DEVELOPMENT SECURITIES PLC – PRELIMINARY RESULTS

Strong investment portfolio performance

Development Securities PLC, the leading property development and investment company, today announces profits before tax of £23.3 million and earnings of 54.0 pence per share for the year ended 31st December 2005, compared to £18.8 million and 54.3 pence per share for the previous year.

Financial highlights

	31 Dec 2005	31 Dec 2004 Restated under IFRS
Profit before tax	£23.3 million	£18.8 million
Earnings per share	54.0p	54.3p
Shareholders' funds	£191.5 million	£173.2 million
Net assets per share	521p	472p
Dividend per share	6.37p	6.0p
Net gearing*	16%	18%

Another strong performance from the property investment portfolio, together with a significant surplus arising from the disposal of the investment in Stead & Simpson led to a significant increase in profit before tax.

Property Investment Portfolio

- 2005 represented another successful year as the investment portfolio continued to deliver enhanced returns which have outperformed the market.
- This was notwithstanding the continuing strong property investment market, which has made acquiring stock at realistic prices increasingly challenging.
- Excellent level of returns generated: 24.7 per cent IPD Total Annual Portfolio Return*, beating the average market return of 19.1 per cent.
- Second percentile rank for the investment portfolio over both three and five-year periods.

**** Refer to glossary (note 6)***

Development Portfolio

PaddingtonCentral

- Approval by our funding partner is anticipated shortly for construction of the second phase which will incorporate a 250,000 sq. ft. office building and a new 206-room Accor hotel.
- Practical completion of the £30.0 million 'Crossrail Deck' achieved this month, on programme and under budget.

CityPark, Manchester

- 290,000 sq. ft. mixed-use development site acquired for £3.0 million in October 2004.
- Initial discussions are in hand with a number of hotel operators and a detailed planning application will be submitted once discussions are progressed satisfactorily.
- At appropriate stage to approach funding market for speculative office component.

Colindale, London NW

- In June 2005, the freehold of this 100,000 sq. ft. retail scheme with 750 car park spaces was acquired for £26.4 million, yielding 6.5 per cent.
- The 7.5-acre site has the capacity to accommodate a markedly more dense development of some 700,000 sq. ft. which is likely to incorporate a larger retail element as well as private and affordable housing.
- The existing property was developed in the late 1980s and the planning application on which we are currently working for submission in May this year proposes a major mixed-use, urban regeneration solution.

Huyton, Liverpool

- Construction work at the 110,000 sq. ft. retail scheme commenced in 2005, with practical completion scheduled for August 2006.
- 50% already pre-let.

Luneside, Lancaster

- In November 2005, appointed by the Local Authority as joint developers with CTP Limited of 18.5-acre brownfield site which will comprise 350 new homes, 90,000 sq. ft. of new offices, a hotel and some retail and hospitality outlets.
- Preparatory work on site, following the compulsory purchase order process, is scheduled to commence in early 2007 with the development phased over three to four years.

Broughton

- Retail planning application for the extension to the retail park at Broughton, submitted jointly with British Land, is scheduled for presentation to the Local Authority Members in the second quarter of 2006.
- The scheme includes a new 90,000 sq. ft. Marks & Spencer store, a 26,000 sq. ft. extension for Tesco, 56,000 sq. ft. of new retail space and additional car parking and road improvements.
- The additional application, in respect of the 19 acres of developable land for residential use, will also be submitted to the Members in the second quarter of 2006.

Heart of Slough

- In January 2006, the Office of the Deputy Prime Minister gave, in principle, approval for English Partnerships' proposed gross infrastructure investment of over £17 million for the Heart of Slough regeneration scheme.
- Outline planning application to be submitted in conjunction with English Partnerships, Slough Borough Council and Berkeley Homes in mid-2006.

Roy Dantzic, Chairman, Development Securities PLC, commented,
"I am pleased to report a very satisfactory year with a significant uplift in shareholders' funds at the year-end.

"It remains our target to deliver completed schemes in the latter part of this decade and we are cautiously optimistic of a marked increase in our development activity and expenditure, starting with the next phase at PaddingtonCentral in the near term.

"Whilst we have unutilised cash resources to finance increased business, we will continue to be patient and selective.

"Our investment strategy in 2006 will continue to seek further superior performance through active management both of our existing portfolio and any new acquisitions which we are able to secure."

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Chairman's statement 2005

I am pleased to report a very satisfactory year for your Company, resulting in a significant uplift in shareholders' funds.

Another strong performance from our property investment portfolio, together with a significant surplus arising from the disposal of our investment in Stead & Simpson, enables me to report a profit before tax for the year to 31st December 2005 of £23.3 million and earnings per share of 54.0 pence per share, compared to £18.8 million and 54.3 pence per share for the previous year, as restated to conform to the new IFRS requirements.

Shareholders' funds increased for the tenth successive year, reaching £191.5 million, equivalent to 521 pence per share. This compares to £173.2 million and 472 pence per share 12 months earlier.

