or that the information in this document is correct at any time subsequent to its date. Neither the Company, Collins Stewart nor any other person accepts any responsibility, except as required by applicable law or regulation, to update any information in this document.

The contents of this document should not be construed as legal, business or tax advice. Each prospective investor should consult his, her or its legal adviser, financial adviser or tax adviser for advice. None of the Company, Collins Stewart or any of their respective representatives is making any representation to any offeree or purchaser or acquirer of the New Shares regarding the legality of an investment in the New Shares by such offeree or purchaser or acquirer under the laws applicable to such offeree or purchaser or acquirer.

In making an investment decision, each investor must rely on its own examination, analysis and enquiry of the Company and the terms of the Firm Placing and Placing and Open Offer, including the merits and risks involved.

The content of the Group's website does not form part of this document.

Capitalised terms have the meanings ascribed to them in Part X ("*Definitions*") of this document.

Certain information in relation to the Group is incorporated by reference into this document as set out in Part IX ("*Documentation Incorporated by Reference*") of this document.

General notice

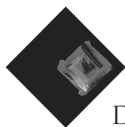
Nothing contained in this document is intended to constitute investment, legal, tax, accounting or other professional advice. You should consult with an appropriate professional for specific advice rendered on the basis of your situation.

**DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE
AND ADVISERS**

Directors	David Jenkins (<i>Chairman</i>) Michael Marx (<i>Chief Executive</i>) Julian Barwick (<i>Executive Director</i>) Matthew Weiner (<i>Executive Director</i>) Graham Prothero (<i>Finance Director</i>) Paul Manduca (<i>Non-executive Director</i>) Victoria Mitchell (<i>Non-executive Director</i>) Michael Soames (<i>Non-executive Director</i>) Each of the Directors' business addresses is the Company's registered and head office as listed below.
Company Secretary	Stephen Lanes
Registered and head office	Portland House Bressenden Place London SW1E 5DS
Telephone	020 7828 4777 or, when dialling from outside the UK, +44 20 7828 4777
Financial Adviser, Sponsor, Broker and Underwriter	Collins Stewart Europe Limited 88 Wood Street London EC2V 7QR
Legal Adviser to the Company	Linklaters LLP One Silk Street London EC2Y 8HQ
Legal Adviser to Collins Stewart	Nabarro LLP Lacon House 84 Theobald's Road London WC1X 8RW
Registered Auditors and Reporting Accountants	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH
Registrar	Capita Registrars Limited The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Receiving Agent	Capita Registrars Limited Corporate Actions The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

PART I

LETTER FROM THE CHAIRMAN OF DEVELOPMENT SECURITIES PLC



DEVELOPMENT
SECURITIES PLC

(Incorporated and registered in England and Wales with registered no. 1528784)

Registered Office:

Development Securities PLC
Portland House
Bressenden Place
London SW1E 5DS

24 June 2009

Dear Shareholder

Capital raising by way of a Firm Placing of 16,666,667 New Shares and Placing and Open Offer of 24,986,593 New Shares at 240 pence per New Share to Qualifying Shareholders

1. Introduction

On 24 June 2009, the Board announced a share issue to raise proceeds of approximately £94.0 million, net of expenses, by way of the Firm Placing and Placing and Open Offer. The terms and conditions of the Open Offer are set out in full in Part III ("*Terms and Conditions of the Open Offer*") of this document. The Issue Price represents a 9.1 per cent. discount to the closing middle-market price of 264 pence per Ordinary Share on 23 June 2009, being the last Business Day before the announcement of the Firm Placing and Placing and Open Offer.

16,666,667 New Shares will be issued through the Firm Placing and 24,986,593 New Shares will be issued through the Placing and Open Offer.

The purpose of this letter is to set out the background to, reasons for and details of the Firm Placing and Placing and Open Offer and to explain why the Directors believe it is in the best interests of the Company and the Shareholders as a whole.

2. Background to and reasons for the Firm Placing and Placing and Open Offer

Development Securities' business focuses on UK commercial property development and also UK property investment. Its principal objective is to carry out substantial and complex development in a risk-averse manner with a view to generating returns for its shareholders. In recent years, Development Securities' commercial development projects have provided a greater contribution to shareholder returns than property investment.

The principal focus for development activity, through Development Securities' Trading and Development division, has been the provision of large-scale, multi-phase, urban developments in the office, retail and leisure sectors, with sites in central and suburban London and main provincial UK cities. The Directors believe that this is where the reputation and profile of the Company is held in high regard within the UK property market. In addition, the Company develops more modest schemes, either solely or in joint venture, with a focus on shorter term generation of profits and recycling of working capital. The property investment business, through the Investment division, acquires and holds a limited number of investment properties in the UK to provide the Company

with a stable base of income to contribute to overheads and interest costs. The Company also undertakes a serviced office business through its Operating division.

The Company has maintained its principal strategy of developing property assets for third parties, using a mixture of forward-funding, pre-sale, debt finance and joint venture arrangements. The Directors believe that the Company should continue with this focus, given the experience of the senior development management team and the working relationships that have been developed by Development Securities with the relevant local authorities, commercial property agents, funding partners and banks.

The UK's property markets have a record of responding to major shifts in both supply and demand. In recent times, the rental cycle peaked in 1988, then again in 2000 and most recently in 2007. Since the peak in 2007, capital values in these markets have declined markedly reflecting primarily softening yields and falling rental values. To the end of May 2009, this fall in values from the peak in 2007 has been 43.6 per cent. as measured by IPD. The Directors believe that this decline in values will continue further and is reflected in the current discounts at which UK property companies' shares are trading to their historical net asset values. However, given the rapid rate of this decline in values, the Directors believe that properties potentially suitable for development or refurbishment, or to enhance the Company's investment portfolio, may be available to be purchased at attractive levels.

Historical analysis of the property cycles indicates that it has taken two to four years from a low point for the market to recover to a point where risks and returns on development projects start to become commercially attractive to institutional property investors. If such a cycle is to be repeated, in order for the Company to participate in the early years of the cycle and benefit from any upturn, the Directors believe that they need to position the Company so as to be able to secure development roles in the near term. At this relatively early stage in the property cycle, property development frequently requires developers such as Development Securities to provide a higher level of financing or equity commitment to developments than is normally the case. Therefore, in order to take full advantage of the eventual expected upturn both in central London and in wider London and provincial property markets, the Group will require additional financial resources to enable it to make the equity commitments required to co-invest and to secure a participation in potential development projects. Current market conditions, and the constraint on bank lending to development projects, are resulting in a number of smaller, shorter term opportunities for the Company's Trading and Development activity. In addition, the Directors believe that these conditions offer opportunities to strengthen the Group's investment property portfolio including some opportunities to acquire assets which may in the longer term represent redevelopment projects.

As at 31 December 2008, the Company reported an investment portfolio valued at £134.1 million and cash of £60.7 million. The Company has a development portfolio of nine projects at varying stages of completion, which management estimates has a market value in aggregate upon completion in excess of £600 million. Development Securities has largely avoided acquisitions of over-priced property opportunities in the lead up to the market highs seen in 2007, and has also maintained its prudent approach to leverage. As a consequence, the proposed Firm Placing and Placing and Open Offer is focused on enabling Development Securities to invest in new assets that have declined in value since market highs, as opposed to applying funds to the repayment of debt. The Company intends to use the Net Proceeds from the Firm Placing and Placing and Open Offer primarily to take advantage of the current property market dislocation, as described in paragraph 5 below.

3. Principal terms of the Firm Placing and Placing and Open Offer

Development Securities is proposing to raise approximately £94.0 million, net of expenses, by way of the Firm Placing and Placing and Open Offer. 16,666,667 New Shares will be issued through the Firm Placing and 24,986,593 New Shares will be issued through the Placing and Open Offer.

The share issue is structured as a Firm Placing and Placing and Open Offer to combine the flexibility of enabling existing Shareholders to subscribe as part of the issue on a pre-emptive basis, whilst also being able to satisfy the significant demand received from new investors to subscribe for New Shares in the Company. In addition, by providing for a Firm Placing on a non pre-emptive basis, the Company was able to maximise the Issue Price due to the demand received from potential new

investors. The Directors therefore believe that the Firm Placing and Placing and Open Offer is in the best interests of the Company for the future.

Placing and Open Offer

The Issue Price of 240 pence per Open Offer Share represents a discount of 24 pence (9.1 per cent.) to the closing middle-market price of 264 pence per Ordinary Share on 23 June 2009, being the last Business Day prior to announcement of the Firm Placing and the Placing and Open Offer.

Qualifying Shareholders, on and subject to the terms and conditions of the Open Offer, are being given the opportunity to apply for the Open Offer Shares at the Issue Price pro rata to their holdings of Existing Shares on the Record Date on the basis of:

8 Open Offer Shares for every 13 Existing Shares

Fractions of Open Offer Shares will not be allotted to Qualifying Shareholders in the Open Offer and fractional entitlements under the Open Offer will be rounded down to the nearest whole number of Open Offer Shares.

Qualifying Shareholders may apply for any whole number of Open Offer Shares up to their maximum entitlement which, in the case of Qualifying Non-CREST Shareholders, is equal to the number of Open Offer Entitlements as shown in Box 5 on their Application Form, or, in the case of Qualifying CREST Shareholders, is equal to the number of Open Offer Entitlements standing to the credit of their stock account in CREST. Qualifying CREST Shareholders will receive a credit to their appropriate stock accounts in CREST in respect of their Open Offer Entitlements at 8.00 a.m. on 25 June 2009. Qualifying Shareholders with holdings of Existing Shares in both certificated and uncertificated form will be treated as having separate holdings for the purpose of calculating their entitlements under the Open Offer.

The Placing and Open Offer has been fully underwritten by Collins Stewart and is conditional upon, amongst other things, the Placing Agreement becoming unconditional in all respects and not being terminated. Collins Stewart has agreed under the Placing Agreement to procure subscribers for New Shares not taken up under the Placing and Open Offer or, failing that, to subscribe itself for such New Shares.

Application has been made for the Open Offer Entitlements to be admitted to CREST. It is expected that the Open Offer Entitlements will be admitted to CREST at 8.00 a.m. on 25 June 2009. The Open Offer Entitlements will also be enabled for settlement in CREST at 8.00 a.m. on 25 June 2009. Applications through the CREST system may only be made by the Qualifying Shareholder originally entitled or by a person entitled by virtue of a bona fide market claim.

Qualifying CREST Shareholders should note that, although the Open Offer Entitlements will be admitted to CREST and be enabled for settlement, applications in respect of entitlements under the Open Offer may only be made by the Qualifying Shareholder originally entitled or by a person entitled by virtue of a bona fide market claim raised by Euroclear UK's Claims Processing Unit. Qualifying Non-CREST Shareholders should note that their Application Form is not a negotiable document and cannot be traded.

Some questions and answers on the Placing and Open Offer, together with details of further terms and conditions on which the Placing and Open Offer is made, including the procedure for application and payment, are set out in Parts II ("*Questions and Answers about the Placing and Open Offer*") and III ("*Terms and Conditions of the Open Offer*") of this document and, where relevant, on the applicable Application Form.

The Open Offer is conditional upon, amongst other things, the passing of the Resolutions at the Extraordinary General Meeting and Admission of the Open Offer Shares becoming effective by not later than 8.00 a.m. on 15 July 2009 (or such later time and/or date as the Company and Collins Stewart may agree).

If Admission does not take place on or before 8.00 a.m. on 15 July 2009 (or such later time and/or date as the Company and Collins Stewart may agree), the Open Offer will lapse, any Open Offer Entitlements admitted to CREST will thereafter be disabled and application monies under the Open

Offer will be refunded to the applicants, by cheque (at the applicant's risk) in the case of Qualifying Non-CREST Shareholders and by way of a CREST payment in the case of Qualifying CREST Shareholders, without interest as soon as practicable thereafter. In these circumstances, the Placing to the Conditional Placees will not proceed.

Application has been made to the UK Listing Authority for the Open Offer Shares to be admitted to the Official List and to the London Stock Exchange for the Open Offer Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission will become effective on 15 July 2009 and that dealings for normal settlement in the Open Offer Shares will commence at 8.00 a.m. on the same day.

Any Qualifying Shareholder who has sold or transferred all or part of his/her registered holding(s) of Ordinary Shares prior to the close of business on 24 June 2009 is advised to consult his or her stockbroker, bank or other agent through or to whom the sale or transfer was effected as soon as possible since the invitation to apply for Open Offer Shares under the Open Offer may be a benefit which may be claimed from him/her by the purchasers under the rules of the London Stock Exchange.

The Open Offer Shares, when issued and fully paid, will rank *pari passu* in all respects with the existing issued Ordinary Shares including the right to receive dividends or distributions made, paid or declared after the date of this document save for the final dividend declared for the 2008 financial year, and for any interim dividend that may or may not be declared when the interim results for the first six months of the 2009 financial year are announced. No temporary documents of title will be issued.

Development Securities is proposing to issue 24,986,593 Conditional Placed Shares pursuant to Placee Commitment Letters.

The commitments of the Conditional Placees are subject to clawback in respect of valid applications for Open Offer Shares by Qualifying Shareholders. Further details of the Placee Commitment Letters are set out in Part VIII ("*Additional Information*") of this document.

Firm Placing

Development Securities is proposing to issue 16,666,667 Firm Placed Shares pursuant to Placee Commitment Letters.

The Firm Placing has been fully underwritten by Collins Stewart pursuant to the Placing Agreement and is conditional, amongst other things, on the passing of the Resolutions at the Extraordinary General Meeting and Admission.

Further details of the Placee Commitment Letter are set out in Part VIII ("*Additional Information*") in this document.

4. Effect of the Firm Placing and the Placing and Open Offer

Upon completion of the Firm Placing and the Placing and Open Offer, the New Shares will represent approximately 50.6 per cent. of the Company's Enlarged Issued Share Capital and the Existing Shares will represent approximately 49.4 per cent. of the Company's Enlarged Issued Share Capital. New Shares issued through the Placing and Open Offer and New Shares issued through the Firm Placing will account for approximately 60.0 and 40.0 per cent. respectively of the total New Shares issued through the Firm Placing and Placing and Open Offer.

Shareholders should note that the Open Offer is not a rights issue. Qualifying Shareholders should be aware that in the Open Offer, unlike in a rights issue, any Open Offer Shares not applied for will not be sold in the market on behalf of or placed for the benefit of Qualifying Shareholders who do not apply under the Open Offer, but will be subscribed for under the Placing for the benefit of the Company. If any Shareholder does not take up its Open Offer Entitlements, then, following the issue of the Open Offer Shares pursuant to the Open Offer, its interest in the Company will be diluted by approximately 50.6 per cent.

Over the longer term, the Firm Placing and Placing and Open Offer are expected to be accretive to the Group's earnings.

5. Use of proceeds

The Firm Placing and Placing and Open Offer is expected to raise approximately £94.0 million net of expenses. The Net Proceeds from the Firm Placing and Placing and Open Offer will be used by Development Securities to seek to capitalise on new opportunities early in the property development cycle as well as to enhance the Group's investment portfolio as and when attractive opportunities are identified. The Net Proceeds have not been allocated to specific projects as no commitments have been made; however, the Directors are appraising a number of opportunities, both in central London and in wider London and provincial markets. Such opportunities are distinct from those currently under offer, as described in paragraph 6 below, which are intended to be funded through existing resources and appropriate levels of debt finance.

To participate in new development opportunities early in the property cycle invariably requires an element of equity investment or financing commitment from the developer. The Net Proceeds of the Firm Placing and Placing and Open Offer will strengthen Development Securities' negotiating position with potential vendors, forward-funding partners and occupiers. Property acquisitions at this early stage in the property cycle may well include buildings or sites that each have more than one prospective option in the way that latent value may be crystallised in either the short or medium term, e.g. tenanted properties that offer Development Securities rental income with the option of later redevelopment.

Although the Directors believe that lending covenants in a large number of loans financing development and investment properties in the UK are close to being breached, there is little evidence of lenders requiring the sale of such properties. In order to maximise the Group's opportunities, the Group may seek alternative access to properties in the UK by participating in the acquisition from lenders of existing loans secured on such properties. The Company's focus will be on commercial property rather than residential property. Such acquisitions would only relate to specific properties that have been extensively researched by the Group and should offer the prospect of attractive returns. Where the security is eventually enforced in the event of either a possible borrower default of some kind and/or an acceleration of the loan or other obligation, repayment of which is secured on the relevant property, the potential exists for the Group to participate (subject to certain legal limitations, e.g. on enforcing the security or the rights of other creditors) in the underlying property by way of development or further added value initiatives relating to the property. It is intended that such acquisitions should provide the Group with flexible access to UK property assets at a time when there is a limited conventional supply of suitable opportunities in the marketplace. Any such investments are likely to be made in conjunction with a funding partner, although more modest targets could be acquired by the Company on its own. In any event, the Directors anticipate that any such purchases would represent a relatively small proportion of the Company's business, and it is unlikely that the Company's participation in any one loan would exceed £5 million.

Pending use of the Net Proceeds of the Firm Placing and Placing and Open Offer as described above, Development Securities will hold the money in bank accounts or, where appropriate, through investment in UK government securities with a maturity of not more than 12 months or similar securities.

6. Current trading and prospects

The market challenges that were evident in 2008 have continued in 2009, reflecting softening yields and falling rental values (the IPD Index has shown falls of 3.0 per cent., 3.1 per cent., 3.1 per cent., 2.3 per cent. and 1.6 per cent. respectively for January, February, March, April and May 2009). In addition, the prospects for the UK economy in 2009 and 2010 remain uncertain with HM Treasury's comparison of independent forecasts for the UK economy, published in May 2009, suggesting on average negative GDP growth of 3.8 per cent. in 2009, improving in 2010. In addition, bank lending to the property sector remains very highly constrained. In the opinion of the Directors, these current market conditions are likely to continue in the near term. Accordingly, further reductions in the Company's net asset value are anticipated, in line with the underlying property market trends. The level of development earnings which Development Securities was able to generate in recent years is unlikely to be repeated in the next few years as no significantly profitable development projects will be concluded until the market enters a more positive phase. The Directors have responded to these

market challenges by implementing a voluntary 10 per cent. reduction in remuneration for the Executive Directors and a voluntary 7.5 per cent. reduction for senior members of the management team with effect from January 2009.

In the near term, Development Securities will be focusing on securing participation in development sites that the Directors believe will provide potentially attractive returns in the future, as well as enhancing its investment portfolio where attractive opportunities exist. The Group continues to search for appropriate opportunities to invest surplus cash resources into investment properties to take advantage of relatively high yields available. The Directors intend to target investments at yields of between 8 per cent. and 15 per cent. Since 1 January 2009, the Company has made offers on several investment properties with a typical size of 100,000 square feet and commitments ranging from £2 million to £15 million. In appraising such opportunities, the Company will consider the availability of appropriate debt finance, which, if required, would be secured before any commitment was undertaken. Such commitments would not be funded through the Net Proceeds. This reflects a strategic decision by the Directors to reduce the Group's cash weighting in favour of investment property and is not a prerequisite for the successful execution of the Group's longer term strategy. As at the date of this document, no commitments have been made but the Directors believe that some of these offers may proceed to contract in the near term, subject to financing.

Similarly, the Group continues to evaluate prospective development projects, but since 31 December 2008, it has undertaken no new commitments. Since 31 December 2008, the Group has been in negotiations to make further investments in joint ventures of approximately £5 million over the next two to four years, which will be financed from existing cash resources.

In addition, the Company is continuing to develop its projects at Two Kingdom Street, PaddingtonCentral, St Bride Street, London EC4, CityPark, Manchester and Weeke Local Centre, Winchester, all of which are proceeding substantially on time and budget.

The Directors believe that the Group's cash balances remain strong. Since 31 December 2008, the Company has renegotiated minimum net worth covenants in respect of three financial facilities in order to accommodate actual and prospective falls in net asset value. The details of these amendments are disclosed in the notes to the table in paragraph 9.2 of Part V ("*Operating and Financial Review of Development Securities*") of this document.

7. Dividends and dividend policy

The New Shares will, when issued and fully paid, rank *pari passu* in all aspects with the Existing Shares, including the right to receive all dividends and other distributions (if any) declared, paid or made by Development Securities after the date of this document, save for the final dividend declared for the 2008 financial year, and for any interim dividend that may or may not be declared when the interim results for the first six months of the 2009 financial year are announced. With respect to the 2009 financial year, it is the current intention of the Directors to maintain dividends at current levels, returning to a progressive dividend policy once the property market recovers and economic activity is sustained by positive GDP growth.

References to dividends and dividend policy should not be interpreted as a dividend forecast or profit forecast.

8. Extraordinary General Meeting

The Circular sent to Shareholders on 24 June 2009 included a notice convening the Extraordinary General Meeting to be held on the 11th Floor, Portland House, Bressenden Place, London SW1E 5DS at 2.30 p.m. on 10 July 2009. The purpose of the Extraordinary General Meeting is to consider and, if thought fit, to pass certain Resolutions necessary to authorise and carry out the Firm Placing and Placing and Open Offer.

A summary and explanation of the Resolutions is set out in the Circular. However, Shareholders should also read the full text of the Resolutions contained in the Notice which forms part of the Circular.

A form of proxy was enclosed with the Notice. To be effective, Forms of Proxy must be completed and received by the Registrar at Capita Registrars Limited (Proxies), PO Box 25, Beckenham, Kent BR3 4BR by 2.30 p.m. on 8 July 2009.

9. Overseas Shareholders

The attention of Overseas Shareholders who have registered addresses outside the UK, or who are citizens of or resident or located in countries other than the UK, is drawn to the information in paragraph 6 of Part III ("*Terms and Conditions of the Open Offer*") of this document.

10. UK taxation

Certain information about UK taxation in relation to the Firm Placing and Placing and Open Offer is set out in Part VII ("*Taxation*") of this document. If you are in any doubt as to your tax position, or you are subject to tax in a jurisdiction other than the UK, you should consult your own independent tax adviser without delay.

11. Action to be taken

(a) *In respect of the Extraordinary General Meeting*

You will have been sent a Form of Proxy for use by Shareholders at the Extraordinary General Meeting or any adjournment thereof. Whether or not you intend to be present at the Extraordinary General Meeting, you are requested to complete the Form of Proxy in accordance with the instructions printed on it and return it as soon as possible and in any case so as to be received by Development Securities' Registrar, Capita Registrars, no later than 2.30 p.m. on 8 July 2009. The return of a Form of Proxy will not prevent you from attending the meeting and voting in person if you wish.

Facilities for attendees with disabilities will be in place at the Extraordinary General Meeting; please contact the Company Secretary if you require assistance.

(b) *In respect of the Firm Placing and Placing and Open Offer*

If you are a Qualifying Non-CREST Shareholder, you will receive an Application Form which gives details of your maximum entitlement under the Open Offer (as shown by the number of Open Offer Entitlements set out in Box 5). If you wish to apply for Open Offer Shares under the Open Offer, you should complete the Application Form in accordance with the procedure for application set out in paragraph 4.1 of Part III ("*Terms and Conditions of the Open Offer*") of this document and on the Application Form itself. Completed Application Forms, accompanied by full payment in accordance with the instructions in paragraph 4.1 of Part III ("*Terms and Conditions of the Open Offer*") of this document, should be posted in the accompanying pre-paid envelope or returned by post or by hand (during normal business hours only) to Capita Registrars at Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU so as to arrive as soon as possible and in any event so as to be received by no later than 11.00 a.m. on 9 July 2009. If you do not wish to apply for any Open Offer Shares under the Open Offer, you should not complete or return the Application Form.

If you are a Qualifying CREST Shareholder, no Application Form will be sent to you and you will receive a credit to your appropriate stock account in CREST in respect of the Open Offer Entitlements representing your maximum entitlement under the Open Offer. You should refer to the procedure for application set out in paragraph 4.2 of Part III ("*Terms and Conditions of the Open Offer*") of this document. The relevant CREST instructions must have been settled in accordance with the instructions in paragraph 4.2 of Part III ("*Terms and Conditions of the Open Offer*") of this document by no later than 11.00 a.m. on 9 July 2009.

Qualifying CREST Shareholders who are CREST sponsored members should refer to their CREST sponsors regarding the action to be taken in connection with this document and the Open Offer.

If you are in any doubt as to the action you should take, you should immediately seek your own personal financial advice from an independent professional adviser authorised under the FSMA.

12. Directors' intentions regarding the Firm Placing and Placing and Open Offer

The Directors are fully supportive of the Firm Placing and Placing and Open Offer. All the Directors who are Shareholders at the Record Date will participate in the Open Offer, and in aggregate intend to subscribe for a total of 190,074 Open Offer Shares. Following the Firm Placing and Placing and Open Offer, the Directors will beneficially own, in aggregate, approximately 0.9 per cent. of the Enlarged Issued Share Capital.

13. Further information

Your attention is drawn to the further information set out in Parts II ("*Questions and Answers about the Placing and Open Offer*") to X ("*Definitions*") of this document. Qualifying Shareholders should read the whole of this document and not rely solely on the information set out in this letter. Shareholders should consider fully and carefully the risk factors associated with Development Securities and the Firm Placing and Placing and Open Offer as set out in the section headed "*Risk Factors*" on pages 10 to 19 of this document.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David Jenkins', with a horizontal line underneath.

David Jenkins
Chairman

PART II

QUESTIONS AND ANSWERS ABOUT THE PLACING AND OPEN OFFER

The questions and answers set out in this Part II are intended to be in general terms only and, as such, you should read Part III (“Terms and Conditions of the Open Offer”) of this document for full details of what action to take. If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank, fund manager, solicitor, accountant or other appropriate independent financial adviser, who is authorised under the FSMA if you are in the United Kingdom, or, if not, from another appropriately authorised independent financial adviser.

This Part II deals with general questions relating to the Placing and Open Offer and more specific questions relating principally to persons resident in the United Kingdom who hold their Ordinary Shares in certificated form only. If you are an Overseas Shareholder, you should read paragraph 6 of Part III (“Terms and Conditions of the Open Offer”) of this document and you should take professional advice as to whether you are eligible and/or you need to observe any formalities to enable you to take up your Open Offer Entitlements. If you hold your Existing Shares in uncertificated form (that is, through CREST), you should read Part III (“Terms and Conditions of the Open Offer”) of this document for full details of what action you should take. If you are a CREST sponsored member, you should also consult your CREST sponsor. If you do not know whether your Existing Shares are in certificated or uncertificated form, please call the Shareholder Helpline on 0871 664 0321 (from inside the United Kingdom) (calls to this number are charged at 10 pence per minute from a BT landline, other telephone provider costs may vary), or +44 20 8639 3399 (from outside the United Kingdom). Please note the Shareholder Helpline will be open between 9.00 a.m. and 5.00 p.m. on any Business Day. Please note that, for legal reasons, the Shareholder Helpline is only able to provide information contained in this document and information relating to Development Securities’ register of members and is unable to give advice on the merits of the Open Offer or to provide legal, business, financial, tax or investment advice.

The contents of this document should not be construed as legal, business, accounting, tax, investment or other professional advice. Each prospective investor should consult his, her or its own appropriate professional advisers for advice. This document is for your information only and nothing in this document is intended to endorse or recommend a particular course of action.

1. What is a placing and open offer?

A placing and open offer is a way for companies to raise money. Companies usually do this by giving their existing shareholders a right to acquire further shares at a fixed price in proportion to their existing shareholdings (the “open offer”) and providing for other investors to acquire any shares not bought by the Company’s existing shareholders (the “placing”). The fixed price is normally at a discount to the market price of the existing ordinary shares prior to the announcement of the open offer.

This Open Offer is an invitation by Development Securities to Qualifying Shareholders to apply to acquire an aggregate of 24,986,593 Open Offer Shares at a price of 240 pence per Open Offer Share. If you hold Ordinary Shares on the Record Date or have a *bona fide* market claim, other than, subject to certain exceptions, where you are a Shareholder with a registered address or located in the United States or the Excluded Territories, you will be entitled to buy Open Offer Shares under the Open Offer.

The Open Offer is being made on the basis of 8 Open Offer Shares for every 13 Existing Shares held by Qualifying Shareholders on the Record Date. If your entitlement to Open Offer Shares is not a whole number, you will not be entitled to buy an Open Offer Share in respect of any fraction of an Open Offer Share and your entitlement will be rounded down to the nearest whole number.

Open Offer Shares are being offered to Qualifying Shareholders in the Open Offer at a discount to the share price on 23 June 2009, the last dealing day before the details of the Placing and Open

Offer and the Firm Placing were announced. The Issue Price of 240 pence per Open Offer Share represents a discount of 24 pence (9.1 per cent.) to the closing middle-market price of 264 pence per Ordinary Share on 23 June 2009, being the last Business Day prior to announcement of the Firm Placing and the Placing and Open Offer.

Applications by Qualifying Shareholders will be satisfied in full up to the amount of their individual Open Offer Entitlement.

Unlike in a rights issue, Application Forms are not negotiable documents and neither they nor the Open Offer Entitlements can themselves be traded.

2. I hold my Existing Shares in certificated form. How do I know I am eligible to participate in the Open Offer?

If you receive an Application Form and, subject to certain exceptions, are not a holder with a registered address or located in the United States or the Excluded Territories, then you should be eligible to participate in the Open Offer as long as you have not sold all of your Existing Shares before 8.00 a.m. on 24 June 2009 (the time when the Existing Shares are expected to be marked “ex-entitlement” by the London Stock Exchange).

3. I hold my Existing Shares in certificated form. How do I know how many Open Offer Shares I am entitled to take up?

If you hold your Existing Shares in certificated form and, subject to certain exceptions, do not have a registered address and are not located in the United States or the Excluded Territories, you will be sent an Application Form that shows:

- how many Existing Shares you held at the close of business on the Record Date;
- how many Open Offer Shares are comprised in your Open Offer Entitlement; and
- how much you need to pay if you want to take up your right to buy all your entitlement to the Open Offer Shares.

If you would like to apply for any of or all of the Open Offer Shares comprised in your Open Offer Entitlement you should complete the Application Form in accordance with the instructions printed on it and the information provided in this document. Completed Application Forms should be posted, along with a cheque or banker’s draft drawn in the appropriate form, in the accompanying pre-paid envelope or returned by post or by hand (during normal office hours only), to the Capita Registrars, at Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU (who will act as Receiving Agent in relation to the Open Offer) so as to be received by no later than 11.00 a.m. on 9 July 2009, after which time Application Forms will not be valid.

4. I hold my Existing Shares in certificated form and am eligible to receive an Application Form. What are my choices in relation to the Open Offer?

(a) *If you do not want to take up your Open Offer Entitlement*

If you do not want to take up the Open Offer Shares to which you are entitled, you do not need to do anything. In these circumstances, you will not receive any Open Offer Shares. You will also not receive any money when the Open Offer Shares you could have taken up are sold, as would happen under a rights issue. You cannot sell your Application Form or your Open Offer Entitlement to anyone else.

If you do not take up your Open Offer Entitlement, then, following the issue of the Open Offer Shares pursuant to the Open Offer, your interest in the Company will be diluted by approximately 50.6 per cent.

(b) *If you want to take up some but not all of your Open Offer Entitlement*

If you want to take up some but not all of the Open Offer Shares to which you are entitled, you should write the number of Open Offer Shares you want to take up in Box 2 of your Application Form; for example, if you are entitled to take up 50 shares but you only want to take up 25 shares, then you should write “25” in Box 2. To work out how much you

need to pay for the Open Offer Shares, you need to multiply the number of Open Offer Shares you want (in this example, “25”) by £2.40, which is the price in pounds of each Open Offer Share (giving you an amount of £60.0 in this example). You should write this amount in Box 3, rounding down to the nearest whole pence and this should be the amount your cheque or banker’s draft is made out for. You should then return the completed Application Form, together with a cheque or banker’s draft for that amount, in the accompanying pre-paid envelope or return by post or by hand (during normal office hours only), to Capita Registrars, at Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU (who will act as Receiving Agent in relation to the Open Offer) so as to be received by no later than 11.00 a.m. on 9 July 2009, after which time Application Forms will not be valid.

All payments must be in pounds sterling and made by cheque or banker’s draft made payable to “Capita Registrars Limited re: Development Securities PLC Open Offer” and crossed “A/C Payee Only”. Cheques or banker’s drafts must be drawn on a bank or building society or branch of a bank or building society in the United Kingdom or the Channel Islands which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques and banker’s drafts to be cleared through the facilities provided by any of those companies or committees and must bear the appropriate sort code in the top right-hand corner and must be for the full amount payable on application. Third party cheques will not be accepted with the exception of building society cheques or banker’s drafts where the building society or bank has confirmed the name of the account holder and the number of an account held in the applicant name at the building society or bank by stamping or endorsing the cheque or draft to such effect. The account name should be the same as that shown on the application. Post-dated cheques will not be accepted.

Cheques or banker’s drafts will be presented for payment upon receipt. The Company reserves the right to instruct Capita Registrars to seek special clearance of cheques and banker’s drafts to allow the Company to obtain value for remittances at the earliest opportunity. No interest will be paid on payments made before they are due. It is a term of the Open Offer that cheques shall be honoured on first presentation and the Company may elect to treat as invalid acceptances in respect of which cheques are not so honoured. All documents, cheques and banker’s drafts sent through the post will be sent at the risk of the sender. Payments via CHAPS, BACS or electronic transfer will not be accepted.

A definitive share certificate will then be sent to you for the Open Offer Shares that you take up. Your definitive share certificate for Open Offer Shares is expected to be despatched to you by no later than 22 July 2009.

