Annual Report 2005

DEVELOPMENT SECURITIES PLC

Regeneration in partnership

Development and investment in the community

Mixed-use development

Mixed-use development is fast becoming a major aspect of our business. The environmental pressures to preserve and protect the countryside are demanding that the options for brownfield development are explored wherever possible. Invariably, this involves complex, multi-use development with an increased density, thus better utilising the relatively scarce land resource in the UK.

Partnership in investment and development

We work in partnership with an ever-increasing number of stakeholders. Our large, complex development projects often require an investment and development partnership with providers of long-term equity capital. Our developments at PaddingtonCentral, The Royals Business Park and Cambourne Business Park are current examples of the scale of these relationships.

With our decision to take development risk across the UK, we are forming local joint ventures whereby we can draw upon specialist expertise suited to specific geographic areas and product sectors.

Finally, we are forming relationships with financial partners with substantial funds and competitive costs of capital. Their involvement permits us to participate on a leveraged basis in certain projects which might otherwise be too large for our own balance sheet, enabling us to participate in a wider range of larger and more complex projects.

Regenerative development

The benefits of urban regeneration are many. It enriches and improves the local communities and environments in which we work.

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

Regeneration creates diverse and balanced communities that reflect the social and economic diversity of the communities in which we work.

It requires us to develop successful partnerships with local stakeholders and engage them in our work towards sustainability.

Contents

Financial highlights

£23.3m
Profit before tax

£191.5m
Net assets

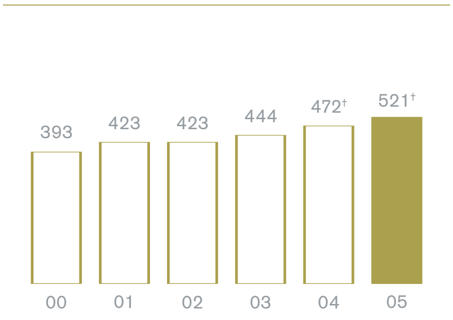
6.37p
Annual dividends per share

£31.7m
Net borrowings

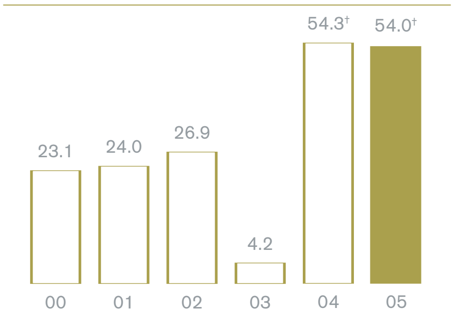
54.0p
Earnings per share

521p
Net assets per share

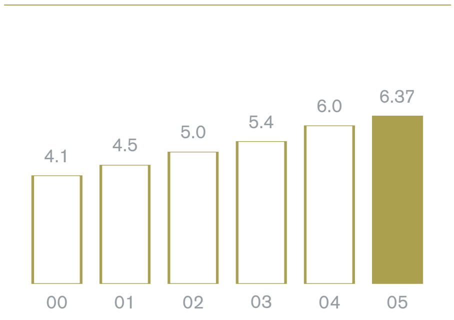
Net assets per share



Earnings per share



Dividends per share



† calculated in accordance with IFRS

Roy Dantzic, Chairman
28th March 2006

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 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 (clarified in note1(p) on page 37) 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

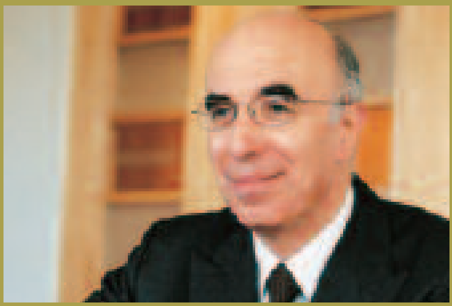
The ongoing strength of the property investment market in 2005, together with the surplus of £5.8 million arising from the disposal of our stake in Stead & Simpson, enabled your Company to significantly improve its returns compared to those achieved in 2004. We believe that the upward momentum of the 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



Michael Marx
Executive Deputy Chairman

Business model

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

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

We achieve this by balancing the uncertainty inherent in any transaction with its potential reward so as not to over-expose the Company to forces beyond its control. The emphasis on reducing risk is at the heart of our management philosophy; it assists the achievement of consistent results over time and the protection of the business and its investors from the effects of major market fluctuations. Importantly, our strategy enables the Company to focus its efforts on large and complex development projects, which would otherwise be beyond our capability to finance with internally generated funds. These major projects, in our experience, offer greater profit potential than smaller ones without significantly increasing the inherent risk profile.