In the light of this strong performance, the Board has recommended the payment of a final Ordinary dividend for the year of 4.25 pence per share, payable on 6th July 2006 to shareholders on the register on 9th June 2006. This brings the total Ordinary dividend for the year to 6.37 pence per share, an advance of 6.2 per cent over the previous year.

Strategy

The occupier markets, with limited exceptions, have not exhibited vitality. However, our outlook remains cautiously optimistic since a number of substantial, attractive development projects are currently presenting themselves to us. We continue to avoid development activity that has the potential to undermine our financial stability.

We wait to see the strength of any occupational recovery in the City of London, where, in the final analysis, sustained employment growth will be key to a firm rebound in this significant marketplace. We anticipate a strong supply side response to the City market in this cycle when demand recovers, with the anticipated effect of moderating rental growth in the medium-term. There is increasing evidence of firms based in the City relocating to new accommodation within the Square Mile but, to date, there has been little net absorption of space.

Although we actively monitor and, from time to time, bid for development opportunities in Central London, over the last twelve months we have taken the strategic decision to broaden our focus to include opportunities in Outer London and those provincial locations where appropriate returns can be achieved. Increasingly, these will involve complex, urban regeneration mixed-use schemes, where our skill base, often in partnership with others, is well established.

Our own recently acquired development project in Huyton, near Liverpool, the acquisition of a retail scheme in Colindale, North West London and our selection as developer at the Lancaster Luneside regeneration project are good illustrations of the tactical widening of our geographic focus.

In June 2005, in recognition of their achievement over the previous three years, Matthew Weiner and his team were awarded the Estates Gazette Property Investment Award for the highest average returns in the category of Balanced Pooled Funds and Traditional Institutions. I am pleased to report, for a fifth successive year, the maintenance of the excellent level of returns generated, both in absolute and relative terms. In 2005, your Company achieved a 24.7 per cent IPD Total Portfolio Return which compares favourably to the average market return of 19.1 per cent. In broad terms, 6 per cent was generated from rental income arising from the properties themselves and the balance from both realised and unrealised surpluses over existing book values.

We have capitalised on yield compression to realise significant gains from properties where medium-term prospects for rental growth were limited. In recycling these funds, we have concentrated on investment opportunities where growth and added value can be generated.

Stead & Simpson, the footwear retailer in which we held a 39 per cent equity stake, traded well in 2005, but with a reduced level of profitability from the exceptional performance achieved in the previous year, reflecting the general slowdown in consumer demand. Nevertheless, in December 2005 we were pleased to have satisfactorily exited from this investment, which was a non-core activity for your Company and, at the same time, to have left Stead & Simpson in a significantly stronger trading position than in 1995, when our involvement with the business recommenced. The sale proceeds of our equity holding amounted to £13 million with a further £2 million received from the early repayment of our remaining loan to Stead & Simpson. We wish the excellent management team of that company well for the future; they deserve further success.

Outlook

With interest rates in the UK likely to remain at their present subdued level for some time, there would not appear to be a strong threat to the high values now established in the property investment market. Indeed, perhaps remarkably to those with memories stretching back to earlier decades, there is the prospect of further yield compression in 2006 pushing benchmark values to even higher levels. However, rather than wait for market momentum, our investment strategy in 2006 will continue to seek further superior performance through active management both of our existing portfolio and any acquisitions which we are able to secure.

The outlook for our development activity reflects a broad approach to the UK property markets. Whilst we will actively seek involvement in schemes in Central London, our concern regarding the high pricing of development sites, in such contradistinction to the strength of the occupational markets, especially in the City of London, will undoubtedly mean that our net will continue to be cast more widely both from a geographical and sector standpoint. We remain keen to undertake joint ventures with those parties able to demonstrate exceptional expertise in geographic areas and product sectors that complement our own. We can expect to derive clear benefits from the relationships that we enjoy with our existing joint venture partners, not least from an accelerated dealflow.

It remains our target to deliver completed schemes in the latter part of this decade and I am cautiously optimistic of a marked increase in our development activity and expenditure, starting with the next phase at PaddingtonCentral in the near term. Whilst we have unutilised cash resources to finance increased business, we will remain patient and selective.

Board composition

Your Board has remained unchanged throughout 2005 and with its appropriate mix of expertise has worked well as a team. After nine years of dedicated service, Bill Grant is to step down as a Non-executive Director at the forthcoming Annual General Meeting. Over that period he has served as both Chairman of the Remuneration Committee and Senior Independent Director. We will miss him and I would like to thank him most warmly on your behalf for his commitment to your Company.

Conclusion

The ongoing strength of the property investment market in 2005, together with the surplus of £5.8 million arising from the disposal of our stake in Stead & Simpson, enabled your Company to significantly improve its returns compared to those achieved in 2004. We believe that the upward momentum of the investment market will finally abate at some point in 2006 and this, coupled with a relatively low level of development profits anticipated in this year, will of necessity mean that overall returns may be reduced. The important task for us in 2006 is to secure further schemes to expand our development pipeline for the years ahead.

Our focus on the medium-term outlook is as, if not more, important to the continued success of your Company than the short-term horizon of the next 12 months. I am confident we have the management team and resources necessary to meet these challenges.