(c) *If you want to take up all of your Open Offer Entitlement*

If you want to take up all of the Open Offer Shares to which you are entitled, all you need to do is send the Application Form, together with your cheque or banker’s draft for the amount (as indicated in Box 6 of your Application Form), payable to “Capita Registrars Limited re: Development Securities PLC Open Offer” and crossed “A/C payee only”, in the accompanying pre-paid envelope or return by post or by hand (during normal office hours only), to Capita Registrars, at Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU (who will act as Receiving Agent in relation to the Open Offer) so as to be received by no later than 11.00 a.m. on 9 July 2009, after which time Application Forms will not be valid. If you post your Application Form by first-class post, you should allow at least four Business Days for delivery.

All payments must be in pounds sterling and made by cheque or banker’s draft made payable to “Capita Registrars Limited re: Development Securities PLC Open Offer” and crossed “A/C Payee Only”. Cheques or banker’s drafts must be drawn on a bank or building society or branch of a bank or building society in the United Kingdom or Channel Islands which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques and banker’s drafts to be cleared through the facilities provided by any of those companies or committees and

must bear the appropriate sort code in the top right-hand corner. Third party cheques will not be accepted with the exception of building society cheques or banker's drafts where the building society or bank has confirmed the name of the account holder and the number of an account held in the applicant name at the building society or bank by stamping or endorsing the cheque or draft to such effect. The account name should be the same as that shown on the application. Post-dated cheques will not be accepted.

A definitive share certificate will then be sent to you for the Open Offer Shares that you take up. Your definitive share certificate for Open Offer Shares is expected to be despatched to you by no later than 22 July 2009.

5. I hold my Existing Shares in uncertificated form in CREST. What do I need to do in relation to the Open Offer?

CREST members should follow the instructions set out in Part III ("*Terms and Conditions of the Open Offer*") of this document. Persons who hold Existing Shares through a CREST member should be informed by the CREST member through which they hold their Existing Shares of the number of Open Offer Shares which they are entitled to acquire under the Open Offer and should contact them should they not receive this information.

6. I acquired my Existing Shares prior to the Record Date and hold my Existing Shares in certificated form. What if I do not receive an Application Form or I have lost my Application Form?

If you do not receive an Application Form, this probably means that you are not eligible to participate in the Open Offer. Some Non-CREST Shareholders, however, will not receive an Application Form but may still be eligible to participate in the Open Offer, namely:

- Qualifying CREST Shareholders who held their Existing Shares in uncertificated form on 23 June 2009 and who have converted them to certificated form;
- Qualifying Non-CREST Shareholders who bought Existing Shares before 8.00 a.m. on 23 June 2009 but were not registered as the holders of those shares at the close of business on 23 June 2009; and
- certain Overseas Shareholders.

If you do not receive an Application Form but think that you should have received one or you have lost your Application Form, please contact the Shareholder Helpline on 0871 664 0321 (from inside the United Kingdom) (calls to this number are charged at 10 pence per minute from a BT landline, other telephone provider costs may vary), or +44 20 8639 3399 (from outside the United Kingdom) between 9.00 a.m. and 5.00 p.m. on any Business Day. For legal reasons, the Shareholder Helpline will only be able to provide information contained in this document and information relating to Development Securities' register of members and will be unable to give advice on the merits of the Open Offer or to provide financial, tax or investment advice.

7. I am a Qualifying Shareholder. Do I have to apply for all the Open Offer Shares I am entitled to apply for?

You can take up any number of the Open Offer Shares allocated to you under your Open Offer Entitlement. Your maximum Open Offer Entitlement is shown on your Application Form. Any applications by a Qualifying Shareholder for a number of Open Offer Shares which is equal to or less than that person's Open Offer Entitlement will be satisfied, subject to the Open Offer becoming unconditional. If you decide not to take up all of the Open Offer Shares comprised in your Open Offer Entitlement, then your proportion of the ownership and voting interest in Development Securities will be reduced. Please refer to answers (a), (b) and (c) of Question 4 for further information.

Qualifying Shareholders should be aware that the Open Offer is not a rights issue. As such, Qualifying Non-CREST Shareholders should also note that their Application Forms are not negotiable documents and cannot be traded. Qualifying CREST Shareholders should note that,

although the Open Offer Entitlements will be admitted to CREST, they will have limited settlement capabilities (for the purposes of market claims only), the Open Offer Entitlements will not be tradeable or listed and applications in respect of the Open Offer may only be made by the Qualifying Shareholders originally entitled or by a person entitled by virtue of a bona fide market claim. Open Offer Shares for which application has not been made under the Open Offer will not be sold in the market for the benefit of those who do not apply under the Open Offer and Qualifying Shareholders who do not apply to take up their Open Offer Entitlement will have no rights under the Open Offer or receive any proceeds from it. Any Open Offer Shares for which application has not been made in respect of the Open Offer shall be placed with any places and, to the extent they are not placed, will, subject to the terms of the Placing Agreement, be acquired by Collins Stewart, with the proceeds being retained for the benefit of Development Securities.

8. What if I change my mind?

If you are a Qualifying Non-CREST Shareholder, once you have sent your Application Form and payment to the Registrar, you cannot withdraw your application or change the number of Open Offer Shares for which you have applied, except in the very limited circumstances which are set out in this document.

9. What if the number of Open Offer Shares to which I am entitled is not a whole number: am I entitled to fractions of Open Offer Shares?

If the number is not a whole number, you will not receive a fraction of an Open Offer Share and your entitlement will be rounded down to the nearest whole number.

10. I hold my Existing Shares in certificated form. What should I do if I want to spend more or less than the amount set out in Box 6 of the Application Form?

You cannot spend more than the amount set out in Box 6. If you want to spend less than the amount set out in Box 6, you should divide the amount you want to spend by £2.40 (being the price, in pounds, of each Open Offer Share under the Open Offer). This will give you the number of Open Offer Shares you should apply for. You can only apply for a whole number of Open Offer Shares. For example, if you want to spend £100, you should divide £100 by £2.40. You should round that down to the nearest whole number (in this example, 41), to give you the number of shares you want to take up. Write that number (in this example, 41) in Box 2. To then get an accurate amount to put on your cheque or banker's draft, you should multiply the whole number of Open Offer Shares you want to apply for (in this example, 41) by £2.40 and then fill in that amount rounded down to the nearest whole pence (in this example being, rounded down to the nearest whole pence, £98.40) in Box 3 and on your cheque or banker's draft accordingly.

11. What if I hold options and awards under the Development Securities Employee Share Plans?

In accordance with the rules of each of the Development Securities Employee Share Plans and if appropriate, the number of Shares under award and/or any option exercise prices may be adjusted to take account of the Open Offer. If this is the case, participants will be contacted separately.

12. I hold my Existing Shares in certificated form. What should I do if I have sold some or all of my Existing Shares?

If you hold shares in Development Securities directly and you sell some or all of your Existing Shares before 25 June 2009, you should contact the buyer or the person/company through whom you sell your shares. The buyer may be entitled to apply for Open Offer Shares under the Open Offer.

13. I hold my Existing Shares in certificated form. How do I pay?

Completed Application Forms should be returned with a cheque or banker's draft drawn in the appropriate form. All payments must be in pounds sterling and made by cheque or banker's draft made payable to "Capita Registrars Limited re: Development Securities PLC Open Offer" and crossed "A/C Payee Only". Cheques or banker's drafts must be drawn on a bank or building society

or branch of a bank or building society in the United Kingdom or the Channel Islands which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided by any of those companies or committees and must bear the appropriate sort code in the top right-hand corner. Third-party cheques will not be accepted with the exception of building society cheques or banker's drafts where the building society or bank has confirmed the name of the account holder and the number of an account held in the applicant name at the building society or bank by stamping or endorsing the cheque or draft to such effect. The account name should be the same as that shown on the application. Post-dated cheques will not be accepted.

14. Will the Existing Shares that I hold now be affected by the Open Offer?

If you decide not to apply for any of the Open Offer Shares to which you are entitled under the Open Offer, or only apply for some of your entitlement, your proportionate ownership and voting interest in Development Securities will be reduced.

15. I hold my Existing Shares in certificated form. Where do I send my Application Form?

You should send your completed Application Form in the accompanying pre-paid envelope or returned by post or by hand (during normal office hours only), together with the monies in the appropriate form, to Capita Registrars, at Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU (who will act as Receiving Agent in relation to the Open Offer). If you post your Application Form by first-class post, you should allow at least four Business Days for delivery.

If you do not want to take up or apply for Open Offer Shares, then you need take no further action.

16. I hold my Existing Shares in certificated form. When do I have to decide if I want to apply for Open Offer Shares?

The Receiving Agent must receive the Application Form by no later than 11.00 a.m. on 9 July 2009, after which time Application Forms will not be valid. If an Application Form is being sent by first-class post in the UK, Qualifying Shareholders are recommended to allow at least four working days for delivery.

17. I hold my Existing Shares in certificated form. When will I receive my new share certificate?

It is expected that Capita Registrars will post all new share certificates by 22 July 2009.

18. What should I do if I live outside the United Kingdom?

Your ability to apply to acquire Open Offer Shares may be affected by the laws of the country in which you live and you should take professional advice as to whether you require any governmental or other consents or need to observe any other formalities to enable you to take up your Open Offer Entitlement. Shareholders with registered addresses or who are located in the United States or the Excluded Territories are, subject to certain exceptions, not eligible to participate in the Open Offer. Your attention is drawn to the information in paragraph 6 of Part III ("*Terms and Conditions of the Open Offer*") of this document.

19. Further assistance

Should you require further assistance, please call the Shareholder Helpline on 0871 664 0321 (from inside the United Kingdom) (calls to this number are charged at 10 pence per minute from a BT landline, other telephone provider costs may vary), or +44 20 8639 3399 (from outside the United Kingdom), which is available between the hours of 9.00 a.m. to 5.00 p.m. on any Business Day. Please note that, for legal reasons, the Shareholder Helpline is only able to provide information contained in this document and information relating to Development Securities' register of members and is unable to give advice on the merits of the Open Offer or to provide legal, business, accounting, tax, investment or other professional advice.

PART III

TERMS AND CONDITIONS OF THE OPEN OFFER

1. Introduction

The Company is proposing to issue 41,653,260 New Shares to raise, through a Firm Placing and Placing and Open Offer, approximately £94.0 million, net of expenses.

Upon completion of the Firm Placing and the Placing and Open Offer, the New Shares will represent approximately 50.6 per cent. of the Company's Enlarged Issued Share Capital and the Existing Shares will represent approximately 49.4 per cent. of the Enlarged Issued Share Capital. New Shares issued through the Placing and Open Offer and New Shares issued as part of the Firm Placing will account for approximately 60.0 per cent. and 40.0 per cent. respectively of the total New Shares.

The Record Date for entitlements under the Open Offer for Qualifying CREST Shareholders and Qualifying Non-CREST Shareholders is expected to be close of business on 23 June 2009. Application Forms are expected to be posted to Qualifying Non-CREST Shareholders on or around 24 June 2009. Open Offer Entitlements are expected to be credited to stock accounts of Qualifying CREST Shareholders in CREST on 25 June 2009. The latest time and date for receipt of completed Application Forms and payment in full under the Open Offer and settlement of relevant CREST instructions (as appropriate) is expected to be 11.00 a.m. on 9 July 2009 with Admission and commencement of dealings in Open Offer Shares expected to take place at 8.00 a.m. on 15 July 2009.

This document and, for Qualifying Non-CREST Shareholders only, the Application Forms contain the formal terms and conditions of the Open Offer. Your attention is drawn to paragraph 4 below which gives details of the procedure for application and payment for the Open Offer Shares. The attention of Overseas Shareholders is drawn to paragraph 6 below.

The Open Offer Shares will, when issued and fully paid, rank equally in all respects with Existing Shares, including the right to receive all dividends or other distributions (if any) made, paid or declared after the date of this document, save for the final dividend declared for the 2008 financial year, and for any interim dividend that may or may not be declared when the interim results for the first six months of the 2009 financial year are announced.

Development Securities is proposing to issue 24,986,593 Open Offer Shares at the Issue Price subject to Admission and subject to clawback, in respect of valid applications by Qualifying Shareholders at the Issue Price.

The Placing and Open Offer has been fully underwritten by Collins Stewart.

Application will be made to the Financial Services Authority for the Open Offer Shares to be admitted to the Official List and to the London Stock Exchange for the Open Offer Shares to be admitted to trading on the London Stock Exchange's main market for listed securities.

The Open Offer is an opportunity for Qualifying Shareholders to apply for, in aggregate, 24,986,593 Open Offer Shares pro rata to their current holdings at the Issue Price of 240 pence per share in accordance with the terms of the Open Offer.

Any Qualifying Shareholder who has sold or transferred all or part of his/her registered holding(s) of Ordinary Shares prior to the close of business on 24 June 2009 is advised to consult his or her stockbroker, bank or other agent through or to whom the sale or transfer was effected as soon as possible since the invitation to apply for Open Offer Shares under the Open Offer may be a benefit which may be claimed from him/her by the purchasers under the rules of the London Stock Exchange.

2. The Open Offer

Subject to the terms and conditions set out below (and, in the case of Qualifying Non-CREST Shareholders, in the Application Form), Qualifying Shareholders are being given the opportunity to

apply for any number of Open Offer Shares at the Issue Price (payable in full on application and free of all expenses) up to a maximum of their pro rata entitlement which shall be calculated on the basis of:

8 Open Offer Shares for every 13 Existing Shares

registered in the name of each Qualifying Shareholder on the Record Date and so in proportion for any other number of Ordinary Shares then registered.

Fractions of Open Offer Shares will not be allotted to Qualifying Shareholders in the Open Offer and fractional entitlements under the Open Offer will be rounded down to the nearest whole number of New Shares.

Applications by Qualifying Shareholders will be satisfied in full up to the amount of their individual Open Offer Entitlement.

Holdings of Existing Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Open Offer, as will holdings under different designations and in different accounts.

If you are a Qualifying Non-CREST Shareholder, the Ordinary Share Application Form shows the number of Existing Shares registered in your name on the Record Date (in Box 4).

Qualifying CREST Shareholders will have Open Offer Entitlements credited to their stock accounts in CREST and should refer to paragraph 4.2 below and also to the CREST Manual for further information on the relevant CREST procedures.

Qualifying Shareholders may apply for any number of Open Offer Shares up to the maximum to which they are entitled under the Open Offer.

Following the issue of the New Shares to be allotted pursuant to the Firm Placing and the Placing and Open Offer, Qualifying Shareholders who take up their full entitlements in respect of the Open Offer will suffer a dilution of 20.3 per cent. to their interests in the Company.

Qualifying Shareholders who do not take up any of their entitlements in respect of the Open Offer will suffer a dilution of approximately 50.6 per cent. to their interests in the Company. Qualifying Shareholders should be aware that the Open Offer is not a rights issue. Qualifying Non-CREST Shareholders should also note that their respective Application Forms are not negotiable documents and cannot be traded. Qualifying CREST Shareholders should note that, although the Open Offer Entitlements will be credited to CREST and be enabled for settlement, applications in respect of entitlements under the Open Offer may only be made by the Qualifying Shareholder originally entitled or by a person entitled by virtue of a *bona fide* market claim raised by Euroclear UK's Claims Processing Unit. Open Offer Shares not applied for under the Open Offer will not be sold in the market for the benefit of those who do not apply under the Open Offer and Qualifying Shareholders who do not apply to take up Open Offer Shares will have no rights under the Open Offer. The Open Offer Shares will be subscribed for under the Placing for the benefit of the Company. Any Open Offer Shares which are not applied for in respect of the Open Offer will be issued to the Conditional Placees and/or other subscribers procured by Collins Stewart, with the proceeds retained for the benefit of the Company.

Application will be made for the Open Offer Entitlements to be credited to Qualifying CREST Shareholders' CREST accounts. The Open Offer Entitlements are expected to be credited to CREST accounts by 25 June 2009.

The Existing Shares are already admitted to CREST. No further application for admission to CREST is accordingly required for the New Shares. All such shares, when issued and fully paid, may be held and transferred by means of CREST.

Application has been made for the Open Offer Entitlements to be admitted to CREST. The conditions for such admission having already been met, the Open Offer Entitlements are expected to be admitted to CREST with effect from 25 June 2009.

The Open Offer Shares will be issued credited as fully paid and will rank *pari passu* in all respects with the Existing Shares, including the right to receive all dividends or other distributions (if any)

made, paid or declared after the date of this document, save for the final dividend declared for the 2008 financial year, and for any interim dividend that may or may not be declared when the interim results for the first six months of the 2009 financial year are announced. The Open Offer Shares are not being made available in whole or in part to the public except under the terms of the Open Offer.

3. Conditions and further terms of the Open Offer

The Open Offer is conditional on the Resolutions being passed at the Extraordinary General Meeting, on the Placing Agreement becoming unconditional in all respects and Admission of the Open Offer Shares becoming effective by not later than 8.00 a.m. on 15 July 2009 (or such later time and/or date as the Company and Collins Stewart may determine, not being later than 8.00 a.m. on 29 July 2009). A summary of the principal terms of the Placing Agreement is set out in Part VIII (“*Additional Information*”) of this document.

Accordingly, if these conditions are not satisfied or waived (where capable of waiver), the Placing and Open Offer will not proceed and any applications made by Qualifying Shareholders will be rejected. In such circumstances, application monies will be returned (at the applicant’s sole risk), without payment of interest, as soon as practicable thereafter.

No temporary documents of title will be issued in respect of Open Offer Shares held in uncertificated form. Definitive certificates in respect of Open Offer Shares taken up are expected to be posted to those Qualifying Shareholders who have validly elected to hold their Open Offer Shares in certificated form by 22 July 2009. In respect of those Qualifying Shareholders who have validly elected to hold their Open Offer Shares in uncertificated form, the Open Offer Shares are expected to be credited to their stock accounts maintained in CREST by 15 July 2009.

Applications will be made for the Open Offer Shares to be listed on the Official List and to be admitted to trading on the London Stock Exchange’s main market for listed securities. Admission is expected to occur on 15 July 2009, when dealings in the Open Offer Shares are expected to begin.

All monies received by the Receiving Agent in respect of Open Offer Shares will be held on deposit in a non-interest-bearing account by the Receiving Agent or trustee.

If for any reason it becomes necessary to adjust the expected timetable as set out in this document, the Company will make an appropriate announcement to a Regulatory Information Service giving details of the revised dates.

4. Procedure for application and payment

The action to be taken by you in respect of the Open Offer depends on whether, at the relevant time, you have an Application Form in respect of your entitlement under the Open Offer or you have Open Offer Entitlements credited to your CREST stock account in respect of such entitlement.

Qualifying Shareholders who hold their Existing Shares in certificated form will be allotted Open Offer Shares in certificated form. Qualifying Shareholders who hold part of their Existing Shares in uncertificated form will be allotted Open Offer Shares in uncertificated form to the extent that their entitlement to Open Offer Shares arises as a result of holding Existing Shares in uncertificated form. It will not be possible for Qualifying Shareholders to deposit Open Offer Entitlements into, and withdraw them from, CREST other than in settling a *bona fide* market claim. Further information on deposit and withdrawal from CREST is set out in paragraph 4.2(e) below.

CREST sponsored members should refer to their CREST sponsor, as only their CREST sponsor will be able to take the necessary action specified below to apply under the Open Offer in respect of the Open Offer Entitlements of such members held in CREST. CREST members who wish to apply under the Open Offer in respect of their Open Offer Entitlements in CREST should refer to the CREST Manual for further information on the CREST procedures referred to below.

Qualifying Shareholders who do not want to apply for the Open Offer Shares under the Open Offer should take no action and should not complete or return the Application Form.

4.1 *If you have an Application Form in respect of your entitlement under the Open Offer*

(a) *General*

Subject as provided in paragraph 6 below in relation to Overseas Shareholders, Qualifying Non-CREST Shareholders will receive an Application Form. The Application Form shows the number of Existing Shares registered in their name on the Record Date in Box 4. It also shows the maximum number of Open Offer Shares for which they are entitled to apply under the Open Offer, as shown by the total number of Open Offer Entitlements allocated to them set out in Box 5. Box 6 shows how much they would need to pay if they wish to take up their Open Offer Entitlements in full. Qualifying Non-CREST Shareholders may apply for less than their entitlement should they wish to do so. Qualifying Non-CREST Shareholders may also hold such an Application Form by virtue of a *bona fide* market claim.

The instructions and other terms set out in the Application Form form part of the terms of the Open Offer in relation to Qualifying Non-CREST Shareholders.

(b) *Bona fide market claims*

Applications to acquire Open Offer Shares may only be made on the Application Form and may only be made by the Qualifying Non-CREST Shareholder named in it or by a person entitled by virtue of a *bona fide* market claim in relation to a purchase of Existing Shares through the market prior to the date upon which the Existing Shares were marked “ex” the entitlement to participate in the Open Offer. Application Forms may not be assigned, transferred or split, except to satisfy *bona fide* market claims up to 3.00 p.m. on 7 July 2009. The Application Form is not a negotiable document and cannot be separately traded. A Qualifying Non-CREST Shareholder who has sold or otherwise transferred all or part of his holding of Existing Shares prior to the date upon which the Existing Shares were marked “ex” the entitlement to participate in the Open Offer, should consult his broker or other professional adviser as soon as possible, as the invitation to acquire Open Offer Shares under the Open Offer may be a benefit which may be claimed by the transferee. Qualifying Non-CREST Shareholders who have sold all or part of their registered holdings should, if the market claim is to be settled outside CREST, complete Box 4 on the Application Form and immediately send it to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. The Application Form should not, however be forwarded to or transmitted in or into the United States or the Excluded Territories. If the market claim is to be settled outside CREST, the beneficiary of the claim should follow the procedures set out in the accompanying Application Form. If the market claim is to be settled in CREST, the beneficiary of the claim should follow the procedure set out in paragraph 4.2(b) below.

(c) *Application procedures*

Qualifying Non-CREST Shareholders wishing to apply to acquire all or any of the Open Offer Shares should complete the Application Form in accordance with the instructions printed on it.

Completed Application Forms should be posted in the accompanying pre-paid envelope or returned by post or by hand (during normal business hours only) to Capita Registrars, at Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU (who will act as Receiving Agent in relation to the Open Offer) so as to be received by no later than 11.00 a.m. on 9 July 2009, after which time Application Forms will not be valid. Qualifying Non-CREST Shareholders should note that applications, once made, will be irrevocable and receipt thereof will not be acknowledged. If an Application Form is being sent by first-class post in the UK, Qualifying Shareholders are recommended to allow at least four working days for delivery.

All payments must be in pounds sterling and made by cheque or banker’s draft made payable to “Capita Registrars Limited re: Development Securities PLC Open Offer” and

crossed "A/C Payee Only". Cheques or banker's drafts must be drawn on a bank or building society or branch of a bank or building society in the United Kingdom or Channel Islands which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided by any of those companies or committees and must bear the appropriate sort code in the top right-hand corner and must be for the full amount payable on application. Third-party cheques will not be accepted with the exception of building society cheques or banker's drafts where the building society or bank has confirmed the name of the account holder by stamping or endorsing the cheque or draft to such effect. The account name should be the same as that shown on the application. Post-dated cheques will not be accepted.

Cheques or banker's drafts will be presented for payment upon receipt. The Company reserves the right to instruct Capita Registrars to seek special clearance of cheques and banker's drafts to allow the Company to obtain value for remittances at the earliest opportunity. No interest will be paid on payments made before they are due. It is a term of the Open Offer that cheques shall be honoured on first presentation and the Company may elect to treat as invalid acceptances in respect of which cheques are not so honoured. All documents, cheques and banker's drafts sent through the post will be sent at the risk of the sender. Payments via CHAPS, BACS or electronic transfer will not be accepted.

If cheques or banker's drafts are presented for payment before the condition of the Placing and Open Offer and the Firm Placing is fulfilled, the application monies will be kept in a separate bank account with any interest being retained for the Company until all conditions are met. If the Placing and Open Offer does not become unconditional, no Open Offer Shares will be issued and all monies will be returned (at the applicant's sole risk), without payment of interest, to applicants as soon as practicable following the lapse of the Placing and Open Offer.

The Company may, in its sole discretion, but shall not be obliged to, treat an Application Form as valid and binding on the person by whom or on whose behalf it is lodged, even if not completed in accordance with the relevant instructions or not accompanied by a valid power of attorney where required, or if it otherwise does not strictly comply with the terms and conditions of the Open Offer. The Company further reserves the right (but shall not be obliged) to accept either:

- (i) Application Forms received after 11.00 a.m. on 9 July 2009; or
- (ii) applications in respect of which remittances are received before 11.00 a.m. on 9 July 2009 from authorised persons (as defined in the FSMA) specifying the Open Offer Shares applied for and undertaking to lodge the Application Form in due course but, in any event, within two Business Days.

Multiple applications will not be accepted. All documents and remittances sent by post by or to an applicant (or as the applicant may direct) will be sent at the applicant's own risk.

(d) *Effect of application*

By completing and delivering an Application Form, the applicant:

- (i) represents and warrants to the Company and Collins Stewart that he has the right, power and authority, and has taken all action necessary, to make the application under the Open Offer and to execute, deliver and exercise his rights, and perform his obligations under any contracts resulting therefrom and that he is not a person otherwise prevented by legal or regulatory restrictions from applying for Open Offer Shares or acting on behalf of any such person on a non-discretionary basis;

- (ii) agrees with the Company and Collins Stewart that all applications under the Open Offer and contracts resulting therefrom shall be governed by and construed in accordance with the laws of England;
- (iii) confirms to the Company and Collins Stewart that in making the application he is not relying on any information or representation in relation to Development Securities other than that contained in this document, and the applicant accordingly agrees that no person responsible solely or jointly for this document or any part thereof, or involved in the preparation thereof, shall have any liability for any such information or representation not so contained and further agrees that, having had the opportunity to read this document, he will be deemed to have had notice of all information in relation to Development Securities contained in this document;
- (iv) represents and warrants to the Company and Collins Stewart that he is the Qualifying Shareholder originally entitled to the Open Offer Entitlements or that he received such Open Offer Entitlements by virtue of a *bona fide* market claim;
- (v) represents and warrants to the Company and Collins Stewart that, if he has received some or all of his Open Offer Entitlements from a person other than Development Securities, he is entitled to apply under the Open Offer in relation to such Open Offer Entitlements by virtue of a *bona fide* market claim;
- (vi) requests that the Open Offer Shares, to which he will become entitled, be issued to him on the terms set out in this document and the Application Form;
- (vii) represents and warrants to the Company, Collins Stewart and the Registrar that, except where proof has been provided to the Company's satisfaction that such applicant's use of the Application Form will not result in the contravention of any applicable legal requirements in any jurisdiction: (i) such applicant is not requesting registration of the relevant Open Offer Shares from within the United States or the Excluded Territories; (ii) such applicant is not in any territory in which it is unlawful to make or accept an offer to acquire Open Offer Shares in respect of the Open Offer or to use the Application Form in any manner in which such person has used or will use it; (iii) such applicant is not acting for the account of a person located within the United States or any Excluded Territory or any territory referred to in (ii) above at the time the instruction to accept was given unless: (a) the instruction to accept was received from a person outside such territories; and (b) the instructing person has advised such applicant that it has the authority to give such instruction and that either: (I) it has investment discretion or authority over such accounts; or (II) otherwise is acquiring the Open Offer Shares in an offshore transaction within the meaning of Regulation S under the US Securities Act; and (iv) such applicant is not acquiring Open Offer Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such Open Offer Shares into any of the above territories;
- (viii) represents and warrants to the Company and Collins Stewart that he is not, and nor is he applying as nominee or agent for, a person who is or may be liable to notify and account for tax under the Stamp Duty Reserve Tax Regulations 1986 at any of the increased rates referred to in section 93 (depository receipts) or section 96 (clearance services) of the Finance Act 1986; and
- (ix) confirms that in making the application he is not relying and has not relied on Collins Stewart or any person affiliated with Collins Stewart in connection with any investigation of the accuracy of any information contained in this document or his investment decision.

All enquiries in connection with the procedure for application and completion of the Ordinary Share Application Form should be addressed to Capita Registrars, at Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU

(telephone 0871 664 0321, calls to this number are charged at 10 pence per minute from a BT landline, other telephone provider costs may vary, or if calling from overseas +44 20 8639 3399). Please note the Registrar cannot provide financial advice on the merits of the Open Offer or as to whether applicants should take up their Open Offer Entitlements.

Qualifying Non-CREST Shareholders who do not want to take up or apply for the Open Offer Shares under the Open Offer should take no action and should not complete or return the Application Form.

4.2 *If you have Open Offer Entitlements credited to your stock account in CREST in respect of your entitlement under the Open Offer*

(a) *General*

Subject as provided in paragraph 6 below in relation to certain Overseas Shareholders, each Qualifying CREST Shareholder will receive a credit to his stock account in CREST of his Open Offer Entitlements equal to the maximum number of Open Offer Shares for which he is entitled to apply to acquire under the Open Offer. Entitlements to Open Offer Shares will be rounded down to the nearest whole number and any fractional Open Offer Entitlement will therefore also be rounded down. Any fractional Open Offer Entitlements will be aggregated and the resulting Open Offer Shares will be sold for the benefit of the Company.

The CREST stock account to be credited will be an account under the participant ID and member account ID that apply to the Existing Shares held on the Record Date by the Qualifying CREST Shareholder in respect of which the Open Offer Entitlements have been allocated.

If for any reason the Open Offer Entitlements cannot be admitted to CREST by, or the stock accounts of Qualifying CREST Shareholders cannot be credited by, 5.00 p.m. on 25 June 2009, or such later time and/or date as the Company may decide, an Application Form will be sent to each Qualifying CREST Shareholder in substitution for the Open Offer Entitlements which should have been credited to his stock account in CREST. In these circumstances, the expected timetable as set out in this document will be adjusted as appropriate and the provisions of this document applicable to Qualifying Non-CREST Shareholders with Application Forms will apply to Qualifying CREST Shareholders who receive such Application Forms.

CREST members who wish to apply to acquire some or all of their entitlements to Open Offer Shares should refer to the CREST Manual for further information on the CREST procedures referred to below. Should you need advice with regard to these procedures, please contact the Receiving Agent on telephone number 0871 664 0321, (calls to this number are charged at 10 pence per minute from a BT landline, other telephone provider costs may vary), or if calling from overseas +44 20 8639 3399. Please note the Receiving Agent cannot provide financial advice on the merits of the Open Offer or as to whether applicants should take up their Open Offer Entitlements. If you are a CREST sponsored member, you should consult your CREST sponsor if you wish to apply for Open Offer Shares as only your CREST sponsor will be able to take the necessary action to make this application in CREST.

(b) *Market claims*

Each of the Open Offer Entitlements will constitute a separate security for the purposes of CREST. Although Open Offer Entitlements will be admitted to CREST and will be enabled for settlement, applications in respect of Open Offer Entitlements may only be made by the Qualifying Shareholder originally entitled or by a person entitled by virtue of a *bona fide* market claim transaction. Transactions identified by the CREST Claims Processing Unit as “cum” the Open Offer Entitlement will generate an appropriate market claim transaction and the relevant Open Offer Entitlement(s) will thereafter be transferred accordingly.

(c) *USE instructions*

Qualifying CREST Shareholders who are CREST members and who want to apply for Open Offer Shares in respect of all or some of their Open Offer Entitlements in CREST must send (or, if they are CREST sponsored members, procure that their CREST sponsor sends) an Unmatched Stock Event (“USE”) instruction to Euroclear UK which, on its settlement, will have the following effect:

- (i) the crediting of a stock account of the Registrar under the participant ID and member account ID specified below, with a number of Open Offer Entitlements corresponding to the number of Open Offer Shares applied for; and
- (ii) the creation of a CREST payment, in accordance with the CREST payment arrangements in favour of the payment bank of the Receiving Agent in respect of the amount specified in the USE Instruction which must be the full amount payable on application for the number of Open Offer Shares referred to in (i) above.

(d) *Content of USE instruction in respect of Open Offer Entitlements*

The USE instruction must be properly authenticated in accordance with Euroclear UK’s specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- (i) the number of Open Offer Shares for which application is being made (and hence the number of the Open Offer Entitlement(s) being delivered to the Registrar);
- (ii) the ISIN of the Open Offer Entitlement. This is GB00B61D9685;
- (iii) the CREST participant ID of the accepting CREST member;
- (iv) the CREST member account ID of the accepting CREST member from which the Open Offer Entitlements are to be debited;
- (v) the participant ID of the Registrar in its capacity as a CREST receiving agent. This is 7RA33;
- (vi) the member account ID of the Registrar in its capacity as a CREST receiving agent. This is DEVELOP;
- (vii) the amount payable by means of a CREST payment on settlement of the USE Instruction. This must be the full amount payable on application for the number of New Shares referred to in (i) above;
- (viii) the intended settlement date. This must be on or before 11.00 a.m. on 9 July 2009; and
- (ix) the Corporate Action Number for the Open Offer. This will be available by viewing the relevant corporate action details in CREST.

In order for an application under the Open Offer to be valid, the USE instruction must comply with the requirements as to authentication and contents set out above and must settle on or before 11.00 a.m. on 9 July 2009.

In order to assist prompt settlement of the USE Instruction, CREST members (or their sponsors, where applicable) may consider adding the following non-mandatory fields to the USE Instruction:

- (i) a contact name and telephone number (in the free format shared note field); and
- (ii) a priority of at least 80.

CREST members and, in the case of CREST sponsored members, their CREST sponsors should note that the last time at which a USE Instruction may settle on 9 July 2009 in order to be valid is 11.00 a.m. on that day.