I am pleased to thank, on your behalf, all of the management and staff of Development Securities for their unstinting efforts, commitment and professionalism in supporting the strategic objectives that we have set.

Roy Dantzic, Chairman
28th March 2006

Review of operations

At the beginning of 2003, few would have contemplated that there would be three consecutive years of increasing divergence between the strength of the property investment market and the relatively soft occupational market.

Remarkably, 2005 ended the third straight year of value growth with an acceleration in market values for investment property. We believe that these markets will soon return to their more traditional closely-aligned relationship. However, given the seemingly increasing amounts of cash flowing into the property markets, it is difficult to see such a correlation returning in the first half of 2006, as investors lower their return expectations still further.

This divergence of the investment market from the occupational market creates a number of challenges for a property business such as ours. In the first place, sourcing additional property investments for our own portfolio becomes ever more challenging in a marketplace which appears to be increasingly indiscriminate as to the relationship between price and value. Hence, in recent years, our investment acquisition appetite has moved cautiously up the risk curve in search of sensible returns. The ability to create genuine value is a core skill that our investment team, led by Matthew Weiner, has developed over the last five years or so and is being refined further in the face of strong competitive challenges in the marketplace.

Economic and business environment

After its above trend growth of 3.2 per cent in 2004, the potentially vulnerable housing market and high level of personal debt were significant factors in the deceleration of UK GDP growth to 1.7 per cent in 2005. The consensus forecasts for 2006 suggest another below trend expansion of two per cent, with the prospect of reduced sterling strength and lower interest rates assisting a modest acceleration in growth thereafter. Given the current weakness in UK consumer spending and the deceleration in Government expenditure, the market may not have factored in enough of the downside risk. Unless a significant driver appears to aid the UK economy, we do not foresee any dramatic turnaround in the sluggish occupational markets in the near term, other than in a few exceptional, well-defined locations. Unsurprisingly, these weak occupational markets have led some market forecasters to downgrade their expectations of rental growth in 2006.

Current development programme

For our development business, not withstanding that pricing levels for potential development sites continue to discount significant future rental growth, there were and indeed still are a number of profitable opportunities in Central London that we are pursuing. In addition, our strategy to broaden the development business beyond Central London continued during the year. 2005 was an important year in this respect, as some of our recent acquisitions illustrate.

PaddingtonCentral

There was considerable construction activity in 2005 at PaddingtonCentral as work proceeded on the £30 million ‘Crossrail Deck’, with practical completion achieved this month, on programme and under budget. The Deck provides the essential horizontal separation between the next phases of PaddingtonCentral and the planned Crossrail work area underneath. Further heavy infrastructure projects in 2005 in the immediate vicinity included the reconstruction of Bishops Bridge Road from two to five lanes. The new bridge is scheduled for completion in May 2006 and will provide improved vehicular access to our site, directly opposite the planned new entrance to Paddington Station.

In February 2006, we reached agreement with Accor, subject to planning, for the letting of a new 206-room hotel to be incorporated into the next phase of the PaddingtonCentral development. We anticipate that approval will be given shortly by our funding partner for the construction of the entire second phase, which will also incorporate a 250,000 sq. ft. office building, designed by Sheppard Robson, for which detailed planning permission has already been received. PaddingtonCentral has consolidated its status as a proven head office location and we anticipate considerable occupier interest as the project proceeds to its estimated practical completion in two years’ time. Given the constraints in the marketplace of identifying suitable sites for the provision of modern office accommodation, we anticipate that PaddingtonCentral will consolidate its position as a major supplier of London's West End prime office market.

The Royals Business Park

Of all London's office markets, Docklands has been the slowest to recover. Building 1000 remains available to let and as previously reported we have no expectation of further profits flowing from this building. The main Olympic site lies four miles from the Royals Business Park and should have a beneficial effect on prospects for our scheme, not only generating demand for new development to serve the Olympics but also engendering a substantial improvement in sentiment for the regeneration of East London as we approach 2012.

CityPark, Manchester

This 290,000 sq. ft. mixed-use development site was acquired for £3 million in October 2004. We have now worked up detailed development proposals for the project, which already has outline planning consent for 177,000 sq. ft. of office and 94,000 sq. ft. of hotel accommodation, together with associated car parking. Initial discussions are in hand with a number of hotel operators and a detailed planning application will be submitted once these discussions have progressed satisfactorily. We are now also at the appropriate stage to approach the funding market in respect of the speculative office component.

Luneside, Lancaster

In November 2005, we were pleased to be appointed by the Local Authority as joint developers with CTP Limited for the Luneside East site in Lancaster. The 18.5-acre brownfield site is located on Lancaster's River Lune waterfront and will comprise 350 new homes, 90,000 sq. ft. of new offices, a hotel and some retail and hospitality outlets. Preparatory work, following a compulsory purchase order process, is scheduled to commence on site in early 2007 with the development phased over some three to four years. This particular urban regeneration project will require us to resolve significant existing land contamination issues.

Heart of Slough

In January 2006, the Office of the Deputy Prime Minister gave, in principle, approval for English Partnerships' proposed gross infrastructure investment of over £17 million to enable the Heart of Slough regeneration scheme. Following this welcome news, we have, with English Partnerships and our other partners, Slough Borough Council and Berkeley Homes, started to prepare an outline planning application for the scheme, to be submitted by the middle of this year.

A decision thereon is expected some six months later. Meanwhile, we will be developing more detailed proposals for the commercial component, with a view to submitting this for approval once the outline permission has been granted.

We continue to monitor the Slough office market and, whilst it remains over-supplied, there are signs that the improvement in the wider Thames Valley market is beginning to be felt in Slough. It remains our intention to proceed with development only when market conditions are suitable.

Cambourne Business Park

In July 2005, a 20,000 sq. ft. letting was secured with ip.access, a wholly owned subsidiary of TTP Communications PLC. Accordingly, only 50,000 sq. ft. remains to be let of our most recent phase and, given current levels of interest, we believe that this should be absorbed over the next year. At that stage, together with our development partner, Wrenbridge Land Limited, we will be in a position to embark on a further phase of this 750,000 sq. ft. business park.

Located nine miles from Cambridge City Centre, Cambourne Business Park is an integral part of the new Cambourne settlement, a 1,040-acre scheme of 3,300 houses with town centre, hotel, retail and leisure facilities. The year also saw the new South Cambridgeshire District Council Civic Centre, completed during 2004, receive the British Council of Offices award for the Midlands and East Anglia Corporate Workplace Building Category. This building, which achieved an 'Excellent'

BREEAM rating, is highly sustainable in many aspects of its design, with the form of the building inextricably linked to environmental performance.

Huyton, Liverpool

Construction work by our development partner CTP at the 110,000 sq. ft. retail scheme in Huyton commenced in 2005, with practical completion scheduled for August this year. Currently, we have achieved pre-letting on 50 per cent of the accommodation with a further 15 per cent in serious negotiations. Given that marketing of the scheme has only recently commenced we are pleased with this progress. The securing of New Look for a 10,000 sq. ft. unit can only assist in the market positioning of this neighbourhood shopping scheme. Retailers continue to take space in such new developments to improve efficiencies and profitability. High Street price deflation has meant that the successful retailer's business model is based on customer value. Expansion has tended to be into cost effective but strong secondary locations in preference to expensive prime pitches. Huyton is an example of this. On completion and when fully let, we anticipate that the scheme will generate an attractive uplift in value.

Broughton

We have been advised by the Officers at Flintshire County Council that the retail planning application for the extension to the retail park at Broughton, submitted jointly with British Land in June 2004, is scheduled for presentation to the Local Authority Members in the second quarter of 2006. The scheme includes a new 90,000 sq. ft. Marks & Spencer store, a 26,000 sq. ft. extension for Tesco, 56,000 sq. ft. of new retail space and additional car parking and road improvements. The terms of our commercial arrangements with British Land will be agreed following the grant of planning consent.

Following the retail consent, we anticipate that the additional application, in respect of the 19 or so acres of developable land for residential use, will also be submitted to the Members in the second quarter of 2006. Environmental considerations connected with this development have required the acquisition of 11 acres of land to be designated for use as a reservation sanctuary for the protected greater crested newt.

Section 106 obligations in respect of both applications will require negotiation with the Local Authority and this may involve further and final negotiations with both British Land and other local landowners.

Colindale, London NW

In June 2005, we completed the acquisition of the freehold of this 100,000 sq. ft. retail scheme together with 750 car park spaces for £26.4 million, yielding 6.5 per cent. The 7.5-acre site has the capacity, once planning consent has been obtained, to accommodate a markedly more dense development of some 700,000 sq. ft. which is likely to incorporate a larger retail element as well as private and affordable housing. The existing property was developed in the late 1980s and the planning application on which we are currently working for submission in May this year, proposes a major mixed-use urban regeneration solution. The forward-letting of a majority of the retail component will be essential before redevelopment commences.

Property investment portfolio

The year under review saw the continuation of our evolution from dry, long-leased property to assets which offer a greater degree of risk and, therefore, opportunity to generate higher returns. As part of this process, we have continued to refine our expertise to evaluate the risks associated with these types of assets which are key to the capture of value improvement.

Increasingly, we seek out opportunities to take on refurbishment and building extension risk involving the whole range of our skill base, illustrating the benefits that can be derived from the close working relationship between our investment and development teams.

During the year, the investment team won a prestigious award for the highest return within its IPD benchmark category for the three years ended December 2004. In 2005, we achieved a fifth successive year of out-performance, generating a return of 24.7 per cent, compared to the IPD index of 19.1 per cent. This out-performance is further validation of our strategy and it is our belief that the investment portfolio now comprises assets capable of providing consistent out performance over the medium-term. Of course, we need to ensure that we have a clear pipeline of additional initiatives that will deliver value whether or not the investment market continues its current strength. Whilst sourcing these deals is the major current challenge, we have also established a wide range of local contacts and strong joint venture relationships over the last five years.

The direction of the market remains difficult to call, with significant further capital growth beyond the levels seen in 2005 seeming less likely. At the same time, occupational demand remains patchy, but with some selective areas seeing rental growth.