In the event that the Firm Placing and the Placing and Open Offer does not become unconditional by 8.00 a.m. on 15 July 2009 or such later time and date as the

Company and Collins Stewart determine (being no later than 8.00 a.m. on 29 July 2009), the Placing and Open Offer and the Firm Placing will lapse, the Open Offer Entitlements admitted to CREST will be disabled and the Registrar will refund the amount paid by a Qualifying CREST Shareholder by way of a CREST payment, without interest, as soon as practicable thereafter. Any interest earned on such monies will be retained for the benefit of the Company.

(e) *Deposit of Open Offer Entitlements into, and withdrawal from, CREST*

A Qualifying Non-CREST Shareholder's entitlement under the Open Offer as shown by the number of Open Offer Entitlements set out in his Application Form may be deposited into CREST (either into the account of the Qualifying Shareholder named in the Application Form or into the name of a person entitled by virtue of a *bona fide* market claim). Similarly, Open Offer Entitlements held in CREST may be withdrawn from CREST so that the entitlement under the Open Offer is reflected in an Application Form. Normal CREST procedures (including timings) apply in relation to any such deposit or withdrawal, subject (in the case of a deposit into CREST) as set out in the Application Form.

A holder of an Application Form who is proposing to deposit the entitlement set out in such form into CREST is recommended to ensure that the deposit procedures are implemented in sufficient time to enable the person holding or acquiring the Open Offer Entitlements following their deposit into CREST to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 9 July 2009.

In particular, having regard to normal processing times in CREST and on the part of the Registrar, the recommended latest time for depositing an Application Form with the CREST Courier and Sorting Service, where the person entitled wishes to hold the entitlement under the Open Offer set out in such Application Form as Open Offer Entitlements in CREST, is 3.00 p.m. on 6 July 2009 and the recommended latest time for receipt by Euroclear UK of a dematerialised instruction requesting withdrawal of Open Offer Entitlements from CREST is 4.30 p.m. on 3 July 2009 in either case so as to enable the person acquiring or (as appropriate) holding the Open Offer Entitlements following the deposit or withdrawal (whether as shown in an Application Form or held in CREST) to take all necessary steps in connection with applying in respect of the Open Offer Entitlements prior to 11.00 a.m. on 9 July 2009.

Delivery of an Application Form with the CREST deposit form duly completed, whether in respect of a deposit into the account of the Qualifying Shareholder named in the Ordinary Share Application Form or into the name of another person, shall constitute a representation and warranty to the Company and the Receiving Agent by the relevant CREST member(s) that it/they is/are not in breach of the provisions of the notes under the paragraph headed "Instructions for depositing entitlements under the Open Offer into CREST" on page 2 of the Ordinary Share Application Form, and a declaration to the Company and the Receiving Agent from the relevant CREST member(s) that it/they is/are not in the United States or citizen(s) or resident(s) of any Excluded Territory or any jurisdiction in which the application for New Shares is prevented by law and, where such deposit is made by a beneficiary of a market claim, a representation and warranty that the relevant CREST member(s) is/are entitled to apply under the Open Offer by virtue of a *bona fide* market claim.

(f) *Validity of application*

A USE instruction complying with the requirements as to authentication and contents set out above which settles by no later than 11.00 a.m. on 9 July 2009 will constitute a valid application under the Open Offer.

(g) *CREST procedures and timings*

CREST members and (where applicable) their CREST sponsors should note that Euroclear UK does not make available special procedures in CREST for any particular

corporate action. Normal system timings and limitations will therefore apply in relation to the input of a USE instruction and its settlement in connection with the Open Offer. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST sponsored member, to procure that his CREST sponsor takes) such action as shall be necessary to ensure that a valid application is made as stated above by 11.00 a.m. on 9 July 2009. In this connection CREST members and (where applicable) their CREST sponsors are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

(h) *Incorrect or incomplete applications*

If a USE instruction includes a CREST payment for an incorrect sum, the Company, through the Receiving Agent, reserves the right:

- (i) to reject the application in full and refund the payment to the CREST member in question (without interest);
- (ii) in the case that an insufficient sum is paid, to treat the application as a valid application for such lesser whole number of Open Offer Shares as would be able to be applied for with that payment at the Issue Price, refunding any unutilised sum to the CREST member in question (without interest); and
- (iii) in the case that an excess sum is paid, to treat the application as a valid application for all the Open Offer Shares referred to in the USE instruction, refunding any unutilised sum to the CREST member in question (without interest).

(i) *Effect of valid application*

A CREST member who makes or is treated as making a valid application in accordance with the above procedures thereby:

- (i) represents and warrants that he has the right, power and authority, and has taken all action necessary, to make the application under the Open Offer and to execute, deliver and exercise his rights, and perform his obligations, under any contracts resulting therefrom and that he is not a person otherwise prevented by legal or regulatory restrictions from applying for Open Offer Shares or acting on behalf of any such person on a non-discretionary basis;
- (ii) agrees to pay the amount payable on application in accordance with the above procedures by means of a CREST payment in accordance with the CREST payment arrangements (it being acknowledged that the payment to the Receiving Agent's payment bank in accordance with the CREST payment arrangements shall, to the extent of the payment, discharge in full the obligation of the CREST member to pay to the Company the amount payable on application);
- (iii) agrees that all applications and contracts resulting therefrom under the Open Offer shall be governed by, and construed in accordance with, the laws of England;
- (iv) confirms that in making the application he is not relying on any information or representation in relation to Development Securities other than that contained in this document, and the applicant accordingly agrees that no person responsible solely or jointly for this document or any part thereof, or involved in the preparation thereof, shall have any liability for any such information or representation not so contained and further agrees that, having had the opportunity to read this document, he will be deemed to have had notice of all the information in relation to Development Securities contained in this document;
- (v) represents and warrants that he is the Qualifying Shareholder originally entitled to the Open Offer Entitlements or that he has received such Open Offer Entitlements by virtue of a *bona fide* market claim;

- (vi) represents and warrants that, if he has received some or all of his Open Offer Entitlements from a person other than Development Securities, he is entitled to apply under the Open Offer in relation to such Open Offer Entitlement by virtue of a *bona fide* market claim.
 - (vii) requests that the New Shares to which he will become entitled be issued to him on the terms set out in this document, subject to the Memorandum of Association and Articles of Association of the Company;
 - (viii) represents and warrants that he is not, nor is he applying on behalf of any Shareholder who is, in the United States or is a citizen or resident, or which is a corporation, partnership or other entity created or organised in or under any laws of any Excluded Territory or any jurisdiction in which the application for Open Offer Shares is prevented by law and he is not applying with a view to re-offering, reselling, transferring or delivering any of the Open Offer Shares which are the subject of his application in the United States or to, or for the benefit of, a Shareholder who is a citizen or resident or which is a corporation, partnership or other entity created or organised in or under any laws of any Excluded Territory or any jurisdiction in which the application for Open Offer Shares is prevented by law (except where proof satisfactory to the Company has been provided to the Company that he is able to accept the invitation by the Company free of any requirement which it (in its absolute discretion) regards as unduly burdensome), nor acting on behalf of any such person on a non-discretionary basis nor (a) person(s) otherwise prevented by legal or regulatory restrictions from applying for Open Offer Shares under the Open Offer;
 - (ix) represents and warrants that he is not, nor is he applying as nominee or agent for, a person who is or may be liable to notify and account for tax under the Stamp Duty Reserve Tax Regulations 1986 at any of the increased rates referred to in section 93 (depository receipts) or section 96 (clearance services) of the Finance Act 1986; and
 - (x) confirms that in making the application he is not relying and has not relied on Collins Stewart or any person affiliated with Collins Stewart in connection with any investigation of the accuracy of any information contained in this document or his investment decision.
- (j) *Company's discretion as to the rejection and validity of applications*
The Company may, in its sole discretion:
- (i) treat as valid (and binding on the CREST member concerned) an application which does not comply in all respects with the requirements as to validity set out or referred to in this Part III;
 - (ii) accept an alternative properly authenticated dematerialised instruction from a CREST member or (where applicable) a CREST sponsor as constituting a valid application in substitution for or in addition to a USE instruction and subject to such further terms and conditions as the Company may determine;
 - (iii) treat a properly authenticated dematerialised instruction (in this paragraph (iii), the "first instruction") as not constituting a valid application if, at the time at which the Receiving Agent receives a properly authenticated dematerialised instruction giving details of the first instruction or thereafter, either the Company or the Receiving Agent has received actual notice from Euroclear UK of any of the matters specified in Regulation 35(5)(a) of the CREST Regulations in relation to the first instruction. These matters include notice that any information contained in the first instruction was incorrect or notice of lack of authority to send the first instruction; and

(iv) accept an alternative instruction or notification from a CREST member or CREST sponsored member or (where applicable) a CREST sponsor, or extend the time for settlement of a USE instruction or any alternative instruction or notification, in the event that, for reasons or due to circumstances outside the control of any CREST member or CREST sponsored member or (where applicable) CREST sponsor, the CREST member or CREST sponsored member is unable validly to apply for Open Offer Shares by means of the above procedures. In normal circumstances, this discretion is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or any part of CREST) or on the part of the facilities and/or systems operated by the Receiving Agent in connection with CREST.

(k) *Lapse of the Placing and Open Offer*

In the event that the Placing and Open Offer does not become unconditional by 8.00 a.m. on 15 July 2009 or such later time and date as the Company and Collins Stewart may agree, the Placing and Open Offer will lapse, the Open Offer Entitlements admitted to CREST will be disabled and the Receiving Agent will refund the amount paid by a Qualifying CREST Shareholder by way of a CREST payment, without interest, as soon as practicable thereafter. The interest earned on such monies, if any, will be retained for the benefit of Development Securities.

4.3 *Payments*

For technical reasons, at the conclusion of the Firm Placing and Placing and Open Offer, the Company will issue the New Shares in consideration for the transfer to it by Collins Stewart or a third party nominated by the Company (the “Newco Subscriber”) of certain issued ordinary shares and the entire issued redeemable preference share capital of Newco, which will result in the Company owning the entire issued share capital of Newco the only assets of which will be its cash resources. These resources will represent the net proceeds of the Firm Placing and Placing and Open Offer. The Company will be able to utilise this amount by redeeming the redeemable preference shares it will then hold in Newco. The structure of the Firm Placing and Placing and Open Offer is expected to have the effect of creating distributable reserves equal to the net proceeds of the Firm Placing and Placing and Open Offer less the par value of the New Shares. Accordingly, by applying for New Shares in the Open Offer and submitting a valid payment in respect thereof, a Qualifying Shareholder instructs the Receiving Agent to (i) hold such payments on the applicant’s behalf on a non-interest-bearing basis until Admission and, if Admission does not take place, to return such payment, without interest, to the applicant, (ii) following Admission and to the extent of a successful application under the Open Offer, to apply such payment (after deduction of certain agreed fees, costs and expenses) on behalf of the Newco Subscriber solely for the purposes of acquiring preference shares in Newco and (iii) to the extent of an unsuccessful application under the Open Offer, to return the relevant payment without interest to the applicant.

5. **Money laundering regulations**

5.1 *Holders of Application Forms*

To ensure compliance with the Money Laundering Regulations, the Receiving Agent may require, at its absolute discretion, verification of the identity of the person by whom or on whose behalf the Application Form is lodged with payment (which requirements are referred to below as the “verification of identity requirements”). If the Application Form is submitted by a UK regulated broker or intermediary acting as agent and which is itself subject to the Money Laundering Regulations, any verification of identity requirements are the responsibility of such broker or intermediary and not of the Receiving Agent. In such case, the lodging agent’s stamp should be inserted on the Application Form.

The person lodging the Application Form with payment and in accordance with the other terms as described above (the “acceptor”), including any person who appears to the Receiving Agent to be acting on behalf of some other person, accepts the Open Offer in respect of such

number of Open Offer Shares as is referred to therein (for the purposes of this paragraph 5, the “relevant Open Offer Shares”) shall thereby be deemed to agree to provide the Receiving Agent with such information and other evidence as the Receiving Agent may require to satisfy the verification of identity requirements.

If the Receiving Agent determines that the verification of identity requirements apply to any acceptor or application, the relevant Open Offer Shares (notwithstanding any other term of the Open Offer) will not be issued to the relevant acceptor unless and until the verification of identity requirements have been satisfied in respect of that acceptor or application. The Receiving Agent is entitled, in its absolute discretion, to determine whether the verification of identity requirements apply to any acceptor or application and whether such requirements have been satisfied, and neither the Receiving Agent nor the Company will be liable to any person for any loss or damage suffered or incurred (or alleged), directly or indirectly, as a result of the exercise of such discretion.

If the verification of identity requirements apply, failure to provide the necessary evidence of identity within a reasonable time may result in delays in the despatch of share certificates or in crediting CREST accounts. If, within a reasonable time following a request for verification of identity, the Receiving Agent has not received evidence satisfactory to it as aforesaid, the Company may, in its absolute discretion, treat the relevant application as invalid, in which event the monies payable on acceptance of the Open Offer will be returned (at the acceptor’s risk) without interest to the account of the bank or building society on which the relevant cheque or banker’s draft was drawn.

Submission of an Application Form with the appropriate remittance will constitute a warranty to each of the Company, the Receiving Agent and Collins Stewart from the applicant that the Money Laundering Regulations will not be breached by application of such remittance.

The verification of identity requirements will not usually apply:

- (i) if the applicant is an organisation required to comply with the Money Laundering Directive (the Council Directive on prevention of the use of the financial system for the purpose of money laundering (no.91/308/EEC));
- (ii) if the acceptor is a regulated United Kingdom broker or intermediary acting as agent and is itself subject to the Money Laundering Regulations;
- (iii) if the applicant (not being an applicant who delivers his application in person) makes payment by way of a cheque drawn on an account in the applicant’s name; or
- (iv) if the aggregate subscription price for the Open Offer Shares is less than €15,000 (approximately £12,500).

In other cases, the verification of identity requirements may apply. Satisfaction of these requirements may be facilitated in the following ways:

- (a) if payment is made by cheque or banker’s draft in sterling drawn on a branch in the United Kingdom of a bank or building society which bears a UK bank sort code number in the top right-hand corner the following applies. Cheques should be made payable to “Capita Registrars Limited re: Development Securities PLC Open Offer” in respect of an application by a Qualifying Shareholder and crossed “A/C Payee Only”. Third-party cheques may not be accepted with the exception of building society cheques or bankers’ drafts where the building society or bank has confirmed the name of the account holder by stamping or endorsing the cheque/bankers’ draft to such effect. The account name should be the same as that shown on the Application Form; or
- (b) if the Application Form is lodged with payment by an agent which is an organisation of the kind referred to in paragraph (i) above or which is subject to anti-money laundering regulation in a country which is a member of the Financial Action Task Force (the non-European Union members of which are Argentina, Australia, Brazil, Canada, China, Gibraltar, Hong Kong, Iceland, Japan, Mexico, New Zealand,

Norway, Russian Federation, Singapore, South Africa, Switzerland, Turkey, UK Crown Dependencies and the US and, by virtue of their membership of the Gulf Cooperation Council, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates), the agent should provide with the Application Form written confirmation that it has that status and a written assurance that it has obtained and recorded evidence of the identity of the person for whom it acts and that it will on demand make such evidence available to the Registrar. If the agent is not such an organisation, it should contact the Receiving Agent at the address set out on page 26 of this document.

To confirm the acceptability of any written assurance referred to in (b) above, or in any other case, the acceptor should contact the Receiving Agent. The telephone number of the Receiving Agent is 0871 664 0321 (calls to this number are charged at 10 pence per minute from a BT landline, other telephone provider costs may vary) or +44 20 8639 3399 if calling from outside the United Kingdom.

If the Application Form(s) is/are in respect of Open Offer Shares with an aggregate subscription price of €15,000 (approximately £12,500) or more and is/are lodged by hand by the acceptor in person, he or she should ensure that he or she has with him or her evidence of identity bearing his or her photograph (for example, his or her passport) and separate evidence of his or her address.

If, within a reasonable period of time following a request for verification of identity, and in any case by no later than 11.00 a.m. on 9 July 2009, the Receiving Agent has not received evidence satisfactory to it as aforesaid, the Receiving Agent may, at its discretion, as agent of the Company, reject the relevant application, in which event the monies submitted in respect of that application will be returned without interest to the account at the drawee bank from which such monies were originally debited (without prejudice to the rights of the Company to undertake proceedings to recover monies in respect of the loss suffered by it as a result of the failure to produce satisfactory evidence as aforesaid).

5.2 *Open Offer Entitlements in CREST*

If you hold your Open Offer Entitlements in CREST and apply for Open Offer Shares in respect of all or some of your Open Offer Entitlements as agent for one or more persons and you are not a UK or EU regulated person or institution (e.g. a UK financial institution), then, irrespective of the value of the application, the Receiving Agent is obliged to take reasonable measures to establish the identity of the person or persons on whose behalf you are making the application. You must therefore contact the Receiving Agent before sending any USE or other instruction so that appropriate measures may be taken.

Submission of a USE instruction which on its settlement constitutes a valid application as described above constitutes a warranty and undertaking by the applicant to provide promptly to the Receiving Agent such information as may be specified by the Receiving Agent as being required for the purposes of the Money Laundering Regulations. Pending the provision of evidence satisfactory to the Receiving Agent as to identity, the Receiving Agent may, in its absolute discretion, take, or omit to take, such action as it may determine to prevent or delay issue of the Open Offer Shares concerned. If satisfactory evidence of identity has not been provided within a reasonable time, then the application for the Open Offer Shares represented by the USE instruction will not be valid. This is without prejudice to the right of the Company to take proceedings to recover any loss suffered by it as a result of failure to provide satisfactory evidence.

6. **Overseas Shareholders**

This document has been approved by the FSA, being the competent authority in the United Kingdom.

The making of the Open Offer to persons resident in, or who are citizens of, or who have a registered address in, countries other than the United Kingdom may be affected by the law or

regulatory requirements of the relevant jurisdiction. The comments set out in this paragraph 6 are intended as a general guide only and any Overseas Shareholders who are in any doubt as to their position should consult their professional advisers without delay.

6.1 *General*

The distribution of this document and the making of the Open Offer to persons who have registered addresses in, or who are resident or ordinarily resident in, or citizens of, or which are corporations, partnerships or other entities created or organised under the laws of countries other than the United Kingdom or to persons who are nominees of or custodians, trustees or guardians for citizens, residents in or nationals of, countries other than the United Kingdom may be affected by the laws or regulatory requirements of the relevant jurisdictions. Those persons should consult their professional advisers as to whether they require any governmental or other consents or need to observe any applicable legal requirement or other formalities to enable them to apply for Open Offer Shares under the Open Offer.

No action has been or will be taken by the Company, Collins Stewart or any other person to permit a public offering or distribution of this document (or any other offering or publicity materials or Application Form(s) relating to the Open Offer Shares) in any jurisdiction where action for that purpose may be required, other than in the United Kingdom.

Receipt of this document and/or an Application Form and/or a credit of Open Offer Entitlements to a stock account in CREST will not constitute an invitation or offer of securities for subscription, sale or purchase in those jurisdictions in which it would be illegal to make such an invitation or offer and, in those circumstances, this document and/or the Application Form must be treated as sent for information only and should not be copied or redistributed.

Application Forms will not be sent to, and Open Offer Entitlements will not be credited to stock accounts in CREST of, persons with registered addresses in the United States or the Excluded Territories or their agent or intermediary, except where the Company is satisfied that such action would not result in the contravention of any registration or other legal requirement in any jurisdiction.

No person receiving a copy of this document and/or an Application Form and/or a credit of Open Offer Entitlements to a stock account in CREST in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him or her, nor should he or she in any event use any such Application Form and/or credit of Open Offer Entitlements to a stock account in CREST unless, in the relevant territory, such an invitation or offer could lawfully be made to him or her and such Application Form and/or credit of Open Offer Entitlements to a stock account in CREST could lawfully be used, and any transaction resulting from such use could be effected, without contravention of any registration or other legal or regulatory requirements. In circumstances where an invitation or offer would contravene any registration or other legal or regulatory requirements, this document and/or the Application Form must be treated as sent for information only and should not be copied or redistributed.

It is the responsibility of any person (including, without limitation, custodians, agents, nominees and trustees) outside the United Kingdom wishing to apply for Open Offer Shares under the Open Offer to satisfy himself or herself as to the full observance of the laws of any relevant territory in connection therewith, including obtaining any governmental or other consents that may be required, observing any other formalities required to be observed in such territory and paying any issue, transfer or other taxes due in such territory.

None of the Company, Collins Stewart or any of their respective representatives is making any representation to any offeree or purchaser of the Open Offer Shares regarding the legality of an investment in the Open Offer Shares by such offeree or purchaser under the laws applicable to such offeree or purchaser.

Persons (including, without limitation, custodians, agents, nominees and trustees) receiving a copy of this document and/or an Application Form and/or a credit of Open Offer Entitlements

to a stock account in CREST, in connection with the Open Offer or otherwise, should not distribute or send either of those documents nor transfer Open Offer Entitlements in or into any jurisdiction where to do so would or might contravene local securities laws or regulations. If a copy of this document and/or an Application Form and/or a credit of Open Offer Entitlements to a stock account in CREST is received by any person in any such territory, or by his or her custodian, agent, nominee or trustee, he or she must not seek to apply for Open Offer Shares in respect of the Open Offer unless the Company and Collins Stewart determine that such action would not violate applicable legal or regulatory requirements. Any person (including, without limitation, custodians, agents, nominees and trustees) who does forward a copy of this document and/or an Application Form and/or transfers Open Offer Entitlements into any such territory, whether pursuant to a contractual or legal obligation or otherwise, should draw the attention of the recipient to the contents of this Part III and specifically the contents of this paragraph 6.

Subject to paragraphs 6.2 to 6.6 below, any person (including, without limitation, custodians, agents, nominees and trustees) outside of the United Kingdom wishing to apply for Open Offer Shares in respect of the Open Offer must satisfy himself or herself as to the full observance of the applicable laws of any relevant territory, including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territories.

The Company reserves the right to treat as invalid any application or purported application for Open Offer Shares that appears to the Company or its agents to have been executed, effected or despatched from the United States or the Excluded Territories or in a manner that may involve a breach of the laws or regulations of any jurisdiction or if the Company or its agents believe that the same may violate applicable legal or regulatory requirements or if it provides an address for delivery of the share certificates of Open Offer Shares or in the case of a credit of Open Offer Entitlements to a stock account in CREST, to a CREST member whose registered address would be in the United States or the Excluded Territories or any other jurisdiction outside the United Kingdom in which it would be unlawful to deliver such share certificates or make such a credit.

The attention of Overseas Shareholders is drawn to paragraphs 6.2 to 6.6 below.

Notwithstanding any other provision of this document or the relevant Application Form, the Company reserves the right to permit any person to apply for Open Offer Shares in respect of the Open Offer if the Company, in its sole and absolute discretion, is satisfied that the transaction in question is exempt from, or not subject to, the legislation or regulations giving rise to the restrictions in question.

Overseas Shareholders who wish, and are permitted, to apply for Open Offer Shares should note that payment must be made in sterling-denominated cheques or banker's drafts or, where such Overseas Shareholder is a Qualifying CREST Shareholder, through CREST.

Due to restrictions under the securities laws of the United States and the Excluded Territories (and subject to certain exceptions), Qualifying Shareholders who have registered addresses in, or who are otherwise located in, or citizens of, the United States or the Excluded Territories will not qualify to participate in the Open Offer and will not be sent an Application Form, nor will their stock accounts in CREST be credited with Open Offer Entitlements.

The Open Offer Shares have not been and will not be registered under the relevant laws of the United States or the Excluded Territories or any state, province or territory thereof and may not be offered, sold, resold, delivered or distributed, directly or indirectly, in or into the United States or the Excluded Territories or to, or for the account or benefit of, any person with a registered address in, or who is resident or ordinarily resident in, or a citizen of, any Excluded Territories except pursuant to an applicable exemption.

No public offer of Open Offer Shares is being made by virtue of this document or the Application Forms into the United States or the Excluded Territories. Receipt of this document and/or an Application Form and/or a credit of an Open Offer Entitlement to a stock account

in CREST will not constitute an invitation or offer of securities for subscription, sale or purchase in those jurisdictions in which it would be illegal to make such an invitation or offer and, in those circumstances, this document and/or the Application Form must be treated as sent for information only and should not be copied or redistributed.

6.2 *United States*

The New Shares have not been and will not be registered under the US Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and, accordingly, may not be offered or sold within the United States except in reliance on an exemption from the registration requirements of the US Securities Act.

6.3 *Excluded Territories*

Due to restrictions under the securities laws of the Excluded Territories and subject to certain exemptions, Shareholders who have registered addresses in, or who are resident or ordinarily resident in, or citizens of, any Excluded Territory will not qualify to participate in the Open Offer and will not be sent an Application Form nor will their stock accounts in CREST be credited with Open Offer Entitlements.

The Open Offer Shares have not been and will not be registered under the relevant laws of any Excluded Territory or any state, province or territory thereof and may not be offered, sold, resold, delivered or distributed, directly or indirectly, in or into any Excluded Territory or to, or for the account or benefit of, any person with a registered address in, or who is resident or ordinarily resident in, or a citizen of, any Excluded Territory except pursuant to an applicable exemption.

No offer of Open Offer Shares is being made by virtue of this document or the Application Forms into any Excluded Territory.

6.4 *Other overseas territories*

Application Forms will be sent to Qualifying Non-CREST Shareholders and Open Offer Entitlements will be credited to the stock account in CREST of Qualifying CREST Shareholders. Qualifying Shareholders in jurisdictions other than the United States or the Excluded Territories may, subject to the laws of their relevant jurisdiction, take up Open Offer Shares under the Open Offer in accordance with the instructions set out in this document and the Application Form. **Qualifying Shareholders who have registered addresses in, or who are resident or ordinarily resident in, or citizens of, countries other than the United Kingdom should, however, consult appropriate professional advisers as to whether they require any governmental or other consents or need to observe any further formalities to enable them to apply for any Open Offer Shares in respect of the Open Offer.**

6.5 *Representations and warranties relating to Overseas Shareholders*

(a) *Qualifying Non-CREST Shareholders*

Any person completing and returning an Application Form or requesting registration of the Open Offer Shares comprised therein represents and warrants to the Company, Collins Stewart and the Registrar that, except where proof has been provided to the Company's satisfaction that such person's use of the Application Form will not result in the contravention of any applicable legal requirements in any jurisdiction: (i) such person is not requesting registration of the relevant Open Offer Shares from within the United States or the Excluded Territories; (ii) such person is not in any territory in which it is unlawful to make or accept an offer to acquire Open Offer Shares in respect of the Open Offer or to use the Application Form in any manner in which such person has used or will use it; (iii) such person is not acting for the account of a person located within the United States or any Excluded Territory or any territory referred to in (ii) above at the time the instruction to accept was given unless: (a) the instruction to accept was received from a person outside such territories; and (b) the instructing person has advised such person that it has the authority to give such instruction and that either: (I) it has investment discretion or authority over such accounts; or (II) otherwise is

acquiring the Open Offer Shares in an offshore transaction within the meaning of Regulation S under the US Securities Act; and (iv) such person is not acquiring Open Offer Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such Open Offer Shares into any of the above territories. The Company and/or the Registrar may treat as invalid any acceptance or purported acceptance of the allotment of Open Offer Shares comprised in an Application Form if it: (i) appears to the Company or its agents to have been executed, effected or despatched from the United States or an Excluded Territory or in a manner that may involve a breach of the laws or regulations of any jurisdiction or if the Company or its agents believe that the same may violate applicable legal or regulatory requirements; or (ii) provides an address in the United States or an Excluded Territory for delivery of the share certificates of Open Offer Shares (or any other jurisdiction outside the United Kingdom in which it would be unlawful to deliver such share certificates); or (iii) purports to exclude the warranty required by this paragraph (a).

(b) *Qualifying CREST Shareholders*

A CREST member or CREST sponsored member who makes a valid acceptance in accordance with the procedures set out in this Part III represents and warrants to the Company and Collins Stewart that, except where proof has been provided to the Company's satisfaction that such person's acceptance will not result in the contravention of any applicable legal requirement in any jurisdiction: (i) he or she is not within the United States or any Excluded Territory; (ii) he or she is not in any territory in which it is unlawful to make or accept an offer to acquire Open Offer Shares; (iii) he or she is not acting for the account of a person located within the United States or any Excluded Territory or any territory referred to in (ii) above at the time the instruction to accept was given unless: (a) the instruction to accept was received from a person outside such territories; and (b) the instructing person has advised such person that it has the authority to give such instruction and that either: (I) it has investment discretion or authority over such accounts; or (II) otherwise is acquiring the Open Offer Shares in an offshore transaction within the meaning of Regulation S under the US Securities Act; and (iv) he or she is not acquiring any Open Offer Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such Open Offer Shares into any of the above territories.

6.6 **Waiver**

The provisions of this paragraph 6 and of any other terms of the Open Offer relating to Overseas Shareholders may be waived, varied or modified as regards specific Shareholders or on a general basis by the Company and Collins Stewart in their absolute discretion. Subject to this, the provisions of this paragraph 6 supersede any terms of the Open Offer inconsistent herewith. References in this paragraph 6 to Shareholders shall include references to the person or persons executing an Application Form and, in the event of more than one person executing an Application Form, the provisions of this paragraph 6 shall apply to them jointly and to each of them.

7. **Withdrawal rights**

Persons wishing to exercise or direct the exercise of statutory withdrawal rights pursuant to section 87Q(4) of the FSMA after the issue by the Company of a prospectus supplementing this document must do so by lodging a written notice of withdrawal within two Business Days commencing on the Business Day after the date on which the supplementary prospectus is published. The withdrawal notice must include the full name and address of the person wishing to exercise statutory withdrawal rights and, if such person is a CREST member, the participant ID and the member account ID of such CREST member. The notice of withdrawal must be deposited by hand only (during normal business hours only) with Capita Registrars, at Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU or by facsimile to the Registrar (please call the Registrar on 0871 664 0321 (calls to this number are charged at 10 pence per minute from a BT landline, other telephone provider costs may vary)

or, if calling from outside the UK on +44 20 8639 3399 for further details) so as to be received before the end of the withdrawal period. Notice of withdrawal given by any other means or which is deposited with the Registrar after expiry of such period will not constitute a valid withdrawal, provided that the Company will not permit the exercise of withdrawal rights after payment by the relevant person for the Open Offer Shares applied for in full and the allotment of such Open Offer Shares to such person becoming unconditional save to the extent required by statute. In such event, Shareholders are advised to seek independent legal advice.

8. Admission, settlement and dealings

The result of the Open Offer is expected to be announced on 15 July 2009. Applications will be made to the UK Listing Authority for the Open Offer Shares to be admitted to the Official List and to the London Stock Exchange for the Open Offer Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission will become effective and that dealings in the Open Offer Shares, fully paid, will commence at 8.00 a.m. on 15 July 2009.

The Existing Shares are already admitted to CREST. No further application for admission to CREST is accordingly required for the New Shares. All such shares, when issued and fully paid, may be held and transferred by means of CREST.

Open Offer Entitlements held in CREST are expected to be disabled in all respects after 11.00 a.m. on 9 July 2009 (the latest date for applications under the Open Offer). If the condition(s) to the Open Offer described above are satisfied, New Shares will be issued in uncertificated form to those persons who submitted a valid application for New Shares by utilising the CREST application procedures and whose applications have been accepted by the Company. The Receiving Agent will instruct Euroclear UK to credit the appropriate stock accounts of such persons with such persons' entitlements to Open Offer Shares with effect from Admission (expected to be 15 July 2009). The stock accounts to be credited will be accounts under the same CREST participant IDs and CREST member account IDs in respect of which the USE Instruction was given.

Notwithstanding any other provision of this document, the Company reserves the right to send Qualifying CREST Shareholders an Application Form instead of crediting the relevant stock account with Open Offer Entitlements, and to allot and/or issue any Open Offer Shares in certificated form. In normal circumstances, this right is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or of any part of CREST) or on the part of the facilities and/or systems operated by the Registrar in connection with CREST.

For Qualifying Non-CREST Shareholders who have applied by using an Application Form, share certificates in respect of the New Shares validly applied for are expected to be despatched by post by 22 July 2009. No temporary documents of title will be issued and, pending the issue of definitive certificates, transfers will be certified against the UK share register of the Company. All documents or remittances sent by or to applicants, or as they may direct, will be sent through the post at their own risk. For more information as to the procedure for application, Qualifying Non-CREST Shareholders are referred to paragraph 4.1 above and their respective Application Form.

9. Times and dates

The Company shall, in agreement with Collins Stewart and after consultation with its financial and legal advisers, be entitled to amend the dates that Application Forms are despatched or amend or extend the latest date for acceptance under the Open Offer and all related dates set out in this document and in such circumstances shall notify the UK Listing Authority, and make an announcement on a Regulatory Information Service approved by the UK Listing Authority and, if appropriate, by Shareholders **but Qualifying Shareholders may not receive any further written communication.**

If a supplementary prospectus is issued by the Company two or fewer Business Days prior to the latest time and date for acceptance and payment in full under the Open Offer specified in this document, the latest date for acceptance under the Open Offer shall be extended to the date that is

three Business Days after the date of issue of the supplementary prospectus (and the dates and times of principal events due to take place following such date shall be extended accordingly).

10. Taxation

Certain statements regarding United Kingdom taxation in respect of the New Shares and the Open Offer are set out in Part VII ("*Taxation*") of this document. Shareholders who are in any doubt as to their tax position in relation to taking up their entitlements under the Open Offer, or who are subject to tax in any jurisdiction other than the United Kingdom, should immediately consult a suitable professional adviser.

11. Further information

Your attention is drawn to the further information set out in this document and also, in the case of Qualifying Non-CREST Shareholders and other Qualifying Shareholders to whom the Company has sent Application Forms, to the terms, conditions and other information printed on the accompanying Application Form.

12. Governing law and jurisdiction

The terms and conditions of the Open Offer as set out in this document, the Application Form and any non-contractual obligation related thereto shall be governed by, and construed in accordance with, English law. The courts of England and Wales are to have exclusive jurisdiction to settle any dispute which may arise out of or in connection with the Open Offer, this document or the Application Form. By taking up Open Offer Shares in accordance with the instructions set out in this document and, where applicable, the Application Form, Qualifying Shareholders irrevocably submit to the jurisdiction of the courts of England and Wales and waive any objection to proceedings in any such court on the ground of venue or on the ground that proceedings have been brought in an inconvenient forum.

PART IV

INFORMATION ON DEVELOPMENT SECURITIES

1. Introduction

Development Securities is a UK property development and investment company. Its principal objective is to carry out substantial and complex development in a risk-averse manner with a view to generating returns for its shareholders.

The property development business, through the Trading and Development division, focuses on large-scale, multi-phase, urban developments in the office, retail and leisure sectors, with sites in central and suburban London and main provincial UK cities. The property investment business, through the Investment division, invests in properties in the UK and provides a stable base of income to contribute to overheads and interest costs. The Company also undertakes a serviced office business through its Operating division. The Group may also invest in existing loans secured on specific properties as more fully described in paragraph 5 of Part I ("*Letter from the Chairman of Development Securities PLC*") of this document, but does not currently undertake this business.

In recent years, development projects have provided a greater contribution to shareholder returns than property investment. For the year ended 31 December 2008, the segmental gross profit for each of the Trading and Development, Investment and Operating business divisions, as set out in paragraph 7.2 of Part V ("*Operating and Financial Review of Development Securities*") of this document, were £13.20 million, £2.98 million and a loss of £1.03 million respectively.

For the year ended 31 December 2008, the Group generated a loss of £65.6 million before tax (as compared with a profit before tax of £0.2 million for the year ended 31 December 2007), and shareholder funds decreased by £67.9 million to £161.0 million.

2. Company history, development and structure

Development Securities was incorporated in England and Wales on 18 November 1980 under the name Clayform Properties Limited. It was re-registered as a public company in 1985, and changed its name to Development Securities PLC in 1993.

On 26 August 2004, the Company raised £30.0 million by the issue of 8,333,332 Ordinary Shares pursuant to a firm placing and open offer.

On 29 November 2006, the Company raised £23.1 million by the issue of 3,700,000 Ordinary Shares pursuant to a non-pre-emptive placing.

On 31 October 2007, the Company purchased 400,000 Ordinary Shares which were then cancelled.

Development Securities PLC is the ultimate parent company of the Group. A list of Development Securities' principal subsidiaries is set out at paragraph 11 of Part VIII ("*Additional Information*") of this document.

3. Development property

3.1 Overview

Typically, Development Securities uses its expertise to identify potential major development sites, prepare detailed drawings and financial appraisals and seek any necessary variation to planning consents. In parallel with this activity, Development Securities presents the relevant scheme to leading financial institutions, inviting them to invest in the development of the project. At the point of commitment, the relevant investing institution typically buys the relevant site and simultaneously enters into a contract with Development Securities whereby the investing institution undertakes to provide the future financing for the development itself and Development Securities is obliged to build and let the building. Such contractual arrangements are known as forward-funding. Development Securities sometimes takes an equity stake in the major developments it has worked on. Current market conditions make it more likely that

developers such as Development Securities will be required to invest sums of money alongside the forward-funding institutional partner to secure participation in significant sites.

Once the funding and related ownership of a new development has been secured, Development Securities is normally responsible for project managing the construction process, delivering the building on time and within budget as well as letting the completed building, usually on institutional terms to tenants that the Company believes have robust financial positions.

Development Securities typically derives project management fees through the development process of a site and a participation in any gain arising to the investors when the relevant project is completed. In this way, Development Securities has the potential to profit from the quality of its developments whilst limiting the downside risk and financial exposure should the relevant completed building not be let profitably.

Instead of the forward-funding model described above, at the point of commitment, Development Securities may enter into a contract to sell the property prior to commencement of the relevant development for an agreed amount, thereby incurring the cost of funding the development itself. In these circumstances, typically Development Securities will seek to minimise its exposure to the risk that the purchaser may renege on the original sale contract by obtaining a bank guarantee. As a further option, Development Securities may undertake a pre-let development without having entered into a contract to sell the property prior to commencement. However, such developments tend to be smaller scale.

Where Development Securities acquires a direct interest in land for future development, it may seek joint venture partners to share even the initial land risk for large-scale projects, such as Curzon Street in Birmingham, on which Development Securities is joint venturing with Grainger PLC. Each development phase on such land could, if appropriate, be developed together with institutional partners on a more traditional forward-funded basis.

In the near term, Development Securities will be focusing on securing participation in development sites that the Directors believe will provide potentially attractive returns in the future, and is considering new development opportunities on a continuing basis.

3.2 *Principal developments*

3.2.1 *PaddingtonCentral*

Significant progress was achieved during 2008 on this major central London regeneration project. Practical completion of One Kingdom Street was achieved in February 2008 and the 250,000 square foot prime office building is now fully let except for 13,300 square feet which currently remains vacant. A 206-room four-star hotel, let to Accor, at Three Kingdom Street, attained practical completion in June 2008 and was open for business in the autumn of 2008.

In January 2008, Aviva Investors and Quinlan Private formed a joint venture partnership to forward-fund Two Kingdom Street on a speculative basis, representing 230,000 square feet of prime office accommodation and 22,000 square feet of high-end studio space. Construction started in February 2008 and is programmed for completion in early 2010.

3.2.2 *West Quay, Southampton*

In December 2008, Development Securities achieved practical completion of the prime headquarters building for Carnival UK, two months ahead of the scheduled delivery programme.

The 210,000 square foot office, developed with Aviva Investors, occupies the West Quay III site in Southampton's town centre. The building, with a 10,000 square foot atrium and five-storey sculpture surrounding its main entrance, was handed over to Carnival UK on 15 December 2008 for their internal fit-out. Carnival PLC had agreed, prior to commencement of the development, to take a 20-year lease upon practical completion. The entire development was forward-funded by Aviva Investors.

3.2.3 *CityPark, Manchester*

Construction is on schedule for the 147,000 square foot office building, which was forward sold in October 2007 to a private investor for part owner occupation. The scheme, financed on Development Securities' own balance sheet against the bank-guaranteed sale contract, is scheduled for completion in the third quarter of 2009. Separately, the leisure element of the site was sold in 2007 to a private investor, once Development Securities had obtained planning consent for a 250-room hotel.

3.2.4 *St Bride Street, London EC4*

Construction is proceeding in respect of this speculative 54,000 square foot office and retail project forward-funded with the Luxembourg-based Corpus Sireo Immobiliensfonds. Practical completion is scheduled for the first quarter of 2010.

3.2.5 *Colindale, London NW9*

In November 2007, Development Securities 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 30 June 2008. Subsequently, by mutual agreement, the due date on the outstanding £52.0 million loan notes was extended to 28 November 2008, to assist the purchaser in completing his financing arrangements. Unfortunately, the purchaser was unable to complete the acquisition and Development Securities appointed an LPA receiver, since all payments under the loan notes were secured by way of a first charge on the property in favour of Development Securities. Cash instalments of £16.0 million received from the purchaser were retained by Development Securities, and included in revenue in the income statement for 2008. Interest on the loan notes was paid by the purchaser up to 31 July 2008 and was included within other income as earned. Development Securities is now considering the options open to it to extract value from this property, including seeking an alternative planning consent, forming an operational partnership to re open the existing building for retail activity and an outright sale.

3.2.6 *Curzon Street, Birmingham*

In June 2008, Development Securities achieved outline planning consent for some 1.4 million square feet of office, residential, hotel and leisure uses on the 10.5-acre site which it acquired, in partnership with Grainger PLC, in November 2006. The Company intends that the first phase will incorporate a 75,000 square foot speculative office building, and a 200-bedroom hotel together with retail and leisure space. Curzon Street, which fronts Birmingham's new city park at the heart of Eastside, will represent one of Birmingham's major regeneration projects. At this time, the development is not viable without significant pre-letting.

3.2.7 *Broughton, Flintshire*

This development is comprised of two major parts, being a residential development scheme and a retail development scheme.

The planning inspector's final report on the UDP regarding Development Securities' 19-acre residential site has now been published and confirms the site as designated for residential use. It recommends 280 housing units to be developed on the site. Development Securities intends to consider how value can best be realised once planning consent has been granted.

Negotiations with British Land PLC regarding the 171,000 square foot extension to the existing Broughton Retail Park, in respect of which planning consent was obtained in April 2006 and a minor part of which would be located on land owned by Development Securities, have been discontinued.

Development Securities is in the early stages of negotiation for the disposal of some of its peripheral land holdings in the immediate vicinity that are unconnected to either the residential or the retail development schemes.

3.2.8 *Heart of Slough*

The Group is working with Slough Borough Council, English Partnerships and others on a mixed-use regeneration project in Slough. Development expectations have been curtailed by the economic recession, but the project recently moved forward when Slough Borough Council passed a resolution in May 2009 to grant outline planning permission for the Group's two proposed office buildings totalling 264,000 square feet. Detailed planning permission was provided for the Group's first office building of 94,000 square feet, which will be located on the current site of the Slough bus station. At this time, the new office development is not viable without significant pre-letting.

3.2.9 *Hammersmith Grove, London W6*

In September 2007, Development Securities exchanged conditional contracts with London Underground Limited for the acquisition of a 1.5-acre site in Hammersmith town centre, immediately adjacent to the Hammersmith and City Line underground station. Development Securities development will contain 325,000 square feet of offices together with ancillary retail and leisure space. Although Development Securities was able to assemble the long-term equity partners required to finance this transaction, the lack of bank finance for the development stage left its original equity co-investors unable to proceed with the project as originally planned. The Directors believe that it now seems likely that this development will need to await the next upturn in the property cycle and Development Securities is in dialogue with London Underground Limited regarding an extension of its contractual arrangements. In March 2009, one of the original investors withdrew from the scheme, transferring their units in the scheme to the Group.

3.2.10 *The Royals Business Park*

Early in 2008, Development Securities received £5.2 million from The London Development Agency, which included the reimbursement of infrastructure and other costs which had been incurred by it since commencement of this project. Following the disposal by Standard Life Investments, the forward-funding institution, of the initial 252,000 square foot office facility, Development Securities is now planning a second phase which it intends to contain three hotels and a speculative office building of up to 75,000 square feet. An application for detailed planning consent will be submitted in due course.

3.2.11 *Cambourne*

With three phases already completed at Development Securities' 750,000 square foot office park scheme located nine miles from Cambridge, the significant reduction in letting interest has led Development Securities to defer the next phase of 50,000 square feet, for which the Group owns the land outright. Since Development Securities holds a 44 per cent. interest in the land still remaining to be developed, it is now in early stages of discussion with its co-investors to restructure its 10-year development agreement, which expired at the end of 2008.

3.2.12 *Hartfield Road, Wimbledon, London SW19*

Resolution to grant planning was obtained in May 2008 for 35,000 square feet of retail use and 83,000 square feet of private apartments together with a number of affordable residential units. Pre-letting of the retail component will be a necessary precondition to construction.

3.2.13 *Kirkby Shopping Centre, Liverpool*

In April 2008, Development Securities disposed of its entire interest in Kirkby Shopping Centre for £65.5 million to The Tesco Kirkby Limited Partnership, of which £10.5 million is not yet received but is guaranteed by Tesco Stores Limited. The consideration was marginally more than the price Development Securities paid for the property 12 months previously, notwithstanding significantly more adverse market conditions in 2008.

3.2.14 *Weeke Local Centre, Winchester*

Construction at Development Securities' Waitrose anchored retail scheme in Winchester continues on programme and within budget, with practical completion scheduled for late September or early October 2009. Development Securities is now concentrating on leasing the three vacant retail units adjoining the food store.

3.3 *Joint venture development projects*

Development Securities extends the reach of its core activities by participation in several joint venture development activities. Development Securities selects partners with complementary skills, thereby gaining access to other sectors and other regions in the UK. Development Securities' partners include Blue Living, which specialises in sustainable residential development, Fiducia, which develops local retail schemes within new residential developments and CTP, which conducts mixed use development in the north of England.

4. **Investment property**

4.1 *Overview*

New developments and their impact on Development Securities' cash flow can be unpredictable as to timing and vulnerable to the development cycle. The profits and cash flow from large developments can be uneven because they have a long lead time and are influenced substantially by market conditions. Development Securities therefore complements its development business with a property investment portfolio which provides a stable base of rental income and a steady and predictable flow of funds, contributing significantly towards interest costs and central overheads.

This portfolio of investment properties is spread across the UK and across a mix of diverse business sectors including retail, office and industrial: the mix is driven by market conditions, availability and stock selection. As at 31 December 2008, the Group's investment property portfolio (including land and investment properties under development) was valued at £134.1 million.

The spread of investment properties by location and sector (in each case, by reference to annualised rental income and excluding trading and operating properties) as at 28 February 2009 was:

Investment by location

South East England	56.0 per cent.
North	17.7 per cent.
London	9.9 per cent.
South West England	17.0 per cent.

Investment by sector

Retail	69.1 per cent.
Office	18.3 per cent.
Industrial	11.9 per cent.
Residential	0.7 per cent.

Tenants of the Group's investment properties are typically PLCs and national corporates with a significant proportion also being local traders. The length of leases granted to the Group's tenants is well spread over short- and long-term leases.

The Company's tenant profile and the lease profile (in each case, by reference to annualised rental income and excluding trading and operating properties) as at 28 February 2009 was:

Tenant profile

Government	2.0 per cent.
FTSE 100	1.1 per cent.
PLC/Nationals	54.7 per cent.
Regional Multiples	13.0 per cent.
Local Traders	29.2 per cent.

Lease Profile

0 < 5 years	33.7 per cent.
5 – < 10 years	26.7 per cent.
10 – < 15 years	12.1 per cent.
15 – < 20 years	17.0 per cent.
20 years +	10.5 per cent.

As at 31 December 2008, the vacancy rate of the Group's investment properties was 10.3 per cent. (9.1 per cent. excluding development properties).

Development Securities' strategy will continue to focus on assets with a mix of core defensive income and asset management initiatives to drive value in the medium term.

4.2 *Principal investment properties*

In the main, Development Securities' acquisition of investment properties is assisted by the provision of finance from banks, who take security over such properties. The following is a description of the principal investment properties in the Company's portfolio:

4.2.1 *The Furlong Centre, Ringwood*

A retail scheme comprising 23 shops, anchored by a 43,805 square foot Waitrose, The Furlong Centre has lettings to a multiple of fashion retailers following an extension to the Waitrose anchor.

During 2008, Development Securities obtained planning permission to extend the fashion-led centre by 44,300 square feet. The current limited level of interest in the market in pre-letting retail space dictates that a more rigorous phasing plan will be required in conjunction with a more conservative land acquisition strategy for the extension to be viable. Within the existing centre, the inherent value of rental reversions, ignored in the current investment market pricing, should crystallise over the next three years as rent reviews are determined. Even within the existing difficult letting market, Development Securities leased a new store to Crew Clothing in December 2008, setting a scheme-high £85 per square foot Zone A rental level. Development Securities currently has seen good leasing interest in the remaining two vacant units.

4.2.2 *Atlantic Village, Bideford*

A 150,696 square foot factory outlet centre in Devon, the site comprises approximately 20 acres with planning permission for open A1 retail uses.

A 55,000 square foot ASDA store immediately adjacent to the Group's property has recently opened. Development Securities' objective is to induce these shoppers to increase their time within the centre and, to this end, Development Securities was pleased to secure Marks & Spencer into a newly configured 10,500 square foot unit.

The Directors believe that Atlantic Village has the potential to become the retail centre of choice for the local population, thus improving footfall, especially outside the tourist season. A master plan for 40,000 square feet open A1 retail accommodation to act as an additional anchor will be submitted within the coming months.

4.2.3 *Swanley Shopping Centre, Swanley*

This low-density retail courtyard scheme totalling 81,571 square feet comprises the main retail centre for this dormitory town in Kent.

In the current economic downturn, Development Securities has revised its proposals to redevelop the Swanley Shopping Centre and will now create value through a phased refurbishment programme. The first phase will be a 16,000 square foot letting to a national variety store operator, strengthening the focus of the centre as a convenience-based shopping centre. It should then be possible to generate further lettings off the new anchor.

4.2.4 *Kingsland Centre, Thatcham*

A neighbourhood retail centre outside Newbury, the scheme comprises 14 retail units plus a 29,399 square foot Waitrose store and surface car parking area.

The scheme extension has been re-evaluated to improve viability by retaining the Waitrose store and reconfiguring the service areas, thus enabling the release of 35,000 square feet of open A1 retail space on car park land and adjoining areas. Development Securities believes this will reinvigorate the centre and improve rental level. Development Securities believes the planning authority is likely to support the necessary variation to the outline permission which Development Securities received in 2007.

4.2.5 *South Wales*

Development Securities has had an offer accepted on a retail warehouse park in South Wales. The property is 86,406 square feet, and the offer price is approximately £10 million. Development Securities is in discussions with two banks to provide loan finance for four years at around a 65 per cent. loan to value ratio. If Development Securities' due diligence investigations prove satisfactory, and on the condition that appropriate loan finance is agreed, and subject to agreement and exchange of contracts with the vendor, Development Securities expects to proceed with this purchase before completion of the Firm Placing and Placing and Open Offer. The transaction will not be funded from the Net Proceeds.

4.2.6 *Other portfolio properties*

Development Securities owns a 159,236 square foot industrial estate spread over nine units fronting the A4 in West London. Development Securities is beginning to see income returns improve here as it crystallises rental reversions through the rent review process, focusing on trade park rents for units with direct frontage on to the busy Great West Road.

Development Securities also owns a 101,870 square foot department store situated between the sea front and the newly opened retail scheme in Blackpool. At its retail scheme in Blackpool, Development Securities has completed the letting of 10,000 square feet to Dorsman Estates Company Limited (trading as Peacocks) and is now seeking an operator for the leisure space which fronts on to The Promenade, immediately adjacent to the Blackpool Tower. Following the closure of the market-trading business contained in the building, Development Securities has refurbished the building and subdivided it into separate, conventional, retail units.

5. Operating properties

The Group operates a small serviced-office business out of eight centres in the UK, including the property at Vancouver House, Edgbaston held by the Group on long leasehold. Revenue is received principally from short-term licence fee income. The business offers further flexibility to the Group's core development and investment businesses. Prior to 2008, the Group also operated a retail business in Blackpool which was closed in 2007.

6. Material commitments

For further details of the Group's material commitments please see paragraph 9.3 of Part V ("*Operating and Financial Review of Development Securities*") of this document (see page 79).

PART V

OPERATING AND FINANCIAL REVIEW OF DEVELOPMENT SECURITIES

The following is a discussion of the results of operations and financial condition of the Company for the years ended and as at 31 December 2008, 2007 and 2006. Prospective investors should read this discussion in conjunction with the Company's financial statements described in Part VI ("*Financial Information on Development Securities*") of this document. This discussion of the Company's results of operations is based on IFRS financial information for the years ended 31 December 2008, 2007 and 2006.

In addition, the following discussion and analysis contains certain forward-looking statements that reflect plans, estimates and beliefs of the Company. The actual results of the Company may differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this document, including under the heading "*Risk Factors*" (see pages 10 to 19).

References in this operating and financial review of the Group to "2008", "2007" and "2006" refer to the years ended 31 December 2008, 2007 and 2006, respectively.

1. Overview of business

The Company is a UK property development and investment company. Its principal objective is to carry out substantial and complex property development in a risk-averse manner. The property development business focuses on large-scale, multi-phase, urban developments in office, retail and leisure sectors, with sites in central and suburban London and main provincial UK cities. The property investment business invests in properties in the UK and provides a stable base of income to contribute to overheads and interest costs.

Key to the Company's approach is the forward-sale of development projects to investors, typically institutions, thereby transferring major development risk, as described in paragraph 3.1 of Part IV ("*Information on Development Securities*") of this document. The Company earns fees for project management and participates in the profits of such development projects, with its risk capital typically limited to a modest equity involvement.

A more detailed description of Development Securities is set out in Part IV ("*Information on Development Securities*") of this document.

2. Operating segments

For management purposes, the Group is currently organised into three operating divisions: (i) Investment, (ii) Trading and Development, and (iii) Operating. The Investment division manages the Group's investment property portfolio, generating rental income and capital gains from asset management. The Trading and Development division manages the Group's development projects. Revenue is received from project management fees, development profits and the disposal of inventory. Following closure of the Group's small retail business in 2007, the Operating division offers serviced office operations with revenue principally received from short-term licence fee income.

3. Key factors affecting results of operations

The Company believes the following factors have had and may continue to have a material effect on the Company's results of operations:

3.1 *Real estate market conditions*

The Group generates development revenues from participation in development profits, from project management fees and occasionally from trading land for potential development. In addition, the Group earns rental income from leasing investment properties and obtains profits from the sale of these properties.

The Company's results of operations and prospects are significantly affected by general economic conditions and by real estate markets in the UK, including a variety of changing factors and trends over which it has no influence. These factors include global as well as national economic trends, interest rate levels, capitalisation rates applicable in property markets, access to credit, competition for tenants, creditworthiness of tenants and general legal and tax conditions. These economic and market conditions may influence, among other things, the returns achievable from development projects, the Company's ability to source and obtain development opportunities, the Company's ability to find investors to finance property developments, the Company's ability to maintain or grow rental income, occupancy levels at the Company's investment properties, tenant demand for its development properties and the proceeds the Company may receive from any sale of properties.

The current economic downturn and the challenging UK real estate markets may continue to impair occupier profitability and hence demand, which is likely to make it harder to secure tenants for development properties and to increase tenant default at the Company's existing investment properties. These factors will also affect the profitability of current projects and the viability of potential developments, and create further negative valuation movements in the Company's investment portfolio.

3.2 *Revaluation of real estate*

At each balance sheet date, the market value of the Company's investment property portfolio is valued by independent property valuation firms and by the Directors. The portfolio is restated to its fair value in the Company's balance sheet, with any movements in value reflected in the income statement. The valuation of each property is assessed in accordance with the relevant parts of the RICS Appraisal and Valuation Standards. The effect of the revaluation of the Company's investment portfolio causes volatility in the Company's income statement, although this is not a cash movement.

Market pricing is affected by a number of factors, including GDP growth rates, cost and availability of credit and the relative pricing of other asset classes. In the current economic downturn, commercial real estate values have significantly reduced, which has had a material impact on the valuation of the Company's property portfolio. In 2008, the valuation of the Group's investment portfolio fell by £45.1 million, following an increase of £5.1 million in the year ended 31 December 2007 and an increase of £21.8 million in the year ended 31 December 2006.

The Company's larger development projects are owned by its funding partners. Changes in the market value of these developments affect the Company's revenue arising from the development gain, with the further possibility of the erosion of the Company's modest equity stake (if any) to zero, should the development remain unlet for a considerable period, or the market yields move out significantly. For 2008, the Company reported development profits of £13.2 million.

Smaller development sites and Trading Properties are held as "*Inventory – developments and trading properties*" on the Company's balance sheet. Changes in market value affect the amount at which such sites can be sold, and the profit or loss made on realisation. There is no adjustment to the carrying value of these sites, unless the estimate of ultimate disposal proceeds falls below estimated total cost, in which case the Company provides for the amount of that shortfall.

3.3 *Cyclical and long-term nature of development business*

Large scale property development is a cyclical and long-term business. From inception to realisation of profits, a project typically extends for two to five years, with multi-phase projects often running for longer. Profits and cash flows from such projects are therefore difficult to predict and uneven in realisation and this may produce significant fluctuation in the Company's revenues and profits from year to year. The Company attempts to smooth this pattern through its investment portfolio, which produces a more predictable and reliable flow

of net rental income and partially offsets the Company's salaries, other overheads and funding costs in those periods where no development profits arise.

3.4 *Use of debt financing*

The Company is prudent in its use of debt and remains committed to maintaining a modest level of gearing by comparison to its sector peers. As at 31 December 2008, the Company's gearing was 54.1 per cent., which was unusually high for the Company, reflecting the fall in the value of net assets during the year to 31 December 2008. At 31 December 2007 and 2006, gearing was 31.2 per cent. and 6.2 per cent. respectively. Gearing includes borrowings pursuant to long-term, unsecured, subordinated bonds of €47 million repayable in 2027. If these borrowings are omitted, gearing at 31 December 2008 would decrease to 33.5 per cent.

The principle of forward-selling its large developments means that the Company limits its borrowing requirements to fund such projects. The Directors are committed to using debt finance to fund only investment properties and more modest developments, and avoiding excessive loan to value ratios.

This deliberate restriction of leverage tends to moderate the Company's total returns, but lowers the Company's exposure to onerous debt covenants, refinancing requirements and repayment obligations in the event of a market downturn.

For an explanation of certain amendments to financial covenants in certain facilities, please see paragraph 9.2 below.

4. **Key performance indicators**

Since the business of property investment and development, especially that of the Group which has a considerable emphasis on development activity, can only be properly judged over a period of several years (likely to be a complete economic and property cycle), annual performance indicators are of less relevance to the management of the Development Securities business than for other business sectors. However, the Directors regularly review the following key performance indicators:

- net asset values
- IPD total return
- gearing
- total shareholder return,

and believe that an understanding of these key financial and operating measures and the trends that may affect the Company's business in future periods is a useful tool in understanding the performance of the business.

The key performance indicators comprise the following:

- net asset value growth/decline consists of the change in the total net assets of the Group expressed as a percentage
- IPD total return is the total return from the investment property portfolio (excluding land and properties under development) as defined and measured by IPD, comprising net rental income or expenditure and capital gains or losses from disposals and revaluation surpluses or deficits, divided by the average capital employed during the relevant financial period
- gearing represents net debt divided by total shareholders' funds, expressed as a percentage
- total shareholder return is the movement in share price over the relevant year plus dividends paid in the relevant year as a percentage of the opening share price at the start of the relevant year.

The table below presents net asset value growth/(decline), IPD total return, gearing and total shareholder return as at or for the dates presented:

	<i>Year ended 31 December</i>		
	2008	2007	2006
Net asset value (decline)/growth %	(29.6)	(1.1)	23.4
IPD total return %	(18.7)	3.7	18.5
Gearing %	54.1	31.2	6.2
Total shareholder return %	(43.8)	(28.2)	33.5

(a) *Net asset value*

The Group suffered an unprecedented decline in net asset value in 2008. The principal reason for the result in 2008 was the fall in real estate values triggered by the credit crisis and the prospect of a sharp reduction in bank lending to the sector. Property values peaked in the middle of 2007, since then the IPD Index has recorded a fall of some 43.6 per cent. to the end of May 2009. The value of the Group's investment portfolio fell and in some cases the carrying value of the Group's Trading Properties was written down. The impact was partially mitigated by the successful conclusion of two major developments, which contributed significant profits, although these profits were also restricted by the softening in market yields. The Group's net finance costs were high in the year, incorporating the break costs of a fixed interest loan facility and mark-to-market valuations in respect of the Group's fixed interest swaps, consequent upon the reduction in market interest rate expectations in late 2008. In the year to 31 December 2007, strong development profits and a modest increase in the value of the investment portfolio broadly matched net finance and other operating costs, producing a minimal movement in net asset value for the year. In the year to 31 December 2006, a similar level of development profits were supplemented by significant revaluation gains, thereby considerably exceeding net finance and other operating costs, resulting in an increase in net asset value for the year of £43.9 million.

(b) *IPD total return*

The performance of the Group's investment portfolio is measured by the IPD, on a consistent basis from year to year and between peer companies. The Group's IPD total return has declined since 31 December 2006 as a result of softening real estate yields. However, the Group has outperformed the IPD Index in each of the three years to 31 December 2008 (and over both five and seven year periods), which the Directors believe is the result of its careful stock selection and active asset management.

(c) *Gearing*

Although the Group's gearing has increased since 2006, it continues to be modest compared to sector peers at 54.1 per cent. as at 31 December 2008. The Group maintained a policy of low gearing by restricting its borrowings mainly to income-producing properties (and a limited level of development property), and by resisting the higher loan to value ratios offered by the banks in the bull phase of the market.

(d) *Total shareholder return*

Total shareholder return has declined significantly from 33.5 per cent. in the year ended 31 December 2006 to a negative return of 43.8 per cent. in 2008. This has been caused by a decline in the Company's share price over this period. In addition, the Company's record of steady dividend growth was halted in 2008 by the prudent decision to conserve cash resources, as a result of the shortage of liquidity in the marketplace. Total shareholder return is a useful guide to the relative performance of the Group over the property cycle. The Directors believe that, when comparing shareholder returns with peer companies, the Group's risk-averse approach to both operations and funding should be taken into account. The average total shareholder return for the Group since 2000 (the date on which the Directors believe that the present cycle commenced) is 6.03 per cent. per annum. This compares to 8.10 per cent. as similarly derived from the Real Estate index. One of the biggest contributors to this comparative underperformance is the lower level of gearing which the Group has operated over the current cycle. The reduction in exposure to volatility leads to a lower required and

actual level of return. The lower level of gearing has correspondingly reduced the impact of the economic downturn on the Group's business.

5. Property valuations

The Group's investment properties are valued by independent valuers and by the Directors on a semi-annual basis. The valuation as at 31 December 2008 is referenced at note 11 of the consolidated financial statements of the Company for the year ended 31 December 2008 which are incorporated by reference into this document.

Since 31 December 2008, the IPD Index has shown property valuation falls of 3.0 per cent., 3.1 per cent., 3.1 per cent., 2.3 per cent. and 1.6 per cent. respectively for January, February, March, April and May 2009. Over the last three years, movements in the valuations of the Group's investment property portfolio have been broadly correlated with movements in the IPD Index over such period.

6. Current trading and prospects

For details on current trading and prospects, see paragraph 6 of Part I ("*Letter from the Chairman of Development Securities PLC*") of this document.

7. Results of operations

The selected financial information for the Group for 2008, 2007 and 2006 as set out below has been extracted, without material adjustment, from the financial statements incorporated herein by reference. Investors should read the financial statements and should not rely solely on the selected financial information contained herein.

7.1 Summary of results

The following table summarises the Group's consolidated results for the three years ended 31 December 2008:

	<i>Year ended 31 December</i>		
	2008 £'000	2007 £'000	2006 £'000
Revenue	171,114	60,358	48,727
Direct costs	(155,958)	(45,937)	(32,776)
Gross profit⁽¹⁾	15,156	14,421	15,951
Operating costs	(13,395)	(11,396)	(10,257)
Gain/(loss) on disposal of investment properties	539	9	(97)
(Loss)/gain on revaluation of property portfolio	(45,060)	4,319	21,346
Net foreign currency difference	–	262	–
Operating (loss)/profit	(42,760)	7,615	26,943
Other income	2,759	416	–
Share of post-tax (losses)/profits of joint ventures and associates	(9,837)	(769)	151
Income/(loss) from financial assets	1,311	(63)	63
Impairment provision of financial assets	(2,145)	(500)	–
Loss on sale of other fixed assets	(5)	–	–
Profit on sale of investment	293	–	–
(Loss)/profit before interest and income tax	(50,384)	6,699	27,157
Finance income	3,042	3,809	2,954
Finance costs	(18,298)	(10,264)	(7,321)
(Loss)/profit before income tax	(65,640)	244	22,790
Income tax	5,080	(205)	769
(Loss)/profit attributable to equity shareholders	(60,560)	39	23,559

Note:

(1) Segmental analysis of Gross profit:

	<i>Year ended 31 December</i>		
	2008 £'000	2007 £'000	2006 £'000
Gross rental income	8,925	9,404	8,995
Direct property expenditure	(5,943)	(2,543)	(1,601)
Investment segment result	<u>2,982</u>	<u>6,861</u>	<u>7,394</u>
Net development and trading property gain	39,972	8,999	8,480
Provision for net realisable value of trading properties	(26,769)	–	–
Development segment result	<u>13,203</u>	<u>8,999</u>	<u>8,480</u>
Net operating (costs)/income	(1,029)	(337)	77
Operating business closure costs	–	(1,102)	–
Operating segment result	<u>(1,029)</u>	<u>(1,439)</u>	<u>77</u>
Total segment result	<u><u>15,156</u></u>	<u><u>14,421</u></u>	<u><u>15,951</u></u>

7.2 *Description and comparison of certain income statement line items for the years ended 31 December 2008, 2007 and 2006*

(a) *Gross profit*

The Group's gross profit represents the contribution (shown as the segment result) from each of the Group's operating segments.

(b) *Investment segment result*

The Investment segment result consists of gross rental income less direct property expenditure. Gross rental income consists of rental income and other income generated from the Group's investment properties, such as incentives for lessees to enter lease agreements which are spread evenly over the relevant period. Direct property expenditure consists of expenditure related to the Group's investment properties including repairs and maintenance, rates payable and void costs.

Gross rental income has remained fairly constant for 2008 (£9.0 million), 2007 (£9.4 million) and 2006 (£9.0 million), with variations mainly reflecting improvements in rental values and changes in the portfolio of assets. Direct property expenditure (2008: £5.9 million; 2007: £2.5 million; and 2006: £1.6 million) has also remained relatively consistent taking into account provisions made for onerous property leases of £4.5 million in 2008 and £0.3 million in 2007.

(c) *Development segment result*

The Development segment result consists of development proceeds and profit share, project management fees and the sale proceeds of trading property, undeveloped land and building units held as inventory less costs of such sales. Where the estimate of ultimate disposal proceeds of Trading Properties held in stock falls below the estimated total cost, the Company provides for the amount of that shortfall as a provision for net realisable value.