The bulk of investment grade property is secondary in nature and it is here that yields compressed most in 2005 as investors reduced their target rates of return. The current risk premium for these assets may now reflect an under-valuation of the risks that are inherent in the market. We believe that we shall see limited rental growth, particularly in the secondary office market and yield differentials will need to adjust to reflect the realities of the occupational market compared to the current exuberance of the investment market.

In the office market, the combination of lower public sector and financial and business service sector jobs growth will restrict demand for space. In the retail sector, stable or lower house prices, higher unemployment and high levels of consumer debt repayments will put a further dampener on retail spending and a ceiling on rental growth.

Strategy

Concerns over the direction of the investment market make us even more committed to our three key investment principles of sector rotation, stock selection and proactive management. Of these, in the current market, it is clear that stock selection, rather than sector focus, is the most critical, with individual assets in each sector producing a wide range of returns. Hence, we continue to fully evaluate all aspects of every acquisition and be decisive in our disposal strategy where we feel that the market is overpricing any potential upturn in rental values. Most importantly, in 2005 we remained focused on maximising value from the assets we own.

These themes have led to a further reduction in our office weighting and an increase in our retail holdings. At first sight, this strategy might seem at odds with the current slowdown in consumer spending, but our assets are focused on convenience shopping expenditure which, by virtue of its day-to-day nature, benefits from more inelastic consumer demand. The key component in this sub-sector is a food retail offer either within or adjoining our schemes. This is the sole area of the retail market that currently enjoys both volume and value growth and our focus remains on shopping centres which offer a combination of secure income and asset management opportunities as opposed to the traditional high street which is likely to face the brunt of any prolonged downturn.

The office sector, now at the low point of its cycle, will offer investment opportunities, but we are cautious about the pace of any recovery in occupier demand since current market prices are discounting future rental growth, seemingly giving little room for value upside. Investor sentiment towards the office sector is also cyclical, with the market now on an upward, positive curve. We anticipate that occupational demand will not pick up materially above its long-term average, with most markets already holding adequate supply of stock and potential product. That said, there are significantly varied market conditions in different towns, emphasising the need for careful stock selection.

Disposals

Transaction activity during 2005 showed disposals significantly outweighing acquisitions. In total, nine properties were sold for £39.4 million, generating a 16 per cent net surplus over book value, as we crystallised significant valuation surpluses on certain assets where we felt the market had overpriced the return potential.

Most notable was the disposal of Vector Point, Redditch, for £7.9 million. We acquired this 110,000 sq. ft. warehouse in early 2004 with vacant possession and in need of comprehensive refurbishment. Following completion of these works, we secured the letting of the unit at above target rent and subsequently disposed of the asset. This entire process realised a net surplus of £1.6 million and a return on equity of 21 per cent over the period of our ownership. Having established a process for creating value through the refurbishment and re-letting of this asset class we intend to repeat the process. To this end, we acquired a 147,000 sq. ft. warehouse in Wigan for £6.1 million in March 2006. The unit, constructed in 1999 to a high standard, requires only minor cosmetic refurbishment. Based on our central case assumptions, we are hoping to capture in excess of £1.0 million of added value and are confident of achieving a re-letting in the near term.

The other notable sale during the year was Milton House, Sheffield. In 1999, Development Securities took the decisive step of comprehensively refurbishing the then vacant 80,000 sq. ft. office building on a speculative basis at a total cost of £6.7 million. It is a further validation of our strategy for this property that we completed the sale for in excess of £15.0 million, producing a £2.5 million gain in 2005.

The final major disposal in the year was Unit P, Southampton International Business Park. We acquired this asset in 2002, at a time when the tenant, Regus, presented a financially weak occupier covenant. Since that date, the business has improved and investor sentiment towards Regus and the building has been enhanced. The property was sold in December for £5.7 million, a surplus over book value of £1.0 million.

Investment Activity

In 2005, £10.0 million was invested via capital expenditure on the existing portfolio.

At Austen House, Fleet, we received planning approval for the conversion of the upper parts to residential use and have commenced the redevelopment, which includes an extension to the rear of the property. A total of 14 flats are to be developed. Early indications from the initial marketing campaign suggest that we should achieve our target sales prices. Earlier, as part of the asset strategy, we disposed of the retail element of the property at auction. We planned that Fleet would be the first in a series of projects with our local partner and we are pleased to report that the joint venture has exchanged contracts to acquire a 10,000 sq. ft. office building in Putney for which we will submit a revised and improved planning consent for residential redevelopment.

Following our likely development success at Huyton, we have targeted further acquisitions of this nature where we accept letting risk, which we can price, whilst leaving the construction cost risk with our local development partner.

A remarkable £4.3 million of value was created during 2005 at The Furlong Centre, Ringwood. The catalyst for this improvement was undoubtedly the opening of the extended Waitrose store, which is now trading above their expectations and accordingly acts as a significantly improved footfall generator. On the back of this, we took back possession of several units, subsequently re-letting these to retailers including Hobbs, Phase 8, AGA, Caffè Nero and Jaeger. The securing of these aspirational retailers was important in transforming the scheme into a fashion offer. In the process, we have raised the Zone A rental tone in the scheme from £25 per sq. ft. on acquisition in 2003 to its current level of £52.50 per sq. ft. We have re-branded the Centre to reflect its revised status and this has been well received within the catchment area.

At all of our shopping centre assets, we are focusing on the potential for further phases of development to enhance their value. Accordingly, during 2005, we acquired adjoining land holdings representing an investment of £4.8 million. We are working in conjunction with the various Local Authorities to obtain the necessary planning consents and aim to commence development at one of the centres during 2006. We intend that any development phase will have a significant pre-let component before construction works commence. This retail development strategy is an evolving area of our business where we tend to work in conjunction with smaller, local partners.

We are currently actively pursuing three other significant retail acquisitions and, to secure preferential positions, are seeking strategic holdings in two of these locations. We believe that there can be further rental growth within certain food-anchored neighbourhood retail schemes where the focus is on the value sector of the marketplace. As our Ringwood centre has demonstrated, niche fashion retailers are likely to target the better quality of these neighbourhood schemes and it is into this sub-sector of the market that we are focusing our acquisition strategy. The key is to provide economically priced rents enabling occupiers to trade profitably.

We have achieved five consecutive years of strong performance from the investment portfolio. We plan, by leveraging shareholders' funds more effectively in partnership with other investors, to expand the quantum of assets under management. In December 2005, the first such transaction was secured; the £20.5 million Peacock Place Shopping Centre, Northampton, together with a US-based financial partner. In this instance, we secured a highly leveraged position where, if our central business case can be achieved, the Company should generate above average returns. Having secured the first such transaction and identified a like-minded financial partner, we hope to build on this relationship to source larger assets, further enhancing shareholder returns.

C J Barwick P J Willis M S Weiner
28th March 2006

Property portfolio analysis

Tenant profile

1	Government	1%
2	FTSE 100	1%
3	PLC/nationals	47%
4	Regional multiples	15%
5	Local traders	36%

Lease profile

1	0-5 years	23%
2	5-10 years	29%
3	10-15 years	10%
4	15-20 years	8%
5	20 years +	30%

Location profile

1	South East	40%
2	North	31%
3	London	29%

Analysis by sector

1	Retail	81%
2	Industrial	11%
3	Office	8%

As at 28th February 2006

Consolidated income statement

For the year ended 31st December 2005

	2005	2004 restated
	£'000	£'000
Continuing operations:		
Revenue	25,468	23,736
Direct costs	(15,218)	(14,148)
Gross profit	10,250	9,588
Operating costs	(10,538)	(8,450)
Profit on disposal of investment properties	3,728	4,057
Net gain on revaluation of property portfolio	17,854	14,689
Operating profit	21,294	19,884
Share of results of associate	1,453	3,623
Income from other fixed asset investments	149	125
Profit on disposal of investments	5,759	-
Profit before interest and taxation	28,655	23,632
Finance income	2,262	2,570
Finance costs	(7,667)	(7,366)
Profit before taxation	23,250	18,836
Taxation	(3,460)	(347)
Profit after taxation attributable to equity shareholders of the parent	**19,790**	**18,489**
Basic earnings per share	54.0p	54.3p
Diluted earnings per share	53.7p	54.2p

Consolidated balance sheet
As at 31st December 2005

	2005	2004 restated
	£'000	£'000
Non-current assets		
Property, plant and equipment		
– Operating properties	10,393	10,573
– Other property, plant and equipment	3,776	3,793
Investment properties	160,246	156,572
Investments	1,920	8,439
	176,335	179,377
Current assets		
Land, developments and trading properties	56,479	21,235
Trade and other receivables	10,419	18,029
Cash and cash equivalents	73,094	53,766
	139,992	93,030
Current liabilities		
Trade and other payables	(22,594)	(15,332)
Current tax liabilities	(154)	(1,060)
Deferred tax liabilities	(340)	-
Net current assets	116,904	76,638
Total assets less current liabilities	293,239	256,015
Non-current liabilities		
Borrowings	(98,632)	(82,829)
Deferred tax liabilities	(3,107)	-
Net assets	**191,500**	**173,186**
Equity:		
Share capital	18,361	18,334
Share premium account	87,635	87,417
Revaluation reserve	2,074	1,673
Other reserves	45,793	45,683
Retained earnings	37,637	20,079
Equity attributable to equity shareholders of the parent	**191,500**	**173,186**
Basic net assets per share	521p	472p
Diluted net assets per share	518p	469p

Approved and authorised for issue by the Board of Directors on 28th March 2006 and signed on its behalf

M H Marx
Director

Consolidated statement of recognised income and expense
For the year ended 31st December 2005

	2005	2004
		restated
	£'000	£'000
Profit on revaluation of operating properties	401	89
Profit for the year	19,790	18,489
Total recognised income and expense for the year	**20,191**	**18,578**
Impact of adoption of IAS 32 and IAS 39 at 1st January 2005	**15**	