Net development and trading property gains were consistent in 2007 (£8.9 million) and 2006 (£8.5 million). Net development and trading property gains in 2008 (£40.0 million) included net contributions from the completion of projects at One Kingdom Street, Paddington Central and West Quay, Southampton, aggregating to £22.2 million. Development revenue for 2008 also included £15.0 million (net of costs) received in respect of the aborted sale of Colindale, London NW9. These profits for 2008 were partially offset by write-downs of Trading Properties amounting to £11.5 million, together with a write-down of £15.3 million in respect of the carrying value of the Group's interest in Colindale.

(d) *Operating segment result*

For the Operating segment, revenue comprises licence fee income and revenue from other services when provided.

The Operating segment result was a loss of £(1.0) million for 2008, a loss of £(1.4) million for 2007 and a gain of £0.1 million for 2006. Following the closure of the Group's small retail business in 2007, this division comprises the Executive Communication Centres serviced office business. The Directors are growing this business, which currently generates modest operating losses as new centres are brought into operation.

(e) *Operating costs*

Operating costs represent the Group's overheads and primarily comprise staff costs and administrative expenses, including rental costs and legal and professional fees.

Operating costs of the Group were £13.4 million for 2008, £11.4 million for 2007 and £10.3 million for 2006. Underlying costs for 2008 were broadly in line with 2007 and the increase was caused by redundancy costs and a charge of £1.3 million in respect of the Company's lease at One Kingdom Street, PaddingtonCentral, for the period of overlap with the Company's existing office. Operating costs increased in 2007 compared to 2006 as a result of increased bonus payments and legal and professional costs.

(f) *(Loss)/gain on revaluation of property portfolio*

Investment properties are those properties that are held by the Group either to earn rental income or for capital appreciation or both. Investment properties are measured initially at cost, and thereafter are stated at fair value, which reflects market conditions at the balance sheet date, unless the market value cannot be reliably estimated, in which case the assets are carried at cost. The (loss)/gain on revaluation of investment properties reflects the periodic movement in the market value of the Group's investment properties, determined by independent valuers and by the Directors, and results in gains or losses in the Company's income statement, based on the change to the valuation of the portfolio compared with the valuation at the end of the previous financial year.

The Group reported a net deficit on revaluation of £45.1 million for 2008 following a gain of £4.3 million for 2007 and a gain of £21.3 million for 2006.

These declining results were significantly driven by wider real estate market movements, as yields have moved out, triggered by the credit crisis. Investment property values in the UK are widely viewed to have peaked in summer 2007. The IPD total return for each of the three years was (22.1) per cent. in 2008, (3.4) per cent. in 2007 and 18.1 per cent. in 2006. The movement in the Group's completed portfolio, as calculated by the IPD, was (18.7) per cent. in 2008, 3.7 in 2007 and 18.5 in 2006. The decline in 2008 mainly reflected the shift in average yield applied, from 7.0 per cent. in 2007 to 9.0 per cent. in 2008, and values based on initial rather than equivalent yield. In addition to the revaluation of the completed portfolio, the Directors wrote down the value of land (held for development of investment property) within the investment portfolio. The significant increase in capital values seen in 2006 and the first half of 2007 were driven primarily by the falling investment yields as the weight of money targeting the real estate sector continued in its stride.

(g) *Share of post-tax (losses)/profits of joint ventures and associates*

An associate is an undertaking which is not a subsidiary or a joint venture, over which the Group has significant influence. A joint venture is an undertaking which is not a subsidiary, over which the Group has significant influence and which is jointly controlled by two or more entities. The Group operates a number of joint ventures with different partners and a number of associates. Further details can be found at note 12 to the financial statements of the Group for 2008 which are incorporated by reference into this document.

The Group suffered a loss of £9.8 million in respect of associates and joint ventures in 2008, as compared with a loss of £0.8 million for 2007, and a gain of £0.2 million for 2006.

During 2008, the Company recognised a charge of £8.6 million in respect of its share of the Curzon Street, Birmingham project, largely in respect of the fall in value of the underlying property.

(h) *Other income*

Other income represents sundry non-recurring income. The principal amounts included in the relevant periods comprised receipts of £2.8 million in 2008 and £0.4 million in 2007 in respect of interest received on deferred proceeds in respect of an asset sale.

(i) *Finance income*

Finance income consists of interest receivable and other finance income. Finance income was £3.0 million in 2008, £3.8 million in 2007 and £3.0 million in 2006.

(j) *Finance costs*

Finance costs consist of interest payable on bank loans and other borrowings, loan repayment fees, interest on debenture, amortisation of transaction costs, net foreign currency movements on cash balances and fair value loss/(gain) on financial instruments such as interest rate caps and collars, less interest capitalised on development projects.

Finance costs were £18.3 million for 2008, £10.3 million for 2007 and £7.3 million for 2006. Interest payable on borrowings increased from £7.8 million in 2006 to £10.6 million in 2007, as a result of higher interest rates and higher borrowings, and to £11.6 million in 2008. The decision by the Company to terminate a £34.5 million fixed rate loan early in 2008 incurred a break penalty of £5.9 million. IAS 39 requires that the Company revalues interest rate swaps to their current market value, although these instruments are purchased and held by the Group to obtain certainty over interest costs, and not for trading. The falls in base rates through the final quarter of 2008 resulted in a non-cash charge in respect of interest rate swaps of £3.2 million in the income statement, and a further £2.4 million in the net unrealised gain reserve, aggregating to a £5.6 million reduction in net asset value in respect of such mark-to-market adjustments.

(k) *Income tax*

Income tax consists of the following elements:

Current tax is the expected tax payable on the taxable income for the relevant year, together with any adjustment in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on differences between carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred income tax liabilities are generally recognised for all taxable temporary differences and deferred income tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences or unutilised tax losses can be utilised.

In 2008, there was no tax charge as a consequence of the use of losses brought forward and arising in the period. The large revaluation deficits gave rise to significant potential deferred tax credit balances, but the Directors restricted recognition of these assets as market conditions did not offer sufficient probability of profits in the foreseeable future within the terms of IAS 12. In 2007 and 2006, tax represented a £0.2 million charge and a credit of £(0.8) million respectively. The charge in 2006 was lower than the standard rate of tax on profits due to the utilisation of losses brought forward and other tax planning measures.

8. Capitalisation and indebtedness

Set out below is a statement of the Company's capitalisation as at 31 December 2008 which has been extracted without adjustment from, and should be read together with, the Group's audited consolidated financial statements as at and for the year ended 31 December 2008, which are

incorporated by reference into this document. The indebtedness information as at 31 March 2009 has been sourced from the Company's accounting records.

Company's capitalisation

	<i>As at 31 December 2008 £'000</i>
Shareholders' equity	
Share capital	20,302
Share premium	109,907
Share-based payments	64
Capital redemption reserve	1,631
	<u>131,904</u>

Group's net financial indebtedness

	<i>As at 31 March 2009 (unaudited) £'000</i>
Cash and cash equivalents	
Cash at bank and in hand	28,598
Cash equivalents ⁽¹⁾	20,956
Total cash and cash equivalents	<u>49,554</u>
Current financial debt	
Guaranteed	361
Secured	1,122
Unamortised transaction costs	(342)
	<u>1,141</u>
Non-current financial debt	
Secured	109,122
Unsecured	43,567
Unamortised transaction costs	(1,664)
Total non-current financial debt	<u>151,025</u>
Net financial indebtedness	<u>(102,612)</u>

Note:

(1) Includes £21.0 million pledged as security against financial liabilities.

As at the date of this document, there has been no material change in the cash, indebtedness, contingent liabilities or guarantees of Development Securities since 31 March 2009 and no material change in the capitalisation since 31 December 2008.

The Group also has derivative financial instruments not reflected in the tables above. As at 31 March 2009, the values of the Group's cross-currency interest rate swaps were an asset of £7.7 million and interest rate caps and collars were a liability of £3.1 million.

The Group has entered into a number of guarantees in relation to its business, guarantees for investees, associates and joint ventures and guarantees in association with rent liabilities for properties previously occupied by Group companies. At 31 March 2009, the value of these contingent liabilities were £0.1 million, £2.7 million and £1.5 million respectively.

9. Liquidity and capital resources

9.1 Overview

The Group's strategy for its capital is to maintain a prudent balance of equity and debt appropriate to the profile of the Group's asset portfolio, taking account of intentions for each asset. The Group's gearing has been maintained at a modest level compared with sector peers, and even following the falls in asset values remains at 54.1 per cent. as at 31 December 2008 and at 64.4 per cent. as at 31 March 2009. Within the Group's debt facilities, there is a mix of fixed and variable rates, in general preferring the certainty of fixed rates for larger and longer-term borrowings.

The Group limits its risk in development projects through the principle of forward sales. This is achieved in various ways, from the completed sale of the land and project assets, through to the contracted sale of the prospective development, with appropriate guarantees of completion. The Group's direct contribution to more modest development project finance is provided by way of equity and medium-term bank facilities which provide the necessary flexibility to draw down funds as required.

The Group's investment portfolio is financed using its own equity, a debenture loan and bank borrowings of an appropriate term for each asset or group of assets. Investments by the Group in joint ventures and associates are funded from the Group's own equity, with gearing deployed within the ventures themselves.

Medium-term liquidity is arranged through a mix of the Group's own equity and its debt facilities. The Group maintains both active and reserve banking facilities. The Group retains additional flexibility in managing its medium-term liquidity through the ability to dispose of land or buildings held within its trading, development and investment portfolios, which contain a number of freehold properties that are considered by the Directors to be readily marketable owing to their lot size and development or investment characteristics.

Owing to the nature of the Group's business, short-term liquidity requirements are reasonably predictable. Cash balances are monitored on a daily basis. Cash and short-term deposits are placed across a few banks and financial institutions with high credit ratings, taking care to avoid a significant concentration of credit risk with any one counterparty, and selecting periods that optimise the interest received whilst maintaining suitable flexibility for the Group's operations.

9.2 Description of bank facilities and borrowings

The Group's bank facilities are set out in the table below. As at 31 December 2008, the nominal value of the Group's gross borrowings was £147.9 million (2007: £144.6 million and 2006: £102.9 million). Cash balances were £60.7 million (2007: £73.1 million; 2006: £88.5 million), including amounts of £31.7 million (2007: £45.3 million; 2006: £6.9 million) held as restricted deposits, which represent cash collateral deposited as security for certain existing loan facilities and swap instruments. As at 31 December 2008, restricted cash balances also included £10.5 million (2007: £30.4 million; 2006: nil) of cash received from the purchaser of a building under development by the Company, which was completed in December 2008; the remaining balance of this cash has been released in 2009. As at 31 December 2008, net debt was £87.2 million and gearing was 54.1 per cent. (2007: £71.5 million and 31.2 per cent. and 2006: £14.4 million and 6.2 per cent.). Committed facilities totalled £252.2 million with a weighted average term of 10 years. Unutilised facilities were £114.8 million, of which £10.0 million was available to draw for general purposes, and the balance of which was raised for specific existing and potential project purposes. Since 31 December 2008, the Group has renegotiated certain facilities, as explained in the table and the notes below. Of those facilities financing longer-term assets, there is one facility requiring refinancing in 2011; aside from this the Group's investment property finance is committed until 2013. As at 31 May 2009, the nominal value of the Group's borrowings had increased to £149.7 million, with additional amounts drawn in respect of the development loans in relation to CityPark, Manchester and Weeke Local Centre, Winchester, offset by a number of repayments made since the year end, mostly in order to reduce balances in accordance with loan to value

covenants. Unutilised facilities as at 31 May 2009 were £107.2 million, of which £10.0 million was available to draw for general purposes.

As at 31 May 2009, cash balances reduced to £35.3 million, principally reflecting development expenditure at Manchester and Winchester and payments of interest and capital on loans.

Net debt at 31 May 2009 had therefore increased to £112.5 million (net of unamortised loan arrangement fees). No new loans have been taken out since 31 December 2008 and, except as noted, the maturity and covenant details set out in the table below have not changed.

The Group's development finance tends to be shorter term. Such loans are monitored carefully in conjunction with the performance of the relevant development. The Directors expect that these loans will be repaid in a timely manner from the proceeds of their respective projects, or from existing cash resources. In view of the current position, year-end values and these resources, the Directors have not sought to renegotiate any loan to value covenants. The Company incorporates "cure" mechanisms into the facility documentation, so that the Company has an appropriate opportunity to restore the required loan to value ratio by making cash deposits or prepayments. In view of current market conditions, the Directors have agreed appropriate amendments to certain other covenants as noted in the table below.

The Company continually monitors compliance with required loan to value and interest cover ratios in accordance with the terms of each facility and, as necessary, makes partial loan repayments or provides additional security in order to maintain the required ratios. Since 31 December 2008, the Company has made and agreed repayments or provided additional security in respect of five facilities.

<i>Facility type</i>	<i>Total facility £'000</i>	<i>Utilised as at 31 December 2008 £'000</i>	<i>Utilised as at 31 May 2009⁽¹⁾</i>	<i>Interest rate</i>	<i>Maturity</i>	<i>Loan to value ratio</i>	<i>Interest cover ratio⁽¹⁾</i>	<i>Minimum net worth⁽¹⁾ £'000</i>
Loans financing longer-term assets								
Loan Notes ⁽²⁾	32,844	32,844	32,844	Hedged	25 Oct 2027	–	–	100,000
Term loan ⁽³⁾	14,455	14,455	14,455	Hedged	31 May 2013	70%	120%	–
Debenture	20,000	20,000	20,000	Fixed	6 Jan 2016	66%	–	–
Revolving credit	25,000	2,000	2,000	Variable	31 Mar 2011	75%	150%	–
Term loan ⁽⁴⁾	8,400	8,400	8,400	Hedged	17 Oct 2014	80%	125%	–
Revolving credit	38,000	38,000	34,500	Variable	31 Jan 2013	70%	105%	–
Loans financing development and refurbishment assets								
Term loan – Facility A	14,280	–	–	Variable	3 years from draw	–	–	–
Term loan – Facility B	8,400	–	–	Variable	3 years from draw	–	–	–
Term loan – Facility C	5,320	–	–	Variable	3 years from draw	–	–	–
Term loan ⁽⁵⁾	13,000	3,871	9,641	Variable	2 June 2010	–	–	100,000
364-day revolving credit ⁽⁶⁾	10,000	–	–	Variable	364 days from draw	–	–	100,000
364-day revolving credit ⁽⁷⁾	15,000	4,612	–	Variable	26 Jan 2010	65%	125%	160,000
Revolving credit ⁽⁸⁾	30,000	13,228	19,671	Hedged	19 Jan 2010	71%	–	155,000
Term loan	17,550	–	–	Variable	42 months from draw	–	–	150,000

(1) Interest cover ratios are specific to the loan and the relevant property. Minimum net worth refers to the net asset value of the Group per its latest balance sheet (31 December and 30 June).

(2) These unsecured, variable rate loan notes are denominated in euros, with a nominal value of €47 million. The Group has entered into a cross-currency interest rate swap, such that interest rates are fixed and the Group will repay a fixed sterling amount. The facility and drawn amounts set out above represent the amount of the Group's

liability in sterling taking account of the hedging instrument. The minimum net worth covenant applies to the hedge rather than the loan notes and has been reduced since the year end; at 31 December 2008, this amount was £150.0 million.

- (3) The variable rate benefits from an interest rate collar.
- (4) The variable rate benefits from an interest rate cap.
- (5) The minimum net worth covenant has been reduced since the year end; at 31 December 2008, the minimum net worth covenant was £150.0 million.
- (6) The minimum net worth covenant has been reduced since the year end; at 31 December 2008, the minimum net worth covenant was £150.0 million.
- (7) The amount drawn under this facility has been reduced to nil since the year end.
- (8) Both the facility and the minimum net worth covenant have been reduced since the year end; at 31 December 2008, the facility was £34.5 million and the minimum net worth covenant was £185.0 million. This facility also has a maximum gearing covenant of 135.0 per cent. The variable rate benefits from an interest rate cap. It is anticipated that this loan will be repaid in advance of the maturity date from development proceeds.
- (9) Being the latest practicable date prior to the publication of this document.

9.3 *Material commitments*

The following table summarises the maturity profile of the Group's financial liabilities as at 31 December 2008 on a contractual undiscounted basis:

<i>Maturity profile and financial liabilities</i>	<i>On demand</i>	<i>Less than three months</i>	<i>Three to twelve months</i>	<i>One to five years</i>	<i>More than five years</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Interest-bearing loans and borrowings	353	2,602	10,208	101,731	91,055	205,949
Trade and other payables	–	19,246	7,289	–	–	26,535
Derivative financial instruments	–	23	68	281	10,776	11,148
	<u>353</u>	<u>21,871</u>	<u>17,565</u>	<u>102,012</u>	<u>101,831</u>	<u>243,632</u>

As at 31 December 2008, the Group was undertaking two development schemes from its own existing resources (including bank debt), in respect of which the Group is committed to complete development, being CityPark, Manchester and Weeke Local Centre, Winchester. As at 31 December 2008, the aggregate costs to complete in respect of these projects was £27.0 million.

In the next 12 months, the Group expects to cover the financial liabilities in the table above from its operating cash flows and existing cash balances. The commitments in respect of development schemes will be funded through a mixture of existing debt facilities and the Group's existing cash resources. In the future, the Group expects to pursue a similar policy of covering its operating expenses from operating cash flows and equity cash resources, while deploying modest gearing to specific development projects and income generating assets.

The Group's bank loans include two development facilities which mature within the next 12 months. These are short-term development facilities, which will be repaid either from the proceeds of sale of the relevant buildings or from existing cash resources or refinanced pending a future sale. One building has been forward sold, with the proceeds due on practical completion and backed by a bank guarantee. The Group has received competitive offers for the other development, and has received positive interest from the current lender to refinance the asset should the Group decide to retain it for a period. The Group continues to review a number of opportunities to enhance its investment property portfolio and will pursue these acquisitions within existing financing constraints and subject to the availability of new financing. Since 1 January 2009, the Company has made offers on several investment properties with commitments ranging from £2 million to £15 million. In appraising such opportunities, the Company will consider the availability of appropriate debt finance, which, if required, would be secured before any commitment was undertaken. Such commitments would not be funded through the Net Proceeds. This reflects a strategic decision by the

Directors to reduce the Group's cash weighting in favour of investment property and is not a prerequisite for the successful execution of the Group's longer-term strategy. As at the date of this document, no commitments have been made, but the Directors believe that some of these transactions may proceed to contract in the near term. Similarly, the Group continues to evaluate prospective development projects, but has undertaken no new commitments since 31 December 2008. Since 31 December 2008, the Group has been in negotiations to make further investments in joint ventures of approximately £5 million over the next two to four years, which will be financed from existing cash resources.

9.4 Cash flow analysis

The following table sets forth the Company's consolidated cash flow for the years ended 31 December 2008, 2007 and 2006:

	<i>As at 31 December</i>		
	2008 £'000	2007 £'000	2006 £'000
Net cash inflow/(outflow) from operating activities	15,908	(46,342)	(17,977)
Net cash (outflow)/inflow from investing activities	(18,258)	(6,681)	14,501
Net cash (outflow)/inflow from financing activities	(11,404)	42,889	14,064
Net (decrease)/increase in cash and cash equivalents	(13,754)	(10,134)	10,588
Cash and cash equivalents at end of the period/years	60,352	72,473	82,607

(a) Net cash flow from operating activities

Net cash flow from operating activities in 2008 was £15.9 million, following net outflows of £46.3 million in 2007 and £18.0 million in 2006. In 2008, trading and development cash flows were strong, including receipts of £55 million from the first instalment in respect of the sale of land at Kirkby and £17 million from the completion of development at One Kingdom Street, PaddingtonCentral. In 2007, the purchase of Kirkby for £65 million was partially offset by receipts of £10 million from the forward sale of land in respect of CityPark, Manchester, and £16 million from the abortive sale of Colindale. In 2006, trading and development sales proceeds were outweighed by the outflow of cash relating to acquisitions of trading and development properties.

(b) Net cash flow from investing activities

Net cash flow from investing activities in 2008 was a net outflow of £18.3 million, principally reflecting the purchase of Atlantic Village, Bideford and capital improvements on existing assets, partially offset by a small disposal at Broughton. The net outflow of £6.7 million in 2007 represented net investment in joint venture properties of £8.0 million and capital improvements on existing assets, mitigated by £5 million from the sale of an investment property. The net inflow of £14.5 million in 2006 reflected a number of disposals of investment properties aggregating to £45.1 million, offset by investments into joint ventures of £20.2 million, the investment of the Company's £5.0 million of equity into the development at One Kingdom Street, PaddingtonCentral, and capital improvements on existing assets.

(c) Net cash flow from financing activity

The net cash outflow from financing activities of £11.4 million in 2008 reflected a net repayment of borrowings of £9 million together with dividend payments of £2.9 million. The net inflow of £42.9 million in 2007 represented net new borrowings of £46.9 million, less dividends paid of £2.8 million and net share buybacks of £1.2 million. The net inflow of £14.1 million in 2006 reflected net repayment of borrowings of £7 million, an inflow of £23.2 million relating to a share placing and dividend payments of £2.4 million.

10. Historical investments and capital expenditures

The following table provides an overview of the Company's investments and capital expenditures by property segment as at 31 December 2008, 2007 and 2006:

	<i>As at 31 December</i>		
	2008	2007	2006
	<i>£ millions</i>	<i>£ millions</i>	<i>£ millions</i>
Retail	24.3 ⁽¹⁾	4.9	4.9
Office	0.1	0.1	0.1
Industrial/Residential	–	–	0.2
Other	1.9	0.5	1.8
Total	<u>26.3</u>	<u>5.5</u>	<u>7.0</u>

Note:

(1) Acquisition of Atlantic Village, Bideford (£21.1 million).

11. Qualitative disclosure about market risk

The principal categories of market risk the Company is exposed to include foreign currency risk, interest rate risk and credit risk.

11.1 *Foreign currency risk*

The Company's foreign exchange risk represents exposures to changes in the values of current holdings and future cash flows denominated in other currencies. The Group's principal exposure to foreign currency movements is from the €47 million euro-denominated loan notes issued during 2007. The Group has entered into a cross-currency and interest rate swap to minimise any potential risks and provide an effective sterling liability. Since the Group's operations are conducted almost exclusively in the United Kingdom, its exposure to foreign currency risk is limited. Further details of the Group's sensitivity to exchange rate movements are set out in note 16 to the consolidated financial statements of the Group for the year ended 31 December 2008, which are incorporated by reference into this document.

11.2 *Interest rate risk*

Interest rate risk represents exposures to instruments whose values change with the level or volatility of interest rates. Facilities with variable rates of interest, in particular longer-term facilities, expose the Group to interest rate risk. These instruments include, but are not limited to, loans, debt securities and debentures. Interest rate caps and swaps are used to provide commercial hedges against the Group's exposure to interest rate fluctuations.

Interest rate caps and swaps are marked-to-market, giving rise to the risk of fair value movements in the derivative instrument, and a consequent impact on net asset value. The Group also holds a cross-currency interest rate swap which is designated as a cash flow hedge. Movements in the foreign currency leg of this swap provide a hedge against movements in the fair value of the €47 million loan notes, as mentioned in paragraph 11.1 above.

The Group's interest rate and cross-currency hedges are provided by well-established banking institutions and the Group does not consider that there is an abnormal counterparty credit risk in this regard.

The Directors have maintained a mix of fixed and variable rates in order to provide an appropriate measure of certainty within the portfolio. The Directors keep this risk under continual review and regularly consider the possibility and likely cost of extending the Group's interest rate hedging.

Details of interest rate sensitivities are provided in note 16 to the consolidated financial statements of the Group for the year ended 31 December 2008, which are incorporated by reference into this document.

11.3 *Credit risks*

(a) *Investment portfolio*

In relation to its investment portfolio, the Group is exposed to the credit risk implicit in potential tenant failure. The Group maintains the portfolio under continual review. The portfolio is managed by local agents, with active oversight and involvement by Development Securities. The Board receives at each of its meetings analyses of tenant profile (including the concentration of credit risk, both by sector and by entity), existing and anticipated voids, overdue rents and outstanding rent reviews, as well as a formal commentary by the investment team. The majority of tenant leases are long-term contracts with rents payable in advance and the weighted average unexpired lease term as at 31 December 2008 was 9.1 years. Rent deposits and corporate or personal guarantees are held in respect of some leases. As at 31 December 2008, the Directors considered that the portfolio is well diversified among tenants, with the highest exposures principally being to strong covenants. There is a deliberate sector bias towards retail, which is offset by the geographic spread within that sector and the concentration on local centres anchored by the resilient food sub-sector.

(b) *Development and trading portfolio*

For the Group's development and trading portfolio, the Group is exposed to the credit risk in counterparties. Given the nature of these assets, the amounts owed to the Group can be significant, and these arrangements are monitored very closely both before contracts are exchanged and throughout the execution period.

The Directors are satisfied that the combination of the Group's risk-averse approach to development funding, its cautious selection of development partners, and its focused and active management of each project, provides reasonable comfort over the risks of these financial exposures.

11.4 *Joint ventures and associates*

As described in Part IV ("*Information on Development Securities*") of this document, the Group has a number of joint venture operations. The Group provides both development expertise and funding to each venture.

The financial instrument risks in respect of these ventures are in the contractual risk of the joint venture agreements, and in the operating success of the venture. The Group manages the risk in these by securing appropriate rights over the use of the Group's invested capital, and by active participation in the joint strategic and operating control of the ventures.

12. **Significant accounting policies**

The Group's financial statements have been prepared in accordance with IFRS and IFRIC interpretations as adopted by the EU and applied in accordance with the Companies Act applicable to companies reporting under IFRS.

For a discussion of the Company's significant accounting policies, see note 1 to the consolidated financial statements of Development Securities for the year ended 31 December 2008, which are incorporated by reference into this document.

PART VI

FINANCIAL INFORMATION ON DEVELOPMENT SECURITIES

1. Historical financial information on Development Securities

The consolidated financial statements of Development Securities and its subsidiaries included in the Annual Report and Accounts of Development Securities for each of the years ended 31 December 2008, 2007 and 2006 together with the audit reports thereon are incorporated by reference into this document. PricewaterhouseCoopers LLP of 1 Embankment Place, London WC2N 6RH, Chartered Accountants regulated by the ICAEW, has issued an unqualified audit opinion on the consolidated financial statements of Development Securities and its subsidiaries included in the Annual Report and Accounts of Development Securities for the year ended 31 December 2008. Ernst & Young LLP of 1 More London Place, London SE1 2AF, Chartered Accountants regulated by the ICAEW, has issued unqualified audit opinions on the consolidated financial statements of Development Securities and its subsidiaries included in the Annual Report and Accounts of Development Securities for the years ended 31 December 2007 and 2006. The audit opinion for the year ended 31 December 2008 is set out on page 45 of the Annual Report and Accounts 2008. The audit opinion for the year ended 31 December 2007 is set out on page 41 of the Annual Report and Accounts 2007. The audit opinion for the year ended 31 December 2006 is set out on page 33 of the Annual Report and Accounts 2006.

See Part IX (“Documentation Incorporated by Reference”) of this document for further details about information that has been incorporated by reference into this document.

2. Unaudited pro forma financial information on Development Securities

Unaudited Pro Forma Statement of Net Assets

The unaudited pro forma financial information set out below has been prepared to illustrate the impact of the Firm Placing and Placing and Open Offer on the audited consolidated net assets of the Group. The pro forma financial information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and, therefore, does not and will not represent the Group’s actual financial position or results.

The pro forma financial information is based on the consolidated net assets of the Group as at 31 December 2008 and has been prepared on the basis that the settlement of the Firm Placing and Placing and Open Offer took place on that date. The pro forma financial information takes no account of the results of the Group for the period subsequent to 31 December 2008, or of any other changes in the financial position in that period.

	<i>Consolidated net assets of the Group at 31 December 2008⁽¹⁾ £'000</i>	<i>Adjustment – Proceeds of the Capital Raising, net of expenses⁽²⁾ £'000</i>	<i>Pro forma consolidated net assets at 31 December 2008 £'000</i>
Non-current assets			
Property plant and equipment	5,463	–	5,463
Investment properties	134,084	–	134,084
Other financial assets	15,033	–	15,033
Investments in associates	–	–	–
Investments in joint ventures	610	–	610
Non-current trade and other receivables	1,768	–	1,768
Deferred income tax assets	3,495	–	3,495
Derivative financial instrument	7,909	–	7,909
	<u>168,362</u>	<u>–</u>	<u>168,362</u>
Investment in joint ventures – held for sale	654	–	654
Current assets			
Inventory – developments and trading properties	59,365	–	59,365
Other financial assets	9,740	–	9,740
Trade and other receivables	46,940	–	46,940
Cash and cash equivalents	60,688	93,986	154,674
	<u>176,733</u>	<u>93,986</u>	<u>270,719</u>
Total assets	<u>345,749</u>	<u>93,986</u>	<u>439,735</u>
Current liabilities			
Trade and other payables	(24,335)	–	(24,335)
Borrowings	(4,661)	–	(4,661)
	<u>(28,996)</u>	<u>–</u>	<u>(28,996)</u>
Non-current liabilities			
Borrowings	(143,209)	–	(143,209)
Interest rate cap and swap derivative contracts	(3,022)	–	(3,022)
Deferred income tax liabilities	(3,495)	–	(3,495)
Provisions	(5,982)	–	(5,982)
Total liabilities	<u>(155,708)</u>	<u>–</u>	<u>(155,708)</u>
	<u>(184,704)</u>	<u>–</u>	<u>(184,704)</u>
Net assets	<u>161,045</u>	<u>93,986</u>	<u>255,031</u>

Notes:

- (1) The financial information on the Group has been extracted without adjustment from the consolidated audited financial statements for the year ended 31 December 2008 which are incorporated by reference in Part IV (“*Information on Development Securities*”) of this document.
- (2) The net proceeds of the Firm Placing and Placing and Open Offer are calculated on the basis that the gross proceeds of the Firm Placing and Placing and Open Offer are £99,967,824 and that transaction expenses are £5,981,903 (including VAT).
- (3) No account has been taken in the unaudited pro forma of any trading performance or changes in the financial position of the Group since 31 December 2008.

3. Accountant's report on unaudited pro forma financial information on Development Securities



PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

The Directors
Development Securities PLC
Portland House
Bressenden Place
London SW1E 5DS

Collins Stewart Europe Limited
88 Wood Street
London EC2V 7QR

24 June 2009

Dear Sirs

Development Securities PLC (the “Company”)

We report on the pro forma statement of net assets (the “**Pro forma statement of net assets**”) set out in Part VI of the Company’s prospectus dated 24 June 2009 (the “**Prospectus**”) which has been prepared on the basis described in the notes to the Pro forma statement of net assets, for illustrative purposes only, to provide information about how the proposed Firm Placing and Placing and Open Offer might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ending 31 December 2008. This report is required by item 20.2 of Annex I to the PD Regulation and is given for the purpose of complying with that PD Regulation and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company to prepare the Pro forma statement of net assets in accordance with item 20.2 of Annex I to the PD Regulation.

It is our responsibility to form an opinion, as required by item 7 of Annex II to the PD Regulation Rules as to the proper compilation of the Pro forma statement of net assets and to report our opinion to you.

In providing this opinion, we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma statement of net assets nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and for any responsibility arising under item 5.5.3R(2)(f) of the Prospectus Rules to any person as and to the extent there provided, to the fullest extent permitted by law, we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I to the PD Regulation consenting to its inclusion in the Prospectus.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of

making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma statement of net assets with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma statement of net assets has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Opinion

In our opinion:

- (a) the Pro forma statement of net assets has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of the Group.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f), we are responsible for this report as part of the Prospectus and we declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Item 1.2 of Annex I to the PD Regulation.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

PART VII

TAXATION

1. Introduction

The following statements do not constitute tax advice and are intended only as a general guide to the position under current UK law and HMRC published practice as at the date of this document both of which are subject to change at any time, possibly with retrospective effect. They relate only to certain limited aspects of the UK taxation treatment of Qualifying Shareholders and other Shareholders of New Shares who are resident (and, in the case of individuals only, ordinarily resident and domiciled) solely in the UK for UK tax purposes, (except insofar as express reference is made to the treatment of non-UK residents) who hold Existing Shares and their New Shares as an investment, and who are absolute beneficial owners thereof. They may not apply to (i) certain categories of Shareholders, such as traders, dealers in securities, insurance companies and collective investment schemes, (ii) Shareholders who hold their Existing Shares or their New Shares as a part of hedging or conversion transactions or (iii) Shareholders who have (or are deemed to have) acquired their Existing Shares or their New Shares by virtue of an office or employment. Such persons may be subject to special rules. Any person who is in any doubt as to their tax position, or who is subject to taxation in any jurisdiction other than the UK, should consult their own professional adviser.

2. Taxation of chargeable gains

2.1 *New Shares acquired pursuant to the Open Offer*

As a matter of UK tax law, the acquisition of New Shares under the Open Offer may not be regarded as a reorganisation of the share capital of the Company for the purposes of the UK taxation of chargeable gains. However, the published practice of HMRC to date has been to treat an open offer as a reorganisation up to an entitlement based on their existing shareholding.

If the Open Offer is treated as a reorganisation, to the extent that a Shareholder takes up all or part of his entitlement under the Open Offer, he would not be treated as acquiring a new asset being the New Shares. Instead, his Existing Shares and his New Shares issued pursuant to the Open Offer would generally be treated as a single asset (a “**New Holding**”), acquired at the time he is deemed to have acquired his Existing Shares. In these circumstances the issue of New Shares will not result in UK taxation of chargeable gains. For the purpose of computing any capital gain or loss on a subsequent disposal by a Shareholder of any shares comprised in his New Holding, the subscription amount paid for the New Shares issued pursuant to the Open Offer will be added to the base cost of his Existing Shares.