Consolidated cash flow statement
For the year ended 31st December 2005

	2005	2004
		restated
	£'000	£'000
Net cash from operating activities	(32,261)	(15,889)
Investing activities:		
Interest received	2,170	2,532
Dividends received from associated undertaking	149	–
Proceeds from sale of shares in associated undertaking	13,396	–
Proceeds from redemption of preference shares held in associated undertaking	1,500	–
Proceeds on disposal of property, plant and equipment	–	70
Proceeds on disposal of investment properties	30,078	26,272
Purchase of property, plant and equipment	(876)	(854)
Purchase of investment properties	(11,945)	(50,689)
Purchase of investments	(1,165)	(377)
Net cash from/(used in) investing activities	33,307	(23,046)
Financing activities:		
Dividends paid	(2,245)	(1,579)
Issue of new shares	245	28,644
Repayments of borrowings	(5,169)	(7,227)
New bank loans raised	25,830	15,169
(Decrease)/increase in bank overdrafts	(379)	1,355
Increase in pledged cash	(5,622)	(10,191)
Net cash from financing activities	12,660	26,171
Net increase/(decrease) in cash and cash equivalents	13,706	(12,764)
Cash and cash equivalents at the beginning of the year	34,645	47,409
Cash and cash equivalents at the end of the year	48,351	34,645
Pledged cash held as security against borrowings	24,743	19,121
Cash and cash equivalents as disclosed in the consolidated balance sheet	73,094	53,766

1. BASIS OF PREPARATION

Whilst the financial information included in this preliminary announcement has been computed in accordance with International Financial Reporting Standards (IFRSs), this announcement does not itself contain sufficient information to comply with IFRSs. The Company will publish full financial statements that comply with IFRSs.

The financial information set out in the announcement does not constitute the Group's statutory accounts for the years ended 31st December 2005 or 2004.

The financial information for the year ended 31st December 2004 is derived from statutory accounts for that year which have been delivered to the Registrar of Companies , as subsequently restated to comply with International Financial Reporting Standards (IFRS). The auditors reported on those statutory accounts; their report was unqualified and did not contain a statement under s237(2) or (3) Companies Act 1985. The statutory accounts for the year ended 31st December 2005 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditors have reported on those accounts; their report was unqualified and did not contain statements under s237(2) or (3) Companies Act 1985.

2. ACCOUNTING POLICIES

a) Basis of accounting

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The key areas where such judgements are made are in the valuation of the property portfolio and the recognition of development revenues and profits. In making its judgement, management has considered the detailed criteria set out in IAS 18 'Revenue'. Determining development revenues and profits requires an estimate of development costs, construction progress and letting activity. Key judgements relating to property valuations include estimates of future rental income and yields.

All listed companies in the EU are required to present their consolidated financial statements for accounting periods beginning on or after 1st January 2005 in accordance with IFRS, as adopted by the EU. Therefore, the Group's consolidated financial statements for the year ending 31st December 2005 have been presented on this basis. Comparative figures have been restated in accordance with IFRS, except in respect of financial instruments, which are accounted for in accordance with UK GAAP. The financial statements have been prepared on the basis of the IFRS accounting policies which were expected to be adopted in the year-end consolidated financial statements when the IFRS balance sheet was first presented in the Group's 2005 Interim Report.

The Group's transition date for adoption of IFRS is 1st January 2004. IAS 32 and IAS 39, dealing with financial instruments have been adopted from 1st January 2005. The key amendment to comply with IFRS in this respect would be the inclusion of the fair value of financial derivatives in the balance sheet at 31st December 2004. The provisions of IFRS 2 'Share-Based Payments' have been applied in respect of grants of equity instruments after 7th November 2002. IFRS 3 'Business Combinations' has been applied prospectively from 1st January 2004. These transition dates have been selected in accordance with IFRS 1 'First-time Adoption of International Financial Reporting Standards'.

Prior to the adoption of IFRS, the consolidated financial statements of Development Securities PLC had been prepared in accordance with UK GAAP. UK GAAP differs in certain respects from IFRS and certain accounting, valuation and consolidation methods have been amended, when preparing the financial statements, to comply with IFRS.

2. ACCOUNTING POLICIES (continued)

b) Basis of consolidation

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

Where necessary, adjustments have been made to the financial statements of subsidiaries, associates and jointly controlled entities to bring the accounting policies used into line with those used by other members of the Group.

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

ii) The results of subsidiaries acquired during the year are included from the effective date of acquisition. Business combinations are accounted for under the acquisition method. Any excess of the purchase price of the business combination over the fair value of the assets and liabilities acquired is recognised as goodwill. Any discount received is credited to the income statement in the period of acquisition.

3. SEGMENTAL ANALYSIS

For management purposes, the Group is currently organised into three operating divisions:

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

These divisions are the basis on which the Group reports its primary segmental information. All operations occur and all assets are located in the United Kingdom, except assets of £1,727,000 (2004: £1,776,000). Accordingly no secondary segmental information is shown.