If, or to the extent that, the issue of New Shares by the Company to Shareholders under the terms of the Open Offer is not treated as a reorganisation of the Company’s share capital for the purposes of UK taxation of chargeable gains, such New Shares will be treated as acquired as part of a separate acquisition. In these circumstances the issue of new Ordinary Shares should not result in UK taxation of chargeable gains. Subject to specific rules for acquisitions within specified periods either side of disposal and pre-1982 holdings held by corporates, the Existing Shares and the New Shares issued pursuant to the Open Offer will be treated as the same asset, the base cost of which will be the aggregate of the subscription amount paid for the New Shares and the base cost of the Existing Shares.

2.2 *New Shares acquired pursuant to the part of the Firm Placing and Placing and Open Offer which are not subject to the Open Offer*

The issue of New Shares under the part of the Firm Placing and Placing and Open Offer which are not subject to the Open Offer will not constitute a reorganisation of share capital

for the purposes of UK taxation of chargeable gains and, accordingly, any New Shares so acquired will be treated as part of a separate acquisition of Ordinary Shares.

2.3 *Disposal of New Shares*

A disposal or deemed disposal of New Shares by a shareholder who is resident or, in the case of an individual, ordinarily resident in the UK for tax purposes may give rise to a chargeable gain (or allowable loss) for the purposes of UK capital gains tax (where the shareholder is an individual) and UK corporation tax on chargeable gains (where the shareholder is within the charge to UK corporation tax), depending on their circumstances and subject to any available exemption or relief.

2.3.1 *Corporate Shareholders of New Shares*

In the case of a Shareholder of New Shares within the charge to UK corporation tax, indexation allowance will be available to reduce any chargeable gain but will apply to the amount paid for the New Shares only from, generally, the date the money for the New Shares is paid (or liable to be paid), not from the time the original holding was acquired (if applicable).

2.3.2 *Non-corporate Shareholders of New Shares*

In the case of a Shareholder of New Shares within the charge to capital gains tax, a flat rate of 18 per cent. is currently charged on individuals, trustees and personal representatives, irrespective of how long an asset has been held.

2.3.3 *Temporary non-UK tax resident Shareholders of New Shares*

An individual Shareholder of New Shares who has ceased to be resident or ordinarily resident for tax purposes in the UK for a period of less than five years of assessment and who disposes of all or part of his New Shares during that period of temporary non-residence may be liable on his return to the UK to UK capital gains tax arising during the period of absence, subject to any available exemption or relief.

3. **Stamp duty and SDRT**

Subject to the points in the following sections, no stamp duty or SDRT will generally be payable on the issue of New Shares pursuant to the Firm Placing and Placing and Open Offer.

- 3.1 Where New Shares are issued or transferred (i) to, or to a nominee for, a person whose business is or includes the provision of clearance services or (ii) to, or to a nominee or agent for, a person whose business is or includes issuing depository receipts, stamp duty or SDRT will be payable at the higher rate of 1.5 per cent. of the amount or value of the consideration payable or, in certain circumstances, the value of the New Shares (rounded up in the case of stamp duty to the nearest £5). This liability for stamp duty or SDRT will strictly be accountable by the clearance service or depository receipt operator or their nominee as the case may be, but will, in practice, be payable by the participants in the clearance service or depository receipt scheme. Clearance services may opt, provided certain conditions are satisfied, for normal stamp duty or SDRT treatment to apply to issues or transfers of shares into, and to transactions within, such services instead of the higher rate applying to an issue or a transfer of shares into the clearance service.
- 3.2 The transfer on sale of Existing Shares or New Shares will generally be liable to ad valorem stamp duty at the rate of 0.5 per cent. (rounded to the nearest multiple of £5) of the amount or value of the consideration paid. An exemption from stamp duty will be available on an instrument transferring New Shares where the amount or value of the consideration is £1,000 or less, and it is certified on the instrument that the transaction effected by the instrument does not form part of a larger transaction or series of transactions for which the aggregate consideration exceeds £1,000. The purchaser normally pays the stamp duty. An unconditional agreement to transfer such shares will be generally liable to SDRT, at the rate of 0.5 per cent. of the consideration paid, but such liability will be cancelled or a right to a repayment in

respect of the SDRT liability will arise if the agreement is completed by a duly stamped transfer within six years of the agreement having become unconditional. SDRT is normally the liability of the purchaser.

- 3.3 Paperless transfers of shares within the CREST system are generally liable to SDRT (at a rate of 0.5 per cent. of the amount or value of the consideration payable) rather than stamp duty, and SDRT on relevant transactions settled within the system or reported through it for regulatory purposes will be collected by CREST. Deposits of Shares into CREST will not generally be subject to SDRT unless the transfer into CREST is itself for consideration.

The statements in this paragraph apply to any holders of New Shares irrespective of their residence, summarise the current stamp duty and SDRT position and are intended as a general guide only. Certain categories of person are not liable to stamp duty or SDRT and others may be liable at a higher rate or may, although not primarily liable for tax, be required to notify and account for SDRT under the Stamp Duty Reserve Tax Regulations 1986.

4. Dividends

The Company will not be required to withhold tax at source when paying a dividend.

A UK resident individual Shareholder who receives a dividend from the Company will be entitled to a tax credit which may be set off against the Shareholder's total income tax liability on the dividend. The tax credit will be equal to 10 per cent. of the aggregate of the dividend and the tax credit (the "gross dividend"), which is also equal to one-ninth of the cash dividend received. Such an individual UK resident Shareholder who is liable to income tax at a rate not exceeding the basic rate will be subject to tax on the dividend at the rate of 10 per cent. of the gross dividend, so that the tax credit will satisfy in full such Shareholder's liability to income tax on the dividend. In the case of such an individual Shareholder who is liable to income tax at the higher rate, the tax credit will be set against but not fully match the Shareholder's tax liability on the gross dividend of 32.5 per cent. and such Shareholder will have to account for additional income tax equal to 22.5 per cent. of the gross dividend (which is also equal to 25 per cent. of the cash dividend received) to the extent that the gross dividend when treated as the top slice of the Shareholder's income falls above the threshold for higher-rate income tax.

The UK Government has announced proposals to introduce, with effect from 6 April 2010, a new tax rate of 50 per cent. for taxable non-savings and savings income above £150,000. Dividends otherwise taxable at the new 50 per cent. rate would be liable to income tax at a new rate of 42.5 per cent.

A UK resident individual Shareholder who is not liable to income tax in respect of the gross dividend and other UK resident taxpayers who are not liable to UK tax on dividends, including pension funds and charities, will not be entitled to claim repayment of the tax credit attaching to dividends paid by the Company.

Shareholders who are within the charge to corporation tax will generally not be subject to corporation tax on dividends paid by the Company. Such Shareholders will not be able to claim repayment of tax credits attaching to dividends. However, the UK Government has announced the introduction of provisions (with effect from 1 July 2009) which, if enacted in the form proposed in the Finance Bill 2009, published on 30 April 2009, would result in shareholders who are within the charge to corporation tax being subject to corporation tax on dividends paid by the Company, unless the dividends fall within an exempt class and certain other conditions are met. It is expected that the recipient would generally treat the dividends paid by the Company as exempt.

Non-UK resident Shareholders will not generally be able to claim repayment from HMRC of any part of the tax credit attaching to dividends paid by the Company. A Shareholder resident outside the UK may also be subject to foreign taxation on dividend income under local law. Shareholders who are not resident for tax purposes in the UK should obtain their own tax advice concerning tax liabilities on dividends received from the Company.

PART VIII

ADDITIONAL INFORMATION

1. Responsibility

The Company and the Directors, whose names are set out on page 26 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Incorporation and registered office

2.1 The Company was incorporated in England and Wales on 18 November 1980 under the Companies Act 1948-1976 with the name Clayform Properties Limited. The Company is registered under company number 1528784. On 17 April 1985, the Company was re-registered under the Companies Act 1948-1981 as a public company with limited liability with the name Clayform Properties PLC. The Company's name was changed to Development Securities PLC on 27 July 1993.

2.2 On 14 July 1986, the Ordinary Shares were admitted to the Official List.

2.3 The Company is domiciled in the UK. Its registered office is at Portland House, Bressenden Place, London SW1 5DS (telephone number 020 7828 4777 or, if dialling from outside the UK, +44 20 7828 4777).

2.4 The principal laws and legislation under which the Company operates, and under which the Ordinary Shares have been created, are the Companies Act and regulations made thereunder.

3. Development Securities' share capital

3.1 As at 23 June 2009 (being the latest practicable date prior to the publication of this document), the authorised, issued and fully paid share capital of the Company was as follows:

<i>Class of Share</i>	<i>Authorised</i>		<i>Issued and fully paid</i>	
	<i>Number</i>	<i>Amount (£)</i>	<i>Number</i>	<i>Amount (£)</i>
Ordinary Shares of £0.50 each	70,000,000	35,000,000	40,603,214	20,301,607

3.2 The authorised, issued and fully paid Ordinary Share capital of the Company immediately following completion of the Firm Placing and Placing and Open Offer⁽¹⁾ is expected to be as follows:

<i>Class of Share</i>	<i>Authorised</i>		<i>Issued and fully paid</i>	
	<i>Number</i>	<i>Amount (£)</i>	<i>Number</i>	<i>Amount (£)</i>
Ordinary Shares of £0.50 each	140,000,000	70,000,000	82,256,474	41,128,237

3.3 Save as disclosed in paragraph 3.6 below, since 31 December 2008, there has been no issue of share capital in Development Securities, fully or partly paid, either in cash or for other consideration, and (other than in connection with the Firm Placing and Placing and Open Offer or the Development Securities Employee Share Plans) no such issues are proposed. Other than in connection with the Development Securities Employee Share Plans, no share capital of

(1) The number of Ordinary Shares in issue immediately following the Firm Placing and Placing and Open Offer assumes that no options or awards are exercised under the Development Securities Employee Share Plans between 23 June 2009 (being the last practicable date prior to the publication of this document) and the closing of the Firm Placing and Placing and Open Offer.

Development Securities or any of its subsidiaries is under option or agreed conditionally or unconditionally to be put under option. Development Securities holds no treasury shares.

3.4 The number of Ordinary Shares outstanding at the beginning and end of 2008 was as follows:

<i>Date</i>	<i>Authorised</i>	<i>Issued and fully paid</i>
1 January 2008	50,000,000	40,565,524
31 December 2008	50,000,000	40,603,214

3.5 *History of Ordinary Share capital*

3.5.1 *Authorised share capital*

As at 1 January 2006, the first day covered by the historical financial information incorporated by reference into this document, the authorised share capital of the Company was £25 million, and comprised 50 million Ordinary Shares of £0.50 each. The Company's authorised share capital has not changed since 1 January 2006 except for an increase approved by Shareholders at the Annual General Meeting in 2009 held on 22 May 2009 of £10 million to £35 million, and now comprises 70 million Ordinary Shares of £0.50 each.

3.5.2 *Issued share capital*

As at 1 January 2006, the first day covered by the historical financial information incorporated by reference into this document, the issued share capital of the Company was £18,361,000, and comprised 36,722,286 Ordinary Shares of £0.50 each. Since 1 January 2006, there have been the following changes in the issued share capital of the Company:

<i>Issued Share Capital Transaction</i>	<i>2006</i>	<i>Number of shares</i>		
		<i>2007</i>	<i>2008</i>	<i>2009⁽¹⁾</i>
Executive Share Options				
Allotment	288,410	225,613	37,690	–
Savings Related Share Option				
Allotment	956	28,259	–	–
Placing ⁽²⁾	3,700,000	–	–	–
Purchase for cancellation ⁽³⁾	–	(400,000)	–	–

Notes:

- (1) Up to 23 June 2009 (being the last practicable date prior to the publication of this document).
(2) On 29 November 2006, the Company issued 3,700,000 Ordinary Shares of £0.50 each pursuant to a non-pre-emptive placing.
(3) On 31 October 2007, the Company purchased 400,000 Ordinary Shares which were then cancelled.

The Company operates a number of share-based incentive plans. Further details about these are given in the Remuneration Reports for the years ended 31 December 2008, 31 December 2007 and 31 December 2006. (The Remuneration Report for the year ended 31 December 2008 is included on pages 95 to 104 of the Annual Report and Accounts for 2008 which are incorporated by reference herein. The Remuneration Report for the year ended 31 December 2007 is included in pages 84 to 92 of the Annual Report and Accounts for 2007 which are incorporated by reference herein. The Remuneration Report for the year ended 31 December for 2006 is included in pages 68 to 75 of the Annual Report and Accounts 2006, which is incorporated by reference herein.)

3.6 Subject to the passing of the Resolutions and Admission pursuant to the Firm Placing and Placing and Open Offer, 41,653,260 New Shares will be issued at a price of £2.40 per New Share. This will result in the issued Ordinary Share capital of the Company increasing by approximately 102.6 per cent.

Qualifying Shareholders who take up their Open Offer Entitlement in full will suffer a dilution of 20.3 per cent. to their interests in the Company. Qualifying Shareholders who do not take

up any of their rights to apply for the New Shares will suffer an immediate dilution of 50.6 per cent. to their interests in the Company.

- 3.7 If the Resolutions proposed to the Extraordinary General Meeting to be held on 10 July 2009 are passed:
- 3.7.1 the authorised Ordinary Share capital of the Company will be increased from £35,000,000 to £70,000,000 by the creation of a further 70,000,000 Ordinary Shares;
 - 3.7.2 the Directors will be given the authority to allot relevant securities for the period ending on the conclusion of the Company's 2010 Annual General Meeting or on 22 August 2010, whichever is earlier, up to a nominal value of £34,536,042 in connection with the Firm Placing and Placing and Open Offer and for general corporate purposes thereafter;
 - 3.7.3 the Directors will be given the authority to allot relevant securities in connection with a rights issue for the period ending on the conclusion of the Company's 2010 Annual General Meeting or on 22 August 2010, whichever is earlier, up to a nominal value of £13,709,412;
 - 3.7.4 the Directors will be given the power to allot shares other than in accordance with section 89(1) of the Companies Act up to an aggregate nominal amount of £8,333,334 in connection with the Firm Placing, for the period ending on the conclusion of the Company's 2010 Annual General Meeting or on 22 August 2010, whichever is earlier; and
 - 3.7.5 the Directors will be given the power to allot shares other than in accordance with section 89(1) of the Companies Act pursuant to the resolution detailed at paragraph 3.7.2 above, or where the allotment constitutes an allotment of equity securities in connection with a pre-emptive offer, or otherwise than in connection with a pre-emptive offer up to an aggregate nominal amount of £2,056,411, or in connection with a rights issue, for the period ending on the conclusion of the Company's 2010 Annual General Meeting or on 22 August 2010, whichever is earlier.

4. Memorandum and Articles of Association

The Memorandum and Articles of Association are available for inspection at the address specified in paragraph 23 below.

4.1 *Memorandum of Association*

The Memorandum of Association of the Company provides that its principal objects are, amongst other things, to carry on business as dealers in property and estates, lessees and lessors, management agents, estate developers and development agents and to purchase, take on, lease or otherwise acquire land and buildings in England or elsewhere and develop and turn to account such land or buildings. The objects of the Company are set out in full in clause 4 of the Memorandum of Association of the Company which is available for inspection at the address set out in paragraph 23 below.

4.2 *Articles of Association*

The Articles of Association, adopted pursuant to a special resolution passed at the Company's Annual General Meeting on 14 June 1991 and amended pursuant to a special resolution passed at the Company's Annual General Meeting in 2009 held on 22 May 2009, and which are available for inspection at the address set out in paragraph 23 below, contain provisions to the following effect:

4.2.1 *Dividends*

Subject to the provisions of the Companies Act, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the members, but no dividend shall exceed the amount recommended by the Board. Subject to the provisions of the Companies Act, the Board may declare and pay interim dividends if

it appears to the Board that they are justified by the profits of the Company available for distribution.

The Company may, by ordinary resolution and upon the recommendation of the Board, direct that a dividend be satisfied wholly or partly by the distribution of assets, and in particular of paid-up shares or debentures of any other body corporate. The Directors may also, if authorised by ordinary resolution, offer members the right to elect to receive new Ordinary Shares credited as fully paid.

Except as otherwise provided by the rights attached to the shares, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid.

The Board may deduct from any dividend or other moneys payable to any member in respect of a share any moneys presently payable by him to the Company in respect of that share. The Directors may also retain any dividend payable on or in respect of shares in relation to which a default has occurred pursuant to a notice served under section 212 of the Companies Act, where the default shares represent more than 0.25 per cent. of the class of shares concerned.

Any dividend which has remained unclaimed for 12 years from the date when it became due for payment will, if the Board so resolves, be forfeited and cease to remain owing by the Company.

4.2.2 *Distribution of assets on winding up*

If the Company is wound up, the liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by the Insolvency Act 1986, divide among the members *in specie* the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division will be carried out as between the members or different classes of members.

The liquidators may, with the like sanction, vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as he with the like sanction determines, but no member shall be compelled to accept any assets upon which there is a liability.

The power of sale of a liquidator shall include a power to sell wholly or partially for shares or debentures or other obligations of another body corporate, either then already constituted or to be constituted for the purpose of carrying out the sale.

4.2.3 *Voting*

Subject to any rights or restrictions attached to any shares, on a show of hands every member present in person will have one vote and on a poll every member present in person or by proxy will have one vote for every share of which he is the holder.

No member will be entitled to vote at any general meeting, or at a separate meeting of the holders of any class of shares in the Company, either in person or by proxy, in respect of any share held by him unless all moneys presently payable by him in respect of that share have been paid.

If at any time the Board is satisfied that any member, or any other person appearing to be interested in shares held by such member, has been duly served with a notice under section 212 of the Companies Act and is in default for the period prescribed in the Articles of Association in supplying to the Company the information thereby required, or, in purported compliance with such notice, has made a statement which is false or inadequate in a material particular, then the Board may, in its absolute discretion, at any time thereafter by a notice to such member, direct that, in respect of the shares in relation to which the default occurred, the member will not be entitled to vote at a general meeting either personally or by proxy or to exercise any right conferred by membership in relation to meetings of the Company.

4.2.4 *Shareholders' meetings*

The Board shall convene and the Company shall hold general meetings such as Annual General Meetings in accordance with the requirements of the Companies Act. Subject to such requirements, the Board may call general meetings whenever and at such times and places as it shall determine and, on the requisition of members pursuant to the provisions of the Companies Acts. If there are not within the UK sufficient Directors to call a general meeting, any Director of the Company may call a general meeting.

An Annual General Meeting shall be called by at least 21 clear days' notice. All general meetings other than an Annual General Meeting shall be called by at least 14 clear days' notice.

Subject to any restrictions imposed on any shares, the notice shall be given to all the members, to each of the Directors and to the auditors for the time being of the Company.

The notice shall specify the time and place of the meeting and, in the case of special business, the general nature of such business. The notice shall, in the case of an Annual General Meeting, specify the meeting as such, and, in the case of a meeting to pass a special or extraordinary resolution, specify the intention to propose the resolution as a special or extraordinary resolution, as the case may be.

4.2.5 *Quorum*

No business shall be transacted at any general meeting unless a quorum is present, but the absence of a quorum shall not preclude the choice or appointment of a chairman, which shall not be treated as part of the business of the meeting. Save as otherwise provided by the Articles of Association, two persons present in person or by proxy and entitled to vote upon the business to be transacted shall be a quorum.

If such a quorum is not present within five minutes (or such longer time not exceeding 30 minutes as the chairman of the meeting may decide to wait) from the time appointed for the meeting, or if during a meeting such a quorum ceases to be present, the meeting, if convened on the requisition of members, shall be dissolved, and in any other case shall stand adjourned to such time and place as the chairman of the meeting may determine. If at the adjourned meeting a quorum is not present within 15 minutes after the time appointed for holding the meeting, the meeting shall be dissolved.

4.2.6 *Variation of class rights*

Subject to the provisions of the Companies Act, the rights attached to any class of shares may (unless otherwise provided by the terms of issue of the shares of that class) be varied or abrogated, whether or not the Company is being wound up, either with the consent in writing of the holders of three-quarters in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the shares of the class.

All provisions of the Articles of Association relating to general meetings of the Company will apply to every such meeting except that the necessary quorum will be two persons holding or representing by proxy at least one-third in nominal value of the issued shares of the class or, at any adjourned meeting, one holder present in person or by proxy whatever the amount of his holding, will be deemed to constitute a meeting. Any holder of shares of the class who is present in person or by proxy may demand a poll and every holder of shares of the class, on a poll, has one vote for every share of the class held by him.

4.2.7 *Issue of shares*

Subject to the provisions of the Companies Act relating to authority, pre-emption rights or otherwise and any resolution of the Company in general meeting passed pursuant thereto, and, in the case of redeemable shares, the provisions of the relevant article in the Articles of Association, all unissued shares for the time being in the capital of the

Company will be at the disposal of the Board, and the Board may allot (with or without conferring a right of renunciation), grant options over, or otherwise dispose of them to such persons, on such terms and conditions and at such times as it thinks fit.

4.2.8 *Alteration of share capital*

The Company may, by ordinary resolution, increase its share capital, consolidate and divide all or any of its share capital into shares of larger amount than its existing shares, sub-divide its shares, or any of them, into shares of a smaller amount and cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken, by any person and diminish the amount of its share capital by the amount of the shares so cancelled.

Subject to the provisions of the Companies Act, the Company may purchase any of its own shares of any class (including redeemable shares) at any price. Every contract for the purchase of, or under which the Company may become entitled or obliged to purchase, shares in the Company will be authorised by such resolution of the Company as may be required by the Companies Act and by an extraordinary resolution passed at a separate general meeting of the holders of each relevant class of shares.

Subject to the provisions of the Companies Act, the Company may, by special resolution, reduce its share capital, any capital redemption reserve and any share premium account in any way.

4.2.9 *Transfer of shares*

The instrument of transfer of a share may be in any usual form or in any other form approved by the Board and is to be signed by or on behalf of the transferor and, unless the share is fully paid, by or on behalf of the transferee.

The Board may, in its absolute discretion and without giving any reason, refuse to register the transfer of a share which is not fully paid. The Board may decline to register a transfer of shares in relation to which a default has occurred pursuant to a notice served under section 212 of the Companies Act where the default shares represent more than 0.25 per cent. of the class of shares concerned.

The Board may also refuse to register the transfer of a share unless the instrument of transfer: (a) is lodged, duly stamped, at the office or at such other place as the Board may appoint accompanied by the certificate for the shares to which it relates and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer; (b) is in respect of only one class or shares; and (c) is in favour of not more than four transferees.

If the Board refuses to register the transfer, it will, within two months after the date on which the instrument of transfer was lodged with the Company, send the transferee notice of the refusal. The Company will be entitled to retain any instrument of transfer which is registered, but any instrument of transfer which the Board refuses to register shall be returned to the person lodging it when notice of refusal is given.

The registration of transfers of shares may be suspended at such times and for such periods (not exceeding 30 days in any year) as the Board may determine.

No fee shall be charged for the registration of any instrument of transfer or other document relating to or affecting the title to any share.

4.2.10 *Directors*

Subject to the Companies Act, the Memorandum and Articles of Association and to any directions given by special resolution, the business of the Company shall be managed by the Board which may exercise all the powers of the Company.

A Director will not be required to hold any shares of the Company by way of qualification.

Any Director who was elected or re-elected a Director at or before the Annual General Meeting held in the third calendar year before the current year shall retire.

No person will be disqualified from being appointed or reappointed a Director or vacate that office by reason only that he has attained the age of 70 or any other age nor shall it be necessary by reason of his age to give special notice under the Companies Act of any resolution. Where the Board convenes any general meeting of the Company at which (to the knowledge of the Board) a Director will be proposed for appointment or reappointment who at the date for which the meeting is convened will have attained the age of 70 years or more, the Board will give notice of his age in years in the notice convening the meeting or in any document accompanying the notice, but the accidental omission to do so will not invalidate any proceedings or any appointment or reappointment of that Director, at that meeting.

The office of a Director shall be vacated if: (a) he ceases to be a Director by virtue of any provisions of the Companies Acts or the Articles of Association or he becomes prohibited by law from being a Director; or (b) he becomes bankrupt or makes any arrangement or composition with his creditors generally or shall apply to the court for an interim order under section 253 of the Insolvency Act 1986 in connection with a voluntary arrangement under that Act; or (c) he is, or may be, suffering from mental disorder and either: (i) he is admitted to hospital in pursuance of an application for admission for treatment under the Mental Health Act 1983 or, in Scotland, an application for admission under the Mental Health (Scotland) Act 1960; or (ii) an order is made by a court having jurisdiction (whether in the United Kingdom or elsewhere) in matters concerning mental disorder for his detention or for the appointment of a receiver, curator bonis or other person to exercise powers with respect to his property or affairs; or (d) (not being a Director holding office as such for a fixed term) he resigns his office by notice to the Company; or (e) he shall for more than six consecutive months have been absent without permission of the Board from meetings of the Board held during that period and his alternate Director (if any) shall not during such period have attended in his stead and the Board resolves that his office be vacated.

Subject to the provisions of the Companies Act and provided that he has disclosed to the Board the nature and extent of any material interest of his, a Director (a) may be a party to, or otherwise interested in, any transaction or arrangement with the Company or in which the Company is otherwise interested; (b) may act by himself or his firm in a professional capacity for the Company (otherwise than as auditor) and he or his firm shall be entitled to remuneration for professional services as if he were not a Director; (c) may be a Director or other officer of, employed by, or a party to any transaction or arrangement with, or otherwise interested in, any body corporate promoted by the Company or in which the Company is otherwise interested and (d) shall not, by reason of his office, be accountable to the Company for any benefit which he derives from any office or employment or from any such transaction or arrangement or from any interest in any such body corporate and no such transaction or arrangement shall be liable to be avoided on the ground of any such interest or benefit.

Furthermore, the Directors have the power to authorise any matter which may constitute or give rise to a breach of the duties of a Director under the Companies Act. If so authorised, the Director shall not be accountable to the Company for any benefit derived from the matter but must adhere to any conditions that the Directors may have imposed.

The Company may, in accordance with and subject to the provisions of the Companies Act, by ordinary resolution of which special notice has been given, remove any Director from office.

4.2.11 *Electronic communication*

The Company may, subject to and in accordance with the Companies Act 2006, send or supply all types of notices, documents or information to members by electronic means and/or by making such notices, documents or information available on a website.

5. **Mandatory takeover bids, squeeze-out and sell-out rules**

Other than as provided by the Companies Act and the City Code, there are no rules or provisions relating to mandatory bids and/or squeeze-out and sell-out rules in relation to the Ordinary Shares.

6. **Directors of the Company**

6.1 The Directors and their principal functions are as follows:

<i>Directors</i>	<i>Functions</i>
David Jenkins	Non-executive Chairman
Michael Marx	Chief Executive
Julian Barwick	Executive Director
Matthew Weiner	Executive Director
Graham Prothero	Finance Director
Paul Manduca	Non-executive Director
Victoria Mitchell	Non-executive Director
Michael Soames	Non-executive Director

6.2 **Biographies**

Brief biographical details of the Directors are as follows:

David Jenkins (age 65), Non-executive Chairman

Joined the Board as a Non-executive Director in February 2007 and was appointed Chairman in May 2007. A Fellow of the Institute of Chartered Accountants in England and Wales. Previously a partner in Deloitte LLP, London and was Managing Partner of their Real Estate Practice until his retirement in May 2004. Senior Independent Director of MITIE Group PLC and Non-executive Director of Renewable Energy Systems Holdings Limited. He is also a Governor of Downe House School.

In addition to his directorship of Development Securities, David Jenkins holds or has held in the past five years the following directorships:

<i>Company</i>	<i>Status (Current/Previous)</i>
American European Business Association Limited	Previous
Downe House School	Current
Downe House School Services Limited	Current
MITIE Group PLC	Current
Renewable Energy Systems Holdings Limited	Current
Renewable Energy Systems Limited	Previous
Res-Gen Limited	Previous

David Jenkins has not been a partner in any partnerships in the last five years.

Michael Marx (age 62), Chief Executive

Appointed to the Board in September 1994. A Fellow of the Institute of Chartered Accountants in England and Wales and a Member of the UK Listing Authority Advisory Committee 2004 to 2007. Non-executive chairman of Nationwide Accident Repair Services PLC.

In addition to his directorship of Development Securities, Michael Marx holds or has held in the past five years the following directorships:

<i>Company</i>	<i>Status (Current/Previous)</i>
Artso Limited	Current
CTP Securities Limited	Current
Curzon Park Limited	Current
Hammersmith Central (General Partner) Limited	Current
Hammersmith Central (No.1) Limited	Current
Hammersmith Central (No.2) Limited	Current
Luneside East Limited	Current
Nationwide Accident Repair Services PLC	Current
R.D.B.P. Management Limited	Current
Re-Gen.Com Limited	Previous
Schofield Centre Limited	Current
Stead and Simpson Group Limited	Previous
Tarmac Guildford Limited	Current
The London Jewish Cultural Centre	Current
The Separated Child Foundation	Current
White Lion Walk Limited	Current

Michael Marx has not been a partner in any partnerships in the last five years.

Julian Barwick (age 55), Executive Director

A Fellow of the Royal Institution of Chartered Surveyors. Joined the Board in May 1998. Formerly property adviser to the Bedford Estate from 1997 to 2003, Chairman of the Paddington Regeneration Partnership from 2000 to 2002 and Board Member of the British Council of Offices. Appointed to the Board of London & Continental Railways Limited in 2005.

In addition to his directorship of Development Securities, Julian Barwick has held in the past five years the following directorships:

<i>Company</i>	<i>Status (Current/Previous)</i>
British Council For Offices	Previous
Curzon Park Limited	Current
Hammersmith Central (No.1) Limited	Current
Hammersmith Central (No.2) Limited	Current
London & Continental Railways Limited	Current
London & Continental Stations & Property Limited	Current
PaddingtonCentral Management Company Limited	Previous
Wimbledon Phoenix Limited	Previous

Julian Barwick has not been a partner in any partnerships in the last five years.

Matthew Weiner (age 38), Executive Director

Appointed to the Board in March 2004. A Member of the Royal Institution of Chartered Surveyors. Joined Development Securities in November 2000 as Director of Investments, following property fund management roles at both Legal & General and AXA REIM. A member of the University of Reading Real Estate Advisory Board.

In addition to his directorship of Development Securities, Matthew Weiner holds or has held in the past five years the following directorships.

<i>Company</i>	<i>Status (Current/Previous)</i>
CTP Securities Limited	Current
Luneside East Limited	Current
Wimbledon Phoenix Limited	Current

Graham Prothero (age 47), *Executive Director and Finance Director*

Appointed in November 2008. A member of the Institute of Chartered Accountants in England & Wales. From 2001 until 2008 a Partner with Ernst & Young. Previously Finance Director of Blue Circle Properties and Finance Director of Taylor Woodrow's UK housebuilding.

Graham Prothero has in the past five years been a partner in the following partnership:

<i>Company</i>	<i>Status (Current/Previous)</i>
Ernst & Young LLP	Previous

Save for his directorship of Development Securities, Graham Prothero has not been a director in any other company in the past five years.

Paul Manduca (age 57), *Non-executive Director*

Appointed in August 2001. Former Chief Executive Officer of Deutsche Asset Management Europe until the end of March 2005 and a former Director of MEPC PLC. Chairman of AON Limited, Senior Independent Director of Wm Morrison Supermarkets PLC, JPMF Euro Fledgling Investment Trust PLC, KazMunaiGaz E&P PLC and Chairman of both Uniq Pension Scheme Trustees Limited and Henderson Diversified Income Investment Trust PLC.

In addition to his directorship of Development Securities, Paul Manduca holds or has held in the past five years the following directorships, or is or was a member of the following partnerships in the past five years:

<i>Company</i>	<i>Status (Current/Previous)</i>
AON Limited	Current
Bridgewell Group Limited	Previous
Deutsche Asset Management Group Limited	Previous
Henderson Diversified Income Investment Trust PLC	Current
Henderson Smaller Companies Finance Limited	Previous
Ingenious Film Partners 2 LLP	Current
Intrinsic Asset Management Limited	Current
Intrinsic Limited	Current
JP Morgan European Fledgling Investment Trust PLC	Current
KazMunaiGaz E&P PLC	Current
Majid AL Futtaim Holding	Current
Majid AL Futtaim Trust	Current
Said Holdings Limited	Previous
St. Justin Properties Limited	Current
The Henderson Smaller Companies Investment Trust PLC	Previous
Uniq Pension Scheme Trustees Limited	Current
WM Morrison Supermarkets PLC	Current
Wolverhampton Wanderers Football Club (1986) Limited	Previous
W.W. (1990) Limited	Previous

Victoria Mitchell (age 58), *Non-executive Director*

Appointed in August 2002. Currently Consultant Director to Savills PLC, Non-executive Chairman of The Berkeley Group Holdings PLC and Non-executive Director of Pam Golding International (Pty) Limited and Lennox Investment Management LLP. Trustee and Director of The Landmark Trust. Formerly an Executive Director of Savills PLC from 1988 to 2000.