3. SEGMENTAL ANALYSIS (continued)

	Year ended 31st December 2005			
	Investment	Trading and development	Operating	Total
	£'000	£'000	£'000	£'000
Revenue	**10,626**	**9,687**	**5,155**	**25,468**
Direct costs	(1,994)	(8,446)	(4,778)	(15,218)
Gross profit	**8,632**	**1,241**	**377**	**10,250**
Unallocated operating costs				(10,538)
Profit on disposal of investment properties	3,728	–	–	3,728
Net gain/(loss) on revaluation of property portfolio	18,028	–	(174)	17,854
Operating profit				**21,294**
Share of results of associate				1,453
Income from other fixed asset investments				149
Profit on disposal of investments				5,759
Profit before interest and taxation				**28,655**
Finance income				2,262
Finance costs				(7,667)
Profit before taxation				**23,250**
Taxation				(3,460)
Profit after taxation attributable to equity shareholders of the parent				**19,790**
Assets and liabilities				
Segment assets	226,002	59,568	13,074	298,644
Unallocated assets				17,683
Total assets				**316,327**
Segment liabilities	(88,715)	(27,268)	(2,439)	(118,422)
Unallocated liabilities				(6,405)
Total liabilities				**(124,827)**
Other segment information				
Capital expenditure	11,845	-	6	11,851
Unallocated capital expenditure				870
Depreciation			(461)	(461)
Unallocated depreciation				(688)

3. SEGMENTAL ANALYSIS (continued)

	Year ended 31st December 2005			
	Investment £'000	Trading and development £'000	Operating £'000	Total £'000
Revenue				
Rental income	10,585	111	–	10,696
Operating property income	–	–	5,155	5,155
Project management fees	–	266	–	266
Trading property sales	–	9,135	–	9,135
Development profits	–	175	–	175
Other income	41	–	–	41
	10,626	9,687	5,155	25,468
Income from investments				149
Financial income				2,262
				27,879

	Year ended 31st December 2004 (restated)			
	Investment £'000	Trading and development £'000	Operating £'000	Total £'000
Revenue	**9,259**	**9,370**	**5,107**	**23,736**
Direct costs	(1,702)	(7,644)	(4,802)	(14,148)
Gross profit	**7,557**	**1,726**	**305**	**9,588**
Unallocated operating costs				(8,450)
Profit on disposal of investment properties	4,057	–	–	4,057
Net gain on revaluation of property portfolio	14,079	–	610	14,689
Operating profit				**19,884**
Share of results of associate				3,623
Income from other fixed asset investments				125
Profit before interest and taxation				**23,632**
Finance income				2,570
Finance costs				(7,366)
Profit before taxation				**18,836**
Taxation				(347)
Profit after taxation attributable to equity shareholders of the parent				**18,489**

3. SEGMENTAL ANALYSIS (continued)

	Year ended 31st December 2004 (restated)			
	Investment £'000	Trading and development £'000	Operating £'000	Total £'000
Assets and liabilities				
Segment assets	208,301	29,441	12,619	250,361
Unallocated assets				22,046
Total assets				**272,407**
Segemnt liabilities	(90,335)	(4,166)	(1,345)	(95,846)
Unallocated liabilities				(3,375)
Total liabilities				**(99,221)**
Other segment information				
Capital expenditure	49,353	-	2,823	52,176
Unallocated capital expenditure				854
Depreciation			(778)	(778)
Unallocated depreciation				(196)

	Year ended 31st December 2004 (restated)			
	Investment £'000	Trading and development £'000	Operating £'000	Total £'000
Revenue				
Rental income	9,170	159	–	9,329
Operating property income	–	–	5,107	5,107
Project management fees	–	496	–	496
Trading property sales	–	6,900	–	6,900
Development profits	–	1,815	–	1,815
Other income	89	–	–	89
	9,259	9,370	5,107	23,736
Income from investments				125
Financial income				2,570
				26,431

4. FIXED RATE DEBT

The notional fair value adjustment at 31st December 2005 in respect of the Group's fixed rate debt, calculated on a replacement basis, taking into account the difference between fixed interest rates of the Group's borrowings and the market value and prevailing interest rates of appropriate debt instruments, was £15,100,000 (2004: £14,200,000) equivalent to a decrease in net assets of 28.8 pence per share after tax (2004: 27.1 pence per share).

5. NOTE TO THE CASH FLOW STATEMENT

	2005	2004 restated
	£'000	£'000
Operating profit	**21,294**	**19,884**
Adjustments for:		
Gain on disposal of property, plant and equipment	(3,728)	(4,062)
Increase in fair value of investment properties	(17,854)	(14,689)
Share based payments	110	–
Depreciation of property, plant and equipment	1,149	974
Operating cash flows before movements in working capital	971	2,107
Increase in developments and trading properties	(35,244)	(5,736)
Decrease/(increase) in receivables	7,702	(4,446)
Increase/(decrease) in payables	1,509	(1,201)
Cash generated by operations	(25,062)	(9,276)
Capitalised interest charged to direct costs	181	71
Income taxes (paid)/received	(906)	1,088
Interest paid	(6,474)	(7,772)
Net cash from operating activities	**(32,261)**	**(15,889)**

6. GLOSSARY

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

Gearing: Gearing, expressed as a percentage, is measured as net debt divided by total shareholders' funds.