In addition to her directorship of Development Securities, Victoria Mitchell holds or has held in the past five years the following directorships, or is or was a member of the following partnerships in the past five years:

<i>Company</i>	<i>Status (Current/Previous)</i>
Berkeley Seventy-One PLC	Previous
Lennox Investment Management LLP	Current
London First	Current
Pam Golding International (Pty) Limited	Current
Prime Purchase Limited	Current
The Berkeley Group PLC	Previous
The Berkeley Group Holdings PLC	Current
The Landmark Trustee Company Limited	Current
The Wellington Academy Trust	Current
The Wellington College International Limited	Current

Michael Soames (age 58), Non-executive Director

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

In addition to his directorship of Development Securities, Michael Soames holds or has held in the past five years the following directorships:

<i>Company</i>	<i>Status (Current/Previous)</i>
ISIS Property Trust Limited	Current
Linepark Limited	Current
Longmartin Investments Limited	Previous
Longmartin Properties Limited	Previous

Michael Soames has not been a partner in any partnerships in the last five years.

7. Directors' interests

Save as set out in paragraphs 7.1 and 7.2 below, no Director has any interests (beneficial or non-beneficial) in the share capital of the Company or any of its subsidiaries.

7.1 Directors' shareholdings

As at 23 June 2009 (being the latest practicable date prior to the publication of this document), the interests (all of which are beneficial unless otherwise stated) of the Directors (as well as their immediate families) in the share capital of the Company or (so far as is known or could with reasonable due diligence be ascertained by the relevant Director) interests of a person connected (within the meaning of Section 252 of the Companies Act 2006) with a Director and the existence of which was known to or could, with reasonable due diligence, be ascertained by the relevant Director as at 23 June 2009 together with such interests as are expected to be held immediately following completion of the Firm Placing and Placing and Open Offer were as follows:

	<i>As at 23 June 2009</i>		<i>Immediately following completion of the Firm Placing and Placing and Open Offer⁽¹⁾</i>	
	<i>Number of Existing Shares</i>	<i>Percentage of issued share capital⁽²⁾</i>	<i>Number of Shares</i>	<i>Percentage of issued share capital⁽²⁾</i>
David Jenkins	15,000	0.037	24,230	0.029
Michael Marx	281,156	0.692	367,665	0.447
Julian Barwick	144,153	0.355	188,507	0.229
Matthew Weiner	45,995	0.113	74,299	0.090
Graham Prothero	7,940	0.020	12,826	0.016
Paul Manduca	–	0.000	–	–
Victoria Mitchell	1,549	0.004	2,502	0.003
Michael Soames	25,739	0.014	41,577	0.051

Notes:

(1) The number of Ordinary Shares in issue immediately following the Firm Placing and Placing and Open Offer assumes that no options or awards are exercised under the Development Securities Employee Share Plans and that the New Shares which the Directors currently intend to take up in the Firm Placing and Placing and Open Offer are taken up.

(2) Percentages shown have been rounded to three decimal places.

7.2 *Directors' options and awards*

As at 23 June 2009 (being the latest practicable date prior to the publication of this document), the Directors held awards of Shares under the Development Securities Employee Share Plans which may be satisfied by the issue or transfer of Shares, as detailed in the tables below:

Development Securities Performance Share Plan

<i>Director</i>	<i>Award date</i>	<i>Total Awards outstanding (Number of Shares)</i>	<i>Vesting date</i>
Michael Marx	08/05/2007	71,469	01/01/2010
Michael Marx	13/05/2008	124,629	01/01/2011
Michael Marx	08/05/2009	162,931	01/01/2012
Julian Barwick	08/05/2007	42,717	01/01/2010
Julian Barwick	13/05/2008	74,777	01/01/2011
Julian Barwick	08/05/2009	97,759	01/01/2012
Matthew Weiner	08/05/2007	42,717	01/01/2010
Matthew Weiner	13/05/2008	74,777	01/01/2011
Matthew Weiner	08/05/2009	97,759	01/01/2012
Graham Prothero	08/05/2009	97,759	01/01/2012

Options

<i>Director</i>	<i>Option scheme</i>	<i>Total Options outstanding</i>	<i>Date from which exercisable</i>	<i>Expiry date</i>
Michael Marx	Savings related scheme	3,380	01/12/2011	31/05/2012
Julian Barwick	Savings related scheme	3,380	01/12/2011	31/05/2012
Matthew Weiner	Executive option scheme 1995	28,827	27/03/2004	26/03/2011
Matthew Weiner	Executive option scheme 1995	66,979	19/04/2007	18/04/2014
Matthew Weiner	Executive option scheme 2005	40,000	27/10/2008	26/10/2015
Matthew Weiner	Executive option scheme 2005	40,000	28/04/2009	27/04/2016
Matthew Weiner	Savings related scheme	3,380	01/12/2011	31/05/2012

No Director has or has had any interest in any transaction which is or was unusual in its nature or conditions, or is or was significant to the business of the Company, and which was effected by any member of the Group in the current or immediately preceding financial year or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.

There are no guarantees provided by any member of the Group for the benefit of the Directors.

Within the period of five years preceding the date of this document, none of the Directors:

7.2.1 has any convictions in relation to fraudulent offences;

7.2.2 has been a director, partner or senior manager (who is relevant to establishing that a company has the appropriate expertise and experience for the management of that company) of any company or partnership at the time of any bankruptcy, receivership or liquidation of such company or partnership; or

7.2.3 has received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) or has been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.

7.3 None of the Directors has any potential conflicts of interest between his duties to the Company and his private interests or other duties.

8. Remuneration details, Directors' service contracts and letters of appointment

8.1 *Remuneration of Directors*

In the year ended 31 December 2008, the aggregate total remuneration paid (including contingent or deferred compensation) and benefits in kind granted (under any description whatsoever) to the Directors by members of the Group was £2,612,935. In addition, Executive Directors are also eligible to receive annual bonuses in respect of 2008, as detailed in Note (1) below.

Under the terms of their service contracts and applicable incentive plans, in the year ended 31 December 2008, the Directors were entitled to the remuneration and benefits set out below:⁽¹⁾

	<i>Base salary and Non-executive Directors' fees</i> £'000	<i>Bonus</i> £'000	<i>Benefits in kind⁽²⁾</i> £'000	<i>2008 Total remuneration⁽³⁾</i> £'000
Non-executive Chairman				
David Jenkins	60	0	0	60
Executive Directors				
Michael Marx	350	185	19	554
Julian Barwick	315	1,077	17	1,409
Matthew Weiner	315	58	15	388
Graham Prothero	84	0	2	86
Non-executive Directors				
Paul Manduca	40	0	0	40
Victoria Mitchell	35	0	0	35
Michael Soames	37	0	0	37
Total Directors' remuneration	<u>1,236</u>	<u>1,320</u>	<u>53</u>	<u>2,609</u>

Notes:

(1)(a) *Annual Bonus*

The non-pensionable annual bonus is based on the performance of the Company during the year, team achievements and the specific contribution of the individual concerned. With the exception of Michael Marx, Executive Directors are set a target bonus of 37.5 per cent. of salary and an above target maximum of 75 per

cent. As Michael Marx does not normally qualify for awards under the Development Profit Plan below, his target bonus is 75 per cent. of salary, with a maximum of 150 per cent. The annual bonus in respect of the Executive Directors is determined principally by the three main drivers for the creation of shareholder value in the business; namely, accurate reading of the economic and market cycles in which Development Securities operates, the pipeline of future development projects and the maintenance of the standards of excellence that are embedded within the Company's corporate culture. In addition, the Remuneration Committee measures the Company's relative performance against its peer group companies during the year. The following annual bonus awards were made during the year ended 31 December 2008.

Michael Marx	£130,000
Julian Barwick	£58,000
Matthew Weiner	£58,000

(1)(b) ***Development Profit Plan***

The Remuneration Committee reserves the right to make awards under the Development Profit Plan to Executive Directors and other senior managers who have been instrumental in securing development opportunities for the Company. Awards are eligible on projects where the first phase is likely to produce profits in excess of £2.0 million. No more than 10 per cent. of the profits of the development project is awarded in total. When any particular development project becomes unconditional, the Remuneration Committee determines which individuals should receive awards under the Development Profit Plan and the amount of the award. The bonus is dependent principally upon the amount of profit actually realised upon completion. 20 per cent. of the award will be retained until such time as the profit is actually realised whereupon it will be re-evaluated to determine if any additional Executive Directors or senior managers have been instrumental in making a significant and material contribution in progressing the scheme through to completion and if not, this retention would revert back to the original participants. In awarding annual bonuses and awards under the Development Profit Plan, there is no 'double-counting'. The contribution of any team and individual performance, which leads to awards under the Development Profit Plan are disregarded in assessing the annual bonus. A plot of land at Broughton was sold in November 2008 giving rise to a Development Profit Plan award to Michael Marx of £54,000. Julian Barwick received £1,019,000 following practical completion of One Kingdom Street, forming part of Phase II Paddington Central. Paul Willis, a former Executive Director, received £796,000 in April 2009 following maturity of an 8 per cent. Development Profit Plan award allocated for the Carnival Building, West Quay, Southampton and for which the Remuneration Committee had previously resolved that he should retain such an award subject to his retirement as a Director. Details of the Directors' outstanding principal bonus entitlements are detailed in the Remuneration report included in the Annual Report and Accounts 2008 on pages 95 to 104 incorporated by reference into this document.

(1)(c) ***Joint Venture Profit Plan***

The Remuneration Committee reserves the right to make awards under the Joint Venture Profit Plan to Executive Directors and other senior managers who have been instrumental in securing profits generated from joint ventures. Awards are made when joint ventures are likely to produce a total profit in any one year of more than £2.0 million. No more than 10.0 per cent of this profit is awarded in total. In any given year, the Remuneration Committee determines which individuals should receive awards and the amount of the award for each of the joint ventures for the following year. In assessing the profit from any joint venture, all profits remitted during the year on successful projects are cumulated and all projects which have either crystallised or are forecast to make a loss are deducted. Any actual profits/losses performance which lead to awards under the Joint Venture Profit Plan are disregarded in assessing the annual bonus.

(1)(d) ***Investment Growth Plan***

The Remuneration Committee reserves the right to award bonuses under the Investment Growth Plan. The performance condition of the award is that the total investment portfolio return must exceed 120 per cent. of the All-Fund Universe Index as published by IPD if the index is greater than zero, or at least 0.1 per cent. if the index is less than or equal to zero and, in addition, represents at least one percentage point above the total return under the index. The total investment portfolio return represents the sum of income return, net of irrecoverable property expenses, together with capital growth. The initial bonus represents a bonus pool of 5 per cent. of the value determined by the excess of the total investment portfolio return over the benchmark index up to a cap of £1 million unless otherwise determined. The award is remitted following the end of the financial year when the award is determined, with an equivalent amount representing a deferred bonus assessed two years thereafter, provided that during the intervening period the total investment portfolio return exceeds a specified proportion of the index. The performance condition for the 2008 financial year has not been satisfied, giving rise to an initial bonus of £nil. The deferred bonus from the 2006 financial year was also £nil due to the non satisfaction of the initial bonus that year.

(1)(e) ***The Long-Term Incentive Plan***

The Long-Term Incentive Plan, which first became operative in respect of the year ended 31 December 2000, permits the Remuneration Committee to award performance-related deferred bonuses. The deferred bonuses vest over a three-year period. The award will be paid in cash, all of which will be used to buy shares in the Company, except where participants are subject to tax and social security in respect of the award, where they will, to that extent, receive cash only. At the end of each year, the Group's net asset value per share will be calculated. If the increase in the Group's net asset value per share is at least equal to that of the median of a group of 16 listed property companies, then the deferred bonus will vest as to one-sixth of the maximum amount which can be awarded. If growth reaches the upper quartile level, the deferred bonus will vest as to one-third of the maximum amount which can be awarded. Between these criteria, the deferred bonus will vest pro rata. If the Group's net asset value per Ordinary Share is below the median for any year, the deferred bonus will not vest at all in respect of that year. Furthermore, there is an underpin that the increase in the Group's net asset value per share must also have at least equalled the increase in the retail price index plus

2 per cent. for the first performance year, 4 per cent. over the first two years for the second year and 6 per cent. over all three years for the third year. The primary performance condition is considered appropriate as it measures the Company's added value against a representative peer group of companies. Normally, once the three years of vestings have been determined by the Remuneration Committee, the deferred bonus is capable of exercise during the period of 42 days from the announcement of the Company's results. Development Securities ranked fifth in descending order, including itself, against the comparator group of companies in respect of the third year of vesting for the deferred bonus granted under the Long-Term Incentive Plan on 29 April 2005. The total value of the third year of vesting was £360,000 including £73,333 in respect of Michael Marx and Julian Barwick and £50,000 for Matthew Weiner. The first and second years of vesting were both nil. Following deduction for tax and social security, the balance was used to acquire 12,404 shares in the Company for both Matthew Marx and Julian Barwick and 8,458 shares for Matthew Weiner. There are no further outstanding awards under the Long-Term Incentive Plan and no additional deferred bonus awards may be made.

- (2) Benefits in kind received during the year comprise motor vehicles, cash in lieu of a motor vehicle, fuel and medical insurance.
- (3) In the year ended 31 December 2008, the total amount contributed or accrued by the Group to provide pension retirement or other benefits to Directors not included in the table above is £170,693. Further details of pension provisions are set out on page 101 of the Annual Report and Accounts 2008, which are incorporated by reference into this document.

8.2 *Directors' service contracts and letters of appointment*

Executive Directors

The letters of appointment in relation to Michael Marx dated 24 June 1994, Julian Barwick dated 12 May 1998, Matthew Weiner dated 17 March 2004 and Graham Prothero dated 11 June 2008 may all be terminated upon 12 months' notice by either party. The letters of appointment do not specify an expiry date. Severance payments are based upon the terms of the letters of appointment, whilst bearing in mind a duty to mitigate, where appropriate. In the event of early termination, the contractual entitlement includes salary, pension, benefits in kind and any awards outstanding under the Development Securities Employee Share Plans, subject to the rules of the individual schemes and plans.

Non-executive Directors

<i>Non-executive Directors</i>	<i>Date of appointment</i>	<i>AGM at which term expires</i>
David Jenkins	10 January 2007	2010
Paul Manduca	31 July 2001	2011
Victoria Mitchell	22 July 2002	2012
Michael Soames	22 July 2002	2012

David Jenkins' letter of appointment may be terminated with 12 months' notice by either party. Paul Manduca's, Victoria Mitchell's and Michael Soames' respective letters of appointment may be terminated with six months' notice by either party.

The Articles of Association of the Company require that Directors should submit themselves for re-election at the Annual General Meeting three years from that of their previous election or re-election.

9. **Board practices**

The Combined Code recommends that at least two members of the board of directors of a smaller public limited company incorporated in the UK should be independent in character and judgement and free from relationships or circumstances which are likely to affect, or could appear to affect, their judgement.

Throughout the year ended 31 December 2008 and up to the date of this document, Development Securities was in full compliance with the provisions of the Combined Code, except that up to 1 January 2009 no member of the Audit Committee was considered to have recent and relevant financial experience as required under Combined Code provision C.3.1. However, as a result of a change in the Combined Code provisions as of 1 January 2009, this was remedied with the appointment of David Jenkins as a member of the Audit Committee.

Currently, the Board is composed of eight members, consisting of the Non-executive Chairman, four Executive Directors and three Non-executive Directors who are all independent.

The roles of the Non-executive Chairman and Chief Executive are distinct and separate, with a clear division of responsibilities.

The Board has established Nominations, Remuneration and Audit Committees, with formally delegated duties and responsibilities with written terms of reference. From time to time, separate committees may be set up by the Board to consider specific issues when the need arises.

Nominations Committee

The Nomination Committee is responsible for evaluating the structure, size and composition of the Board as a whole, taking into account the balance of skills, knowledge and experience of the individual members and, in light of this evaluation, preparing a succession plan and a description of the role and capabilities required for Board appointments, both executive and non-executive.

The current members of the Nomination Committee are David Jenkins (Chairman), Michael Marx and Paul Manduca.

Remuneration Committee

The Remuneration Committee is delegated specific authority by the Board to decide on all elements of remuneration for the Executive Directors and the Chairman of the Company and to ensure that senior management remuneration is consistent with corporate policy. The Remuneration Committee is responsible for considering and approving the terms of service, salary reviews, eligibility for awards, bonus arrangements and other benefits, whether in cash or in kind, together with pension contributions. The Chairman of the Company is consulted on the Remuneration Committee's remuneration proposals for the Executive Directors. The Committee also authorises the grant of options under the Employee Share Plans to Executive Directors and other senior executives, and ensures that compensation commitments for early termination of the contracts of the Chairman and Executive Directors avoid rewarding poor performance while also reflecting a departing Director's obligation to mitigate loss. The Remuneration Committee regularly reviews the Company's remuneration policies and practices to facilitate the employment and motivation of personnel, with a view to providing the packages needed to attract, retain and motivate Directors of the quality required, whilst avoiding paying more than is necessary for this purpose.

The current members of the Remuneration Committee are Michael Soames (Chairman) and Victoria Mitchell, who are both independent Non-executive Directors.

Audit Committee

The Audit Committee meets at least three times in each financial year and is responsible for, amongst other things, the appointment of the external auditors, the process of selection of auditors, accounting policies, major judgemental areas and financial reporting and to consider other topics as may be specified by the Board. It also acts as a conduit between the Board and the external auditors by discussing with the auditors the nature and scope of the audit, agreeing the external audit fee and by ensuring there is proper co-ordination with the external auditors to discuss any problems or reservations which the external auditors may have.

The current members of the Audit Committee are Paul Manduca (Chairman), David Jenkins and Victoria Mitchell, who are all independent Non-executive Directors.

10. Significant shareholdings

10.1 As at 23 June 2009 (being the latest practicable date prior to the publication of this document), the Company had been notified in accordance with DTR5 of the Disclosure and Transparency Rules of the following interests in its Ordinary Shares:

	<i>Number of Shares</i>	<i>Percentage interest of issued Ordinary Share capital</i>
F & C Asset Management PLC	4,858,436	11.97
Aberdeen Asset Management PLC	3,194,000	7.87
Legal & General Group Plc	2,049,056	5.05
AXA. SA	1,970,949	4.85
Chelsfield Partners LLP	1,646,681	4.06
Stichting Pensioenfond ABP	1,583,892	3.90
Prudential PLC Group of Companies	1,401,086	3.45
Asset Value Investors Limited	1,301,946	3.21
Standard Life Investments Limited	1,238,024	3.05

- 10.2 Save as disclosed in this paragraph 10, Development Securities is not aware of any person who, as at 23 June 2009 (being the latest practicable date prior to the publication of this document), directly or indirectly, has a holding which is notifiable under English law.
- 10.3 Development Securities is not aware of any persons who, as at 23 June 2009 (being the latest practicable date prior to the publication of this document), directly or indirectly, jointly or severally, exercise or could exercise control over Development Securities nor is it aware of any arrangements, the operation of which may at a subsequent date result in a change of control of the Company.
- 10.4 None of the Shareholders referred to in this paragraph 10 has different voting rights from any other holder of Shares in respect of any Shares held by them.

11. Subsidiaries

Members of the Group

Development Securities is the parent company of the Group. The following table contains a list of the principal subsidiaries of Development Securities (each of which is considered by Development Securities to be likely to have a significant effect on the assessment of the assets, liabilities, financial position and/or profits and losses of the Group):

<i>Name</i>	<i>Percentage ownership interest and voting power</i>	<i>Field of activity</i>	<i>Country of incorporation</i>	<i>Registered office</i>
D S Property Developments Limited	100	Property development	England and Wales	Portland House Bressenden Place London SW1E 5DS
Development Securities Estates PLC	100	Management and investment company	England and Wales	Portland House Bressenden Place London SW1E 5DS
Development Securities (Investments) PLC	100	Property investment	England and Wales	Portland House Bressenden Place London SW1E 5DS
DS Jersey (No.1) Limited	100	Investment	Jersey	Templar House Don Road St Helier JE4 8WH
DS Jersey (No.2) Limited	100	Investment	Jersey	Templar House Don Road St Helier JE4 8WH
DS Jersey (No.3) Limited*	100	Investment	Jersey	Templar House Don Road St Helier JE4 8WH
DS Jersey (No.7) Limited	100	Investment	Jersey	Templar House Don Road St Helier JE4 8WH

<i>Name</i>	<i>Percentage ownership interest and voting power</i>	<i>Field of activity</i>	<i>Country of incorporation</i>	<i>Registered office</i>
Kirkby Centre (No.2) Limited*	100	Investment	England and Wales	Portland House Bressenden Place London SW1E 5DS
Development Securities (Paddington) Limited*	100	Property development	England and Wales	Portland House Bressenden Place London SW1E 5DS
Development Securities (Southampton A) Limited*	100	Property development	England and Wales	Portland House Bressenden Place London SW1E 5DS
Universal Consolidated Ringwood Limited*	100	Investment	England and Wales	Portland House Bressenden Place London SW1E 5DS

* Indirectly held.

12. Employees

The average weekly number of employees, including Directors, during the following financial years was as follows:

	2008	2007	2006
Property development and investment	38	34	33
Operating property activities	28	54	56
Total number of employees	66	88	89

13. Development Securities Employee Share Plans

The principal features of the Development Securities Employee Share Plans (being those under which options/awards remain outstanding) are summarised below.

13.1 There are grants and awards outstanding under the following Development Securities Employee Share Plans:

- 13.1.1 the Executive Share Option Scheme 1995 (“1995 Executive Scheme”);
- 13.1.2 the Executive Share Option Plan 2005 (“2005 Executive Scheme”);
- 13.1.3 the Save-As-You-Earn Option Plan 2005 (“Savings Related Scheme”); and
- 13.1.4 the Performance Share Plan 2006 (“PSP”).

13.2 *The 1995 Executive Scheme*

13.2.1 *General*

The 1995 Executive Scheme is in two parts, both of which are substantially the same, except that the first part has been drafted to comply with the relevant UK tax legislation and approved by HMRC so that options granted under it may attract UK tax benefits.

13.2.2 *Eligibility*

All Directors and employees who are required to work for at least 25 hours and 20 hours respectively per week for the Company or any of its participating subsidiaries are eligible to participate in the 1995 Executive Scheme provided they are not within two years of retirement. The grant of options is made by the Board on the recommendation of the Remuneration Committee. Options are not pensionable.

13.2.3 *Grant of options*

Options may normally only be granted within 42 days commencing on the day immediately following the announcement of the Company’s results for any period and

any day on which the Directors resolve that there are exceptional circumstances justifying the grant of options. No options may be granted after 23 May 2005.

13.2.4 *Option price*

Options entitle the holders to acquire Ordinary Shares at a price, which may not be less than the higher of:

- (a) the middle-market quotation for an Ordinary Share as derived from the Official List on the business day immediately preceding the date of grant (as defined in the 1995 Executive Scheme); and
- (b) if Ordinary Shares are subscribed, their nominal value.

13.2.5 *Performance conditions*

Options are granted on the basis that exercise is subject to the satisfaction of a performance condition. The aim of the performance condition is to ensure that options are only exercisable if there has been a significant and sustained improvement in the underlying financial performance in the Company.

13.2.6 *Limitation on individual participation*

Each individual's participation is limited so that the aggregate price payable on the exercise of all options granted under the 1995 Executive Scheme and any other HMRC approved executive share option scheme in any 10-year period (excluding any options which have been exercised) does not exceed the statutory limit (currently £30,000).

In addition, the aggregate price payable on the exercise of all options to subscribe shares granted to him under the 1995 Executive Scheme and any other discretionary share option scheme in any 10-year period may not exceed, broadly, four times annual earnings. However, in granting any options to replace those which have been exercised, the Board may disregard this limit if it is satisfied that the grant of such options is justified by the performance of the Company in the previous two to three years.

13.2.7 *Exercise of options*

Options are normally only exercisable, subject to the performance conditions referred to above being satisfied, between the third and tenth anniversaries of grant and by a person who remains a Director or employee of the Company or a participating subsidiary.

Options may also, however, be exercised for a limited period in certain specified circumstances, irrespective of whether the performance conditions have been satisfied. This includes death, on ceasing employment due to ill-health, injury, disability, redundancy or retirement, the sale of the employing company and the transfer of the business in which the employee is employed out of the Group. Other than these circumstances, options normally lapse on the holder ceasing to be employed by a group company, except on voluntary resignation three or more years after the grant of the option. Exercise is allowed in the event of a takeover of the Company; alternatively, options may, with the agreement of the acquiring company, be exchanged for options over shares in the acquiring company or a company associated with the acquiring company. Options may also be exercised in the event of the winding up of the Company.

Options are not transferable and may only be exercised by the persons to whom they were granted or their personal representatives.

13.2.8 *Variation in share capital*

In the event of any variation in the equity share capital of the Company, including in consequence of a capitalisation or rights issue, consolidation, sub-division or reduction of share capital, options may be adjusted, if appropriate, subject to the approval of HMRC where required.

13.3 *The 2005 Executive Scheme*

13.3.1 *General*

The 2005 Executive Scheme is in two parts both of which are substantially the same, except that the first part has been drafted to comply with the relevant UK tax legislation and approved by HMRC so that options granted under it may attract UK tax benefits.

13.3.2 *Eligibility*

All Directors and employees of a member of the Group are eligible to participate in the 2005 Executive Scheme provided they are not within six months of retirement (and, in the case of Directors, they may only be granted approved options if they are required to work for at least 25 hours a week). The grant of options is made by the Board on the recommendation of the Remuneration Committee. Options are not pensionable.

13.3.3 *Grant of options*

Options may normally only be granted within 42 days commencing on the day immediately following the announcement of the Company's results for any period and any day on which the Directors resolve that there are exceptional circumstances justifying the grant of options. No options may be granted after 12 May 2015.

13.3.4 *Option price*

Options entitle the holders to acquire Ordinary Shares at a price which may not be less than the higher of:

- (a) the middle-market quotation for an Ordinary Share as derived from the Official List on the business day immediately preceding the date of grant or, if the Directors so determine, the average of the middle-market quotations over the three immediately preceding business days or such other price as agreed in advance with the Share Valuation Division of HMRC (each as defined in the 2005 Executive Scheme); and
- (b) the nominal value of the Ordinary Shares.

13.3.5 *Performance conditions*

Options are granted on the basis that exercise is subject to the satisfaction of a performance condition. The aim of the performance condition is to link the receipt of shares to an improvement in the financial performance of the Company over the performance period, which will not normally be less than three financial years of the Company.

13.3.6 *Limitation on individual participation*

Each individual's participation is limited so that the aggregate price payable on the exercise of all options granted under the 2005 Executive Scheme and any other HMRC approved executive share option scheme in any 10-year period (excluding any options which have been exercised) does not exceed the statutory limit (currently £30,000).

In addition, the aggregate price payable on the exercise of all options to subscribe shares granted to him in the same financial year under the 2005 Executive Scheme and any other discretionary share option scheme may not exceed, broadly, two times annual earnings. However, the Board may disregard this limit if it is satisfied that exceptional circumstances justify this.

13.3.7 *Exercise of options*

Options are normally only exercisable, subject to the performance conditions referred to above being satisfied, between the third and tenth anniversaries of grant and by a person who remains a Director or employee of the Company or a participating subsidiary.

Options may also, however, be exercised for a limited period in certain specified circumstances, in most cases subject to the satisfaction of any performance conditions and to a pro rata reduction to reflect the proportion of the performance period not yet elapsed. This includes death, on ceasing employment due to ill-health, injury, disability, redundancy or retirement, the sale of the employing company and the transfer of the business in which the employee is employed out of the Group. Other than these circumstances, options normally lapse on the holder ceasing to be employed by a group company (or on giving or receiving notice, if earlier). Exercise is allowed in the event of a takeover of the Company; alternatively, options may, with the agreement of the acquiring company, be exchanged for options over shares in the acquiring company or a company associated with the acquiring company.

Options may also be exercised in the event of the winding up of the Company. Options are not transferable and may only be exercised by the persons to whom they were granted or their personal representatives.

13.3.8 *Variation in share capital*

In the event of a variation in the equity share capital of the Company, including a capitalisation or rights issue, consolidation, sub-division or reduction of share capital, options may be adjusted, if appropriate, subject to the approval of HMRC where required.

13.4 *The Savings Related Scheme*

13.4.1 *General*

The Savings Related Scheme has been drafted to comply with the relevant UK tax legislation and approved by HMRC so that options granted under it may attract UK tax benefits.

13.4.2 *Issue of invitations*

Invitations to apply for options may normally only be issued within 42 days commencing on the day immediately following the announcement of the Company's results for any period or any other day on which the Directors resolve there are exceptional circumstances justifying the grant of options. No options may be granted after 12 May 2015.

13.4.3 *Eligibility*

On any date of invitation to apply for options, all employees (including Executive Directors) of the Company and participating subsidiaries who have earnings subject to UK tax, who have been continuously employed for a period as specified by the Directors (not exceeding five years) and, in the case of Executive Directors, are required to work for a minimum of 25 hours a week are entitled to participate. The Directors may also permit other employees to participate. Benefits under the Savings Related Scheme are not pensionable.

13.4.4 *Savings contract*

A savings contract must be taken out with an appropriate savings body approved by the Directors, providing for contributions to be made of between £5 and £250 (or such greater amount as is permitted by the relevant legislation) per month. Interest is payable and a bonus is payable at the end of the savings period at fixed rates which are currently set by HM Treasury.

13.4.5 *Option price*

Options are granted to acquire Ordinary Shares at such price as the Directors may determine which may not be less than the higher of:

- (a) 80 per cent. of the market value of an Ordinary Share on the business day immediately preceding the date of invitation or, if the Directors so determine, the average price for the three immediately preceding business days, or such

other date as agreed in advance with HMRC (as defined in the Savings Related Scheme); and

(b) if Ordinary Shares are to be subscribed, their nominal value.

The number of Ordinary Shares over which an option may be granted is limited to that number of Ordinary Shares which may be acquired at the option price out of the repayment proceeds of the relevant savings contract including, where the Directors so allow, any interest or bonus. Applications for options may be scaled down by Directors at the time of grant if they exceed the number of Ordinary Shares available for the grant of options.

13.4.6 *Exercise of options*

Options are normally only exercisable, using the repayment proceeds of the relevant savings contract, for a period of six months commencing on the date the bonus is payable and lapse if not exercised by the end of that period.

Options may, however, be exercised earlier than the bonus date in certain circumstances including death, retirement, ceasing employment due to injury, disability or redundancy, the sale of the employing company, transfer of the business in which the employee is employed out of the group and where an option has been held for more than three years or early retirement. Other than in these circumstances, options normally lapse on the holder ceasing to be employed by a group company. Exercise is allowed in the event of a takeover of the Company; alternatively, options may, with the agreement of the acquiring company, be exchanged for options over shares in the acquiring company or a company associated with the acquiring company. Options may also be exercised in the event of voluntary winding up of the Company. Where options are exercised before the bonus date, the employee may only acquire the number of Ordinary Shares which can be purchased with the repayment proceeds of the relevant savings contract at the date of exercise.

Options are not transferable and may only be exercised by the persons to whom they were granted or their personal representatives.

13.4.7 *Variation in share capital*

In the event of a variation in the equity share capital of the Company, including a capitalisation or rights issue, consolidation, sub-division or reduction of share capital, options may be adjusted, if appropriate, subject to the approval of HMRC.

13.5 *PSP 2006*

13.5.1 *Introduction*

The principal terms of the PSP are summarised below. Under the PSP, awards of free Ordinary Shares are made to Executive Directors and other employees. The receipt of Ordinary Shares is subject to the satisfaction of performance conditions and normally also continued employment.

13.5.2 *Eligibility*

All employees and Executive Directors of the Company or of any subsidiary of the Company are eligible to participate in the PSP. Participation by Executive Directors including the size of awards and the terms of the performance conditions will be determined by the Remuneration Committee. The remuneration policy under which the PSP will be operated as described in the Remuneration Report in the Report and Accounts.

13.5.3 *Grant of awards*

The PSP provides for awards of Ordinary Shares which may take the form of a conditional award (which is a right to be given Ordinary Shares on vesting), a nil cost option (which is a right to buy Ordinary Shares for up to 12 months after vesting for nil consideration) or forfeitable shares (which are Ordinary Shares transferred to participants on the basis that they are forfeit if the performance

conditions are not met). The terms of the different types of awards are substantially the same. There will be no payment from participants for the award or for the Ordinary Shares on vesting.

13.5.4 *Operation*

Except in exceptional circumstances, awards will normally only be made within six weeks following the Company's announcement of its results for any period. No awards may be made after 11 May 2016.

Awards are not transferable, except on death. Awards are not pensionable.

13.5.5 *Performance conditions*

Awards are made on the basis that Ordinary Shares are acquired (or, for forfeitable shares, the Ordinary Shares cease to be subject to forfeiture) subject to the satisfaction of performance conditions. The aim of these is to link the receipt of shares under the PSP to an improvement in the performance of the Company over a three-year performance period. There is no retesting.

Performance is measured by comparing the total shareholder return ("TSR") achieved by the Company with that of a comparator group chosen by the Remuneration Committee. The comparator group for the awards made under the PSP to date are the individual constituent members of the FTSE All Share Real Estate Index. There is a sliding scale of vesting as follows:

- (i) 25 per cent. of the award will vest if the Company's TSR equals the median TSR of the comparator group;
- (ii) 100 per cent. of the award will vest if the Company's TSR equals or exceeds the 85th percentile TSR of the comparator group; and
- (iii) pro rata vesting in between the above points.

In addition, the Remuneration Committee must be satisfied that there has been a sustained improvement in the Company's underlying financial performance over the performance period.

The Remuneration Committee can set different performance conditions from those described for future awards which will be described in the Remuneration Report in the Annual Accounts. The Remuneration Committee may also vary or adjust the performance conditions applying to existing awards to take account of events the Remuneration Committee considers exceptional, for example changes in accounting standards and treatment provided that in the opinion of the Remuneration Committee, the amended condition is fair and reasonable and no less challenging than the original condition would have been but for the event.

13.5.6 *Individual limits*

Executive Directors may not receive awards in any year over Ordinary Shares with a value exceeding 200 per cent. of basic salary. However, currently a maximum of 150 per cent. of basic salary applies to the Chief Executive and up to a maximum of 100 per cent. of basic salary applies to the other Executive Directors.

13.5.7 *Acquisition of shares*

When awards vest, at the discretion of the Remuneration Committee, the participant may also be entitled to a cash amount equal to the dividends which would have been payable on the vested shares during the performance period.

Any Ordinary Shares issued under the PSP will rank equally with shares of the same class and issue on the date of allotment except in respect of rights by reference to a record date prior to the date of allotment. In addition, treasury shares or Ordinary Shares purchased in the market may be used to satisfy awards under the PSP.

13.5.8 *Leaving employment*

An award will normally lapse when a participant leaves the group before vesting unless the cessation is due to ill-health, injury or permanent disability, retirement, redundancy, death or where there is a sale of the employing business or company.

If a participant ceases employment in such circumstances, shares may be received by applying the performance conditions to the award at the end of the performance period unless the Remuneration Committee decides it should vest on cessation. Unless the Remuneration Committee decides otherwise, the number of shares will also be reduced pro rata to take account of the period between the start of the performance period and the date of cessation as a proportion of the whole performance period. In the case of the death of the participant, the award will vest in full.

13.5.9 *Variation in share capital*

Awards may be adjusted where there is a variation in the equity share capital of the Company, a demerger or a special dividend.

13.5.10 *Change of control, merger or other reorganisations*

Generally, awards vest under the PSP on a takeover to the extent that the performance conditions have been satisfied at the date of the event. The number of Ordinary Shares received will be reduced pro rata to reflect the proportion of the performance period not yet elapsed as at the date of the event. Alternatively, participants may be allowed or required by the Remuneration Committee, with the consent of the acquiring company, to exchange their shares for shares in the acquiring company. The exchanged award will be subject to equivalent performance conditions or will only be exchanged to the extent the existing performance conditions have been met.

If a demerger, special dividend or other similar event is proposed which, in the opinion of the Remuneration Committee, would affect the current or future value of awards, then the Remuneration Committee may determine that awards will vest to the extent that any performance conditions have been satisfied at that time and that the awards will be time prorated as explained above, unless the Remuneration Committee decides otherwise. Alternatively, the Remuneration Committee may require participants to exchange their shares for shares in another company, if appropriate. Again, the exchanged award will be subject to equivalent performance conditions or will only be exchanged to the extent the existing performance conditions have been met.

13.5.11 *Dilution limit*

In any 10-year period, not more than 10 per cent. of the issued Ordinary Share capital of the Company may be issued or committed to be issued under the PSP and all other employee share plans operated by the Company. In addition, in any 10-year period, not more than 5 per cent. of the issued Ordinary Share capital of the Company may be issued or committed to be issued under the PSP and any other discretionary employee share plan operated by the Company. These limits do not include rights which have lapsed or have been surrendered.

So long as it is required under the guidelines of the Association of British Insurers Investment Committee, the Company will count any treasury shares used to satisfy awards towards the limit in the PSP on the number of new Ordinary Shares which may be issued under it.

13.5.12 *Amendments*

The Remuneration Committee may amend the PSP as it considers appropriate. However, Shareholder approval will be required to amend certain provisions to the advantage of participants. These provisions relate to: (i) eligibility; (ii) individual and plan limits; (iii) the basis for determining entitlements to awards; (iv) rights attaching to awards and the Ordinary Shares; (v) rights in the event of a variation in the Company's share capital; and (vi) the amendment powers.

The Remuneration Committee may, without shareholder approval, make minor amendments to facilitate the administration of the PSP, which relate to any change in the legislation, or which will obtain or maintain favourable tax exchange control or regulatory treatment for any participating company or any participant.

13.5.13 *Termination*

The PSP may be terminated by the Remuneration Committee at any time. Awards may not be granted after the tenth, anniversary of the approval of the PSP by shareholders.

14. Pension benefits

The Development Securities Retirement Benefits Scheme is the principal pension scheme in the Group. It is a contracted-in money purchase scheme, whose assets are independent of Development Securities' finances. Contributions are paid by the Company at a rate of 17.5 per cent. of salary for Executive Directors and 15 per cent. of salary for eligible staff. This is the only pension arrangement currently provided to new employees of the Group.

The Development Securities Retirement Benefits Scheme had 33 active members and 44 deferred members as at 31 March 2008. The Development Securities Retirement Benefits Scheme has one pensioner member; members who become pensioners purchase annuities with their accrued entitlements with the responsibility for their pension arrangements then transferring to the annuity provider. The Development Securities Retirement Benefits Scheme investment managers are Zurich Assurance Limited and AXA Sun Life Services PLC. The trustees of the pension scheme meet throughout the year and are responsible for the investment arrangements of the Development Securities Retirement Benefits Scheme. The trustees have appointed SBJ Benefit Consultants Limited, trading as Bluefin, as scheme administrators and consultants to advise them on all investment matters.

15. Litigation

No member of the Group is or has been involved in any governmental, legal or arbitration proceedings nor, so far as Development Securities is aware, are any such proceedings pending or threatened by or against any member of the Group which may have, or have had during the 12 months immediately preceding the date of this document, a significant effect on the Group's financial position or profitability.

16. Material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group: (i) within two years immediately preceding the date of this document which are or may be material; or (ii) contain any provision under which a member of the Group has an obligation or entitlement which is material to the Group as at the date of this document:

16.1 *Placing Agreement*

Pursuant to the terms and conditions contained in the Placing Agreement, the Company has appointed Collins Stewart as sponsor and agent in connection with the Firm Placing, Placing and Open Offer. Subject to the terms and conditions of the Placing Agreement, Collins Stewart has agreed to use reasonable endeavours to procure Firm Places for the Firm Placing and Conditional Places for the Placing (as agents for the Company) and agree that in the event that places are not found to acquire all or any of the Firm Placed Shares and the Open Offer Shares not taken up by Qualifying Shareholders, Collins Stewart will acquire such Firm Placed Shares and Open Offer Shares as principal at the Issue Price.

In consideration of Collins Stewart's agreement to acquire any Firm Placed Shares not taken up by places and any Open Offer Shares not taken up by Qualifying Shareholders or Conditional Places, the Company has agreed to pay to Collins Stewart a commission of: (i) 2.5 per cent. of the Total Aggregate Proceeds up to and including £25,000,000; (ii) plus an amount equal to 3.5 per cent. of the amount by which the Total Aggregate Proceeds are

more than £25,000,000 but less than, or equal to, £40,000,000; and (iii) 4.5 per cent. of the amount by which the Total Aggregate Proceeds are more than £40,000,000. In addition, the Company has agreed to pay Collins Stewart a corporate broking fee of £400,000, and (whether or not the Placing Agreement becomes unconditional) all costs or expenses of, or in connection with, the Firm Placing, Placing, Open Offer, Admission and the Placing Agreement.

The obligations of Collins Stewart under the Placing Agreement are subject to certain conditions being satisfied including, amongst others: (i) the passing of the Resolutions (without material amendment) at the Extraordinary General Meeting; (ii) the Company having complied with all its material obligations, in each case under the Placing Agreement or under the terms and conditions of the Firm Placing and Placing and Open Offer, which fall to be performed or satisfied prior to Admission; (iii) Admission becoming effective by not later than 8.00 a.m. on 15 July 2009 or such later time and date as Collins Stewart and the Company may agree); and (iv) there being no material breach of the warranties given in the Placing Agreement.

If any of the conditions is not satisfied (or waived by Collins Stewart) or becomes incapable of being satisfied by the required time and date being 15 July 2009 and/or such later time and date as Collins Stewart may agree, then Collins Stewart's obligations under the Placing Agreement shall cease and determine, without prejudice to any liability for any prior breach of the agreement and pursuant to certain surviving provisions. Additionally, Collins Stewart may, by notice, terminate the Placing Agreement in certain circumstances including, amongst others, where, in the reasonable opinion of Collins Stewart, there shall have been a material adverse change in the condition or the earnings, results of operations, management, business affairs or prospects of the Group, but only prior to Admission. Collins Stewart is not entitled to terminate the Placing Agreement after Admission.

The Company has given certain warranties and indemnities to Collins Stewart. The liabilities of the Company under those warranties and indemnities are unlimited as to time and amount.

In addition, the Company has further agreed that, subject to certain customary exceptions (including the issue of Ordinary Shares under the Company's share option schemes) between the date hereof and the date falling 90 days after Admission, it will not, without the prior written consent of Collins Stewart, enter into any commitment or agreement, or put itself in a position where it is obliged to announce that any commitment or agreement may be entered into, which is or may be material in the context of the Firm Placing, Placing and Open Offer or any of the transactions contemplated under the Placing Agreement, or issue any shares or options over shares or securities convertible or exchangeable into shares or enter into any agreement or undertaking to do the same. Collins Stewart has agreed that neither it nor any person acting on its behalf will procure subscribers for any of the New Shares other than in accordance with certain selling restrictions.

16.2 *Subscription and Transfer Deeds*

In connection with the Firm Placing, Placing and Open Offer, the Company, Newco and the Newco Subscriber, among others, have entered into two deeds each dated 24 June 2009 in respect of the subscription and transfer of ordinary shares and redeemable preference shares in Newco. Under the terms of these deeds:

- 16.2.1 the Company and the Newco Subscriber have agreed to subscribe for ordinary shares in Newco and enter into put and call options in respect of the ordinary shares in Newco subscribed for by the Newco Subscriber that are exercisable if the Firm Placing, and Placing and Open Offer does not proceed;
- 16.2.2 payments from Qualifying Shareholders taking up New Shares under the Firm Placing and Placing and Open Offer shall be held by the Receiving Agent on behalf of the Newco Subscriber solely for the purpose of enabling the Newco Subscriber to subscribe for redeemable preference shares in Newco to an aggregate value equal to such monies, after deduction of the amount of certain commissions and expenses; and

16.2.3 the Company will allot and issue the New Shares to those persons entitled thereto in consideration of the Newco Subscriber transferring its holding of redeemable preference shares and ordinary shares in Newco to the Company.

Accordingly, instead of receiving cash as consideration for the issue of the New Shares, at the conclusion of the Firm Placing, and Placing and Open Offer, the Company will own the entire issued ordinary and redeemable preference share capital of Newco whose only assets will be its cash reserves, which will represent an amount equivalent to the Net Proceeds of the Firm Placing, Placing and Open Offer. The Company will be able to utilise this amount equivalent to the Firm Placing and, Placing and Open Offer proceeds by exercising its right of redemption over the redeemable preference shares it withheld in Newco and, during any interim period prior to redemption, by procuring that Newco lends the amount to the Company (or one of the Company's subsidiaries).

Qualifying Shareholders are not party to these arrangements and so will not acquire any direct right against the Newco Subscriber pursuant to these arrangements. The Company will be responsible for enforcing the Newco Subscriber's obligations thereunder.

16.3 *Subordinated Notes due 2027*

Development Securities (Finance) PLC raised 47,000,000 by issuing Floating Rate Guaranteed Subordinated Notes due 2027 (the "Notes") guaranteed by the Company. The Notes have borne interest from and including 20 September 2007 and interest is payable quarterly in arrears on the 25 of January, April, July and October of each year, having commenced on 25 October 2007 (each, an "Interest Payment Date") and have a margin of 2.55 per cent. per annum. The Notes will be redeemed in full at their principal amount on the Interest Payment Date falling in October 2027 (the "Maturity Date"), if redemption occurs at maturity.

Development Securities (Finance) PLC can redeem all, but not some only, of the Notes before the Maturity Date for taxation reasons, or at its own option, redeem all or some only of the Notes on any Interest Payment Date falling on or after 25 October 2012 at their principal amount plus any interest accrued in respect of the period from, and including, the preceding Interest Payment Date to, but excluding, the date fixed for redemption. If less than all of the Notes are to be redeemed at any time prior to the Maturity Date, selection of such Notes for redemption are to be made by Bank of New York as registrar on a pro rata basis provided that no Notes shall be redeemed in part. Neither the Company, Development Securities (Finance) PLC nor any subsidiary of the Company (as defined therein) may purchase Notes at any time in any manner.

Noteholders can have their Notes redeemed if an event of default (as defined therein) has occurred or is continuing. Events of default include a default on the payment of any principal or interest, if the Company fails to perform or observe any of its obligations under the contractual documents, where an insolvency situation arises in respect of the Company or Development Securities (Finance) PLC, if the Company is in breach of certain covenants set out therein, or if Development Securities (Finance) PLC ceases to be a wholly-owned subsidiary of the Company. However, the events of default are limited by the subordination provisions. The obligations of Development Securities (Finance) PLC in respect of the Notes are, in the event of a winding up of Development Securities (Finance) PLC, subordinated in right of payment to the claims of all senior creditors. Accordingly, payments of principal and interest by Development Securities (Finance) PLC in respect of such Notes are conditional on a winding up upon Development Securities Finance PLC being considered solvent at the time of such payment and no principal or interest shall be payable by Development Securities (Finance) PLC in respect of such Notes on a winding up except to the extent that Development Securities (Finance) PLC could make such payment and still be considered solvent immediately thereafter. By virtue of being the holder of any Notes, Noteholders are deemed to have waived all rights of set-off, counter-claim or retention in respect of any amount owed to it by Development Securities (Finance) PLC in connection with the Notes.

16.4 *Currency and interest rate hedging relating to the Subordinated Notes due 2027*

Development Securities (Finance) PLC entered into an agreement with HSH Nordbank AG (the "Hedge Counterparty") dated 20 September 2007 which was amended and restated under an

Amendment and Restatement Deed dated 31 March 2009 (the “Pre-Hedging Agreement”). Under the Pre-Hedging Agreement, the Hedge Counterparty agreed that it would, at the request of Development Securities (Finance) PLC, enter into certain hedging arrangements in order to convert Development Securities (Finance) PLC’s floating rate EURIBOR obligations under the Notes into a fixed rate sterling obligation. In return, Development Securities (Finance) PLC agreed that it would make an initial deposit and thereafter further deposits linked to movements in the amounts owed by the parties to each other under the Swap (as defined below) into certain accounts held by Development Securities (Finance) PLC with the Hedge Counterparty. The Pre-Hedging Agreement contains various events of default, including one which, following an amendment which took effect as at 31 March 2009, is triggered if the consolidated tangible net worth of the Company falls below £100,000,000.

Pursuant to an ISDA Master Agreement dated 19 September 2007 and a confirmation dated 21 September 2007, Development Securities (Finance) PLC and the Hedge Counterparty entered into a cross-currency interest rate swap, whose effective date is 20 September 2007 (the “Swap”). Under the Swap, Development Securities (Finance) PLC is obliged to pay a sterling amount based on a fixed rate of 7.97 per cent. and a fixed rate payer currency amount of £32,843,600. In return, Development Securities (Finance) PLC is entitled to receive from the Hedge Counterparty a euro floating amount which mirrors the interest amounts payable on the Notes. On or about the Maturity Date (as defined above), the Hedge Counterparty is obliged, under the Swap, to repay the €47,000,000 to Development Securities Finance Plc in return for repayment of the £32,843,000 to it from Development Securities Finance Plc. The Swap contains customary events of default and termination events. Additional termination events include the redemption, purchase or cancellation of the Notes and a right of Development Securities (Finance) PLC from time to time notify the Hedge Counterparty that it wishes to partially or wholly terminate any transaction under the Swap. The Company is a credit support provider in relation to Development Securities (Finance) PLC under the Swap.

The obligations owed by Development Securities (Finance) PLC to the Hedge Counterparty under the various hedging documents are guaranteed by the Company under a deed of guarantee and indemnity dated 20 September 2007.

As security for its obligations under the hedging arrangements, under an account charge dated 20 September 2007, the Company charged by way of fixed charge all its interest in and all money credited to the deposit accounts in favour of the Hedge Counterparty.

17. Related party transactions

Other than as disclosed in the financial information incorporated by reference into this document for the years ended 31 December 2008, 31 December 2007 and 31 December 2006 (in each case, please see note 24 to the consolidated financial statements), there are no related party transactions between the Company or members of the Group that were entered into during the years ended 31 December 2008, 31 December 2007 and 31 December 2006. There have been no additional related party transactions between the Company or members of the Group that were entered into during the period between 1 January 2009 and 24 June 2009.

18. Dividends

The following table sets out the dividend per Ordinary Share paid in respect of each of the following years ended 31 December:

	<i>Reported dividend per Share (pence per Ordinary Share)</i>
2008	4.8
2007	7.2
2006	6.75

19. Working capital

The Company is of the opinion that, after taking into account existing available bank and other facilities and the Net Proceeds of the Firm Placing and Placing and Open Offer, the Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this document.

20. No significant change

Since 31 December 2008 the IPD Index has shown property valuation falls of 3.0 per cent., 3.1 per cent., 3.1 per cent., 2.3 per cent. and 1.6 per cent. respectively for January, February, March, April and May 2009. Over the last three years, movements in the valuation of the Group's investment property portfolio have been broadly correlated with movements in the IPD Index over such period, as explained in paragraph 5 of Part V ("*Operating and Financial Review of Development securities*"). Save for these declines in property values, there has been no significant change in the financial or trading position of the Group since 31 December 2008, the date to which the latest audited published financial information on the Group was prepared.

21. Consents

The reporting accountants of Development Securities are PricewaterhouseCoopers LLP, which is a member firm of the Institute of Chartered Accountants of England and Wales, and whose address is 1 Embankment Place, London WC2N 6RH. PricewaterhouseCoopers LLP has given and has not withdrawn its written consent to the inclusion in this document of its report on the unaudited pro forma financial information in Part VI ("*Financial Information on Development Securities*") of this document in the form and context in which it appears, and has authorised the contents of that report for the purposes of paragraph 5.5.3R(2)(f) of the Prospectus Rules.

22. General

- 22.1 The financial information concerning the Group contained in this document does not constitute statutory accounts within the meaning of Section 434(3) of the Companies Act. The consolidated financial statements of the Company in respect of the two years ended 31 December 2007 and 2006 were reported on by Ernst & Young LLP as the auditors of the Company, and for the year ended 31 December 2008 were reported on by PricewaterhouseCoopers LLP as the auditors of the Company, each within the meaning of Section 495 of the Companies Act. The auditors of the Company made reports under Section 503 of the Companies Act in respect of the three years ended 31 December 2008, 2007 and 2006 and such reports were unqualified reports within the meaning of Sections 836 to 841 of the Companies Act.
- 22.2 The total costs, charges and expenses payable by the Company in connection with the Firm Placing and Placing and Open Offer are estimated to be approximately £6.0 million (inclusive of VAT).
- 22.3 The Company remains subject to the continuing obligations of the Listing Rules with regard to the issue of securities for cash and the provisions of Section 89 of the Companies Act (which confers on Shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash) apply to the balance of the authorised but unissued share capital of the Company which is not the subject of the disapplication in Article 5 of the Articles of Association.
- 22.4 The Existing Shares are in registered form, are capable of being held in uncertificated form and are admitted to the Official List and are traded on the main market for listed securities of the London Stock Exchange.
- 22.5 The New Shares will be in registered form and, from Admission, will be capable of being held in uncertificated form and title to such shares may be transferred by means of a relevant system (as defined in the CREST Regulations). Where New Shares are held in certificated form, share certificates will be sent to the registered members by first-class post. Where New

Shares are held in CREST, the relevant CREST stock account of the registered members will be credited. The New Shares have the ISIN GB00B61GM796.

22.6 The New Shares will be issued at £2.40 per share.

23. Documents available for inspection

Copies of the following documents may be inspected at the registered office of the Company and at the offices of Linklaters LLP, One Silk Street, London EC2Y 8HQ during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of publication of this document until Admission:

23.1 the Memorandum of Association and Articles of Association;

23.2 the Annual Report and Accounts of the Group for the three years ended 31 December 2008, 31 December 2007 and 31 December 2006;

23.3 the report on the unaudited pro forma statement of net assets by PricewaterhouseCoopers LLP set out in paragraph 3 of Part VI ("*Financial Information on Development Securities*") of this document;

23.4 the consent letter referred to in paragraph 21 above;

23.5 the Directors' service contracts and appointment letters;

23.6 the Circular; and

23.7 this document.

24. Sources of information

Certain information has been obtained from external publications and is sourced in this document where the information is included. Development Securities confirms that this information has been accurately reproduced and, so far as Development Securities is aware and is able to ascertain from information published by third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. Unless otherwise stated, such information has not been audited.

25. Announcement of results of the Firm Placing and Placing and Open Offer

The Company will make an appropriate announcement(s) to a Regulatory Information Service giving details of the results of the Firm Placing and Placing and Open Offer on 15 July 2009.

Dated 24 June 2009

PART IX

DOCUMENTATION INCORPORATED BY REFERENCE

The Annual Report and Accounts of Development Securities for each of the years ended 31 December 2008, 31 December 2007 and 31 December 2006 are available for inspection in accordance with paragraph 23 of Part VIII (“*Additional Information*”) of this document and contain information which is relevant to the Firm Placing and Placing and Open Offer. Some of these documents are also available on Development Securities’ website at www.developmentsecurities.co.uk.

The Circular is available for inspection in accordance with paragraph 23 of Part VIII (“*Additional Information*”) of this document and contains information that is relevant to this Firm Placing and Placing and Open Offer. This document is also available on the Company’s website at www.developmentsecurities.co.uk.

The table below sets out the various sections of such documents which are incorporated by reference into this document so as to provide the information required under the Prospectus Rules and to ensure that Shareholders and others are aware of all information which, according to the particular nature of Development Securities and of the New Shares, is necessary to enable Shareholders and others to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of Development Securities.

<i>Document</i>	<i>Section</i>	<i>Page numbers in such document</i>
Annual Report and Accounts 2008 dated 31 March 2009	Group independent auditors’ report	45
	Consolidated income statement	46
	Consolidated balance sheet	47
	Consolidated statement of recognised income and expense	48
	Consolidated cash flow statement	48
	Notes to the consolidated financial statements	49–85
	Company independent auditors’ report	86
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	Notes to the company financial statements	88–94
	Remuneration report	95–104
Annual Report and Accounts 2007 dated 8 April 2008	Group independent auditors’ report	41
	Consolidated income statement	42
	Consolidated balance sheet	43
	Consolidated statement of recognised income and expense	44
	Consolidated cash flow statement	44
	Notes to the consolidated financial statements	45–76
	Company independent auditors’ report	77
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	Notes to the company financial statements	79–83
	Remuneration report	84–92
Annual Report and Accounts 2006 dated 30 March 2007	Group independent auditors’ report	33
	Consolidated income statement	34
	Consolidated balance sheet	35
	Consolidated statement of recognised income and expense	36
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PART X

DEFINITIONS

In this document, the following expressions have the following meanings unless the context otherwise requires:

A1	a class of planning use under the Use Classes Order of 1972 broadly representing shops
Admission	the admission of the New Shares to the Official List becoming effective in accordance with the Listing Rules and the admission of such shares to trading on the London Stock Exchange's market for listed securities becoming effective in accordance with the Admission and Disclosure Standards
Admission and Disclosure Standards	the "Admission and Disclosure Standards" of the London Stock Exchange containing, among other things, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange's main market for listed securities
Annual General Meeting	an annual general meeting of the Company
Annual Report and Accounts	the annual report and accounts for the Group
Application Form	the personalised application form on which Qualifying Non-CREST Shareholders who are registered on the register of Development Securities at the Record Date may apply for Open Offer Shares under the Open Offer
Articles of Association	the articles of association of the Company, details of which are set out in paragraph 4 of Part VIII (" <i>Additional Information</i> ") of this document
Audit Committee	the audit committee established by the Board
Board	the board of directors of Development Securities
Business Day	a day (excluding Saturdays and Sundays or public holidays in England and Wales) on which banks generally are open in London for the transaction of normal business
Capita Registrars	Capita Registrars Limited, the Registrars and Receiving Agent of the Company
CCSS or CREST Courier and Sorting Service	the CREST Courier and Sorting Service established by Euroclear UK to facilitate, amongst other things, the deposit and withdrawal of securities
certificated or in certificated form	where a share or other security is not in uncertificated form
City Code	the City Code on Takeovers and Mergers of the UK
Circular	the circular to Shareholders dated 24 June 2009 issued by the Company in connection with the Firm Placing and Placing and Open Offer and including the Notice
Collins Stewart	Collins Stewart Europe Limited of 88 Wood Street, London EC2V 7QR
Combined Code	the UK Combined Code on Corporate Governance
Companies Act	the UK Companies Act 1985, as amended, or the UK Companies Act 2006, as the context so requires

Company or Development Securities	Development Securities PLC, a company incorporated under the laws of England and Wales (registered under no. 1528784), with its registered office at Portland House, Bressenden Place, London SW1E 5DS
Conditional Placed Shares	the aggregate 24,986,593 New Shares which the Company is proposing to issue in the Conditional Placing
Conditional Placees	such persons who have agreed or shall agree to subscribe for Conditional Placed Shares on the terms of the Placee Commitment Letters
Conditional Placing	the subscription by the Conditional Placees for the Conditional Placed Shares pursuant to Placee Commitment Letters
CREST	the relevant system, as defined in the CREST Regulations (in respect of which Euroclear UK is the operator as defined in the CREST Regulations)
CREST Manual	the rules governing the operation of CREST, consisting of the CREST Reference Manual, CREST International Manual, CREST Central Counterparty Service Manual, CREST Rules, Registrars Service Standards, Settlement Discipline Rules, CCSS Operations Manual, Daily Timetable, CREST Application Procedure and CREST Glossary of Terms (all as defined in the CREST Glossary of Terms promulgated by Euroclear UK on 15 July 1996 and as amended since)
CREST member	a person who has been admitted to CREST as a system member (as defined in the CREST Regulations)
CREST member account ID	the identification code or number attached to a member account in CREST
CREST participant	a person who is, in relation to CREST, a system-participant (as defined in the CREST Regulations)
CREST participant ID	shall have the meaning given in the CREST Manual issued by Euroclear UK
CREST payment	shall have the meaning given in the CREST Manual issued by Euroclear UK
CREST Regulations or Regulations	the Uncertificated Securities Regulations 2001 (SI 2001 No. 01/378), as amended
CREST sponsor	a CREST participant admitted to CREST as a CREST sponsor
CREST sponsored member	a CREST member admitted to CREST as a sponsored member
Directors	the Executive Directors and Non-executive Directors, whose names appear on page 26 of this document
Disclosure and Transparency Rules	the rules relating to the disclosure of information made in accordance with Section 73A(3) of the FSMA
enabled for settlement	in relation to Open Offer Entitlements, enabled for the limited purpose of settlement of claim transactions and unmatched stock event transactions (each as described in the CREST Manual issued by Euroclear UK)
Enlarged Issued Share Capital	the ordinary share capital of the Company following completion of the Firm Placing and the Placing and Open Offer
EU or European Union	the European Union

Euroclear UK	Euroclear UK & Ireland Limited, the operator of CREST
European Economic Area	the European Union, Iceland, Norway and Liechtenstein
Ex-entitlement Date	the date on which the Existing Shares commence trading ex-Open Offer Entitlements, being 24 June 2009
Excluded Territories and each an Excluded Territory	Australia, Canada, Japan and South Africa
Executive Directors	the executive directors of Development Securities
Existing Shares	the Ordinary Shares in issue as at the date of this document
Extraordinary General Meeting	the extraordinary general meeting of Development Securities to be held at 11th Floor, Portland House, Bressenden Place, London SW1E 5DS on 10 July 2009, notice of which is set out at the end of the Circular
Financial Services Authority or FSA	the Financial Services Authority of the UK
Firm Placed Shares	the 16,666,667 New Shares which the Firm Placees have agreed to subscribe for under the Firm Placing
Firm Placees	such persons who have agreed or shall agree to subscribe for Firm Placed Shares on the terms of the Placee Commitment Letters
Firm Placing	the aggregate 16,666,667 New Shares which the Company is proposing to issue in the Firm Placing
Form of Proxy	the form of proxy relating to the Extraordinary General Meeting
FSMA	the Financial Services and Markets Act 2000, as amended
GDP	the gross domestic product for the UK
Group	the Company and each of its subsidiaries and subsidiary undertakings from time to time
HMRC	HM Revenue & Customs
IAS	International Accounting Standards
IASB	the International Accounting Standards Board
ICAEW	the Institute of Chartered Accountants in England and Wales
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards as issued by the International Accounting Standards Board
IPD	Investment Property Databank
IPD Index	the IPD Monthly All Property Index
Issue Price	240 pence per New Share
Listing Rules	the Listing Rules made by the FSA under Part VI of the FSMA
London Stock Exchange member account ID	London Stock Exchange plc the identification code or number attached to any member account in CREST
Memorandum of Association	the memorandum of association of the Company, details of which are set out in paragraph 4 of Part VIII (" <i>Additional Information</i> ") of this document

Money Laundering Regulations	the Money Laundering Regulations 2007 (SI 2007/2157)
Net Proceeds	the proceeds of the Firm Placing and Placing and Open Offer receivable by the Company after expenses incurred in connection therewith
Newco	Development Securities (Jersey) 2 Limited
Newco Subscriber	Collins Stewart Europe Limited
New Shares	Ordinary Shares to be allotted and issued pursuant to the Firm Placing and Placing and Open Offer
Nominations Committee	the nominations committee established by the Board
Non-CREST Shareholder	a Shareholder who does not hold their Ordinary Shares in CREST
Non-executive Directors	the non-executive directors of Development Securities
Notice	the notice of the Extraordinary General Meeting set out in the Circular
Official List	the Official List of the FSA pursuant to Part VI of the FSMA
Open Offer	the offer to Qualifying Shareholders, constituting an invitation to apply for the Open Offer Shares on the terms and subject to the conditions set out in this document and, in the case of Qualifying Non-CREST Shareholders, in the Application Form
Open Offer Entitlement	an entitlement to apply for Open Offer Shares allocated to a Qualifying Shareholder pursuant to the Open Offer
Open Offer Shares	the 24,986,593 Ordinary Shares to be offered to Qualifying Shareholders under the Open Offer
Ordinary Shares or Shares	the ordinary shares of £0.50 each in the share capital of the Company (including, if the context requires, the New Shares)
Overseas Shareholders	Shareholders with registered addresses outside the UK or who are citizens or residents of, or located in, countries outside the UK
Part VI Rules	the rules contained in Part VI of the FSMA
participant ID	the identification code or membership number used in CREST to identify a particular CREST member or other CREST participant
Development Securities Employee Share Plans	the employee share plans described in Part VIII (“ <i>Additional Information</i> ”) of this document
Placee Commitment Letters	the letters entered into, or to be entered into, by each of the Conditional Placees and the Firm Placees establishing the terms of their participation in the Placing and Open Offer and the Firm Placing and “ Placee Commitment Letter ” means one of them
Placing	the placing of the Open Offer Shares in accordance with the Placing Agreement
Placing Agreement	the placing and open offer agreement dated 24 June 2009 between Development Securities and Collins Stewart, further details of which are set out in Part VIII (“ <i>Additional Information</i> ”) of this document
pounds sterling or £	the lawful currency of the UK

PricewaterhouseCoopers LLP	PricewaterhouseCoopers LLP of 1 Embankment Place, London WC2N 6RH
Prospectus Directive	the Directive of the European Parliament and of the Council of the European Union 2003/71/EC
Prospectus Rules	the Prospectus Rules published by the FSA under Section 73A of the FSMA
Qualifying CREST Shareholders	Qualifying Shareholders holding Ordinary Shares in uncertificated form in CREST
Qualifying Non-CREST Shareholders	Qualifying Shareholders holding Ordinary Shares in certificated form
Qualifying Shareholders	holders of Ordinary Shares on the register of members of the Company at the Record Date, other than, subject to certain exceptions, shareholders with a registered address or otherwise located in the United States or any Excluded Territory
Real Estate index	FTSE All Share Real Estate Index
Receiving Agent	the Registrars
Record Date	close of business on 23 June 2009
Registrars	Capita Registrars Limited of The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU
Regulation S	Regulation S under the US Securities Act
Regulatory Information Service	one of the regulatory information services authorised by the UK Listing Authority to receive, process and disseminate regulatory information in respect of listed companies
Remuneration Committee	the remuneration committee established by the Board
Resolutions	the ordinary and special resolutions to be proposed at the Extraordinary General Meeting, notice of which is set out in the Circular
SDRT	stamp duty reserve tax
SEC or US Securities and Exchange Commission	the US government agency having primary responsibility for enforcing the federal securities laws and regulating the securities industry/stock market of the United States
Shareholder or Development Securities Shareholder	holder of Ordinary Shares
stock account	an account within a member account in CREST to which a holding of a particular share or other security in CREST is credited
subsidiary undertaking	as defined in section 258 of the Companies Act
Total Aggregate Proceeds	the total aggregate proceeds of the New Shares issued pursuant to the Firm Placing and Placing and Open Offer less those gross aggregate proceeds relating to New Shares taken up by the Directors
Trading Property or Trading Properties	properties held by the Group for trading purposes and shown as current assets in the balance sheet
UDP	unitary development plan
UK or United Kingdom	the United Kingdom of Great Britain and Northern Ireland

UK Listing Authority	the FSA in its capacity as the competent authority for the purposes of Part VI of the FSMA and in the exercise of its functions in respect of the admission to the Official List otherwise than in accordance with Part VI of the FSMA
uncertificated or in uncertificated form	recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST
US or United States	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
US Securities Act	the US Securities Act of 1933, as amended
Zone A	the valuation classification of the most valuable area within a retail premises, usually defined as the first 20 feet nearest to the street