Our balanced business model, which we have applied consistently since the present management team began to come together in the mid 1990s, has delivered positive returns for shareholders.

There are three strands to our approach, which are linked and operate in a complementary manner.

Forward-funding
Development Securities has considerable expertise in the creation and management of major, complex mixed-use property developments. In recent years, we have managed projects with a market value in excess of £1.5 billion, comprising around one million square feet of office and commercial space. They include PaddingtonCentral, the exciting development on the old goods yard adjoining Paddington Station, and the Royals Business Park, a 50-acre site with a one mile frontage onto the Royal Albert Dock, one of the foremost regeneration areas in the UK.

Our team uses its expertise to identify a potential major development, prepares detailed drawings and seeks any necessary variation to planning consents. In parallel with this activity, we present the scheme to leading financial institutions, inviting them to invest in the project. Development Securities differs from most property companies since at no time does it actually own the major developments it is working on, although it may, on some schemes, have a relatively modest financial or even equity involvement. This low-risk structure, known as forward-funding, is central to the Company's progress and provides a clear view of potential earnings and cash flow streams for a number of years ahead.

Once the funding and institutional ownership of a new development have been arranged, Development Securities is responsible for project managing the construction process, so as to deliver the building on time and within budget. As part of its agreement with the project's investors, Development Securities also assumes responsibility for letting the completed building, usually on institutional terms to quality covenants. The Company's profit comes from the project management fee and a participation in any uplift arising to the investors in the final investment value of the project when compared to the total development cost. Forward-funding imposes no contractual liability on Development Securities should the completed building not let profitably. This is a key benefit and highlights the difference between forward-funding and conventional financing of property development.

On small and medium-sized projects, the Company may assume ownership of assets directly, but will seek wherever possible to secure significant pre-let arrangements that reduce exposure to the occupier market.

Investment portfolio
We restrict the number of major development projects underway at any one time to ensure maximum attention to detail and the optimum out-turn. The timing of new projects can be unpredictable as this process is influenced substantially by market conditions. Consequently, the profits and cash flow from developments can be uneven. To balance this, the Company allocates the majority of its equity to the ownership of an investment portfolio with properties spread across the UK covering office, retail and industrial sectors; the mix is driven by market conditions, availability and stock selection. The rental income smoothes any uneven cash inflow resulting from the timing of major project completions and contributes significantly to meeting interest costs and central overheads. The investment portfolio provides a steady and predictable flow of funds to enable the Company to retain its small team of high quality professionals during any market downturn. A company such as ours is only as good as its people; we have built an excellent team, one which has delivered value to investors and one which must be maintained.

Conservative use of debt
While cash resources are generally available to allow us to capitalise on both appropriate development and investment opportunities, balance sheet management and the conservative use of cash and debt apply an additional discipline on the Company as a further prudent method of risk control. As a matter of policy, Development Securities does not have a fixed gearing limit, although in recent years its level of net borrowings as a percentage of shareholders' funds has been amongst the lowest in the property sector.

Consistent with our policy of running an efficient balance sheet, from time to time surplus cash may become available to return to shareholders. The timing is related to the completion of major development projects when we benefit from substantial cash inflows. If circumstances allow, funds are returned to shareholders by special dividend or a share buy-back programme. The timing and nature of this action will be determined after taking into account prevailing market conditions and projected cash requirements.

Review of operations

Julian Barwick (left)
Paul Willis (right)
Joint Managing Directors

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.

◄ 2005 infrastructure work at PaddingtonCentral

PaddingtonCentral

The Crossrail Deck provides horizontal separation between PaddingtonCentral and the proposed Crossrail project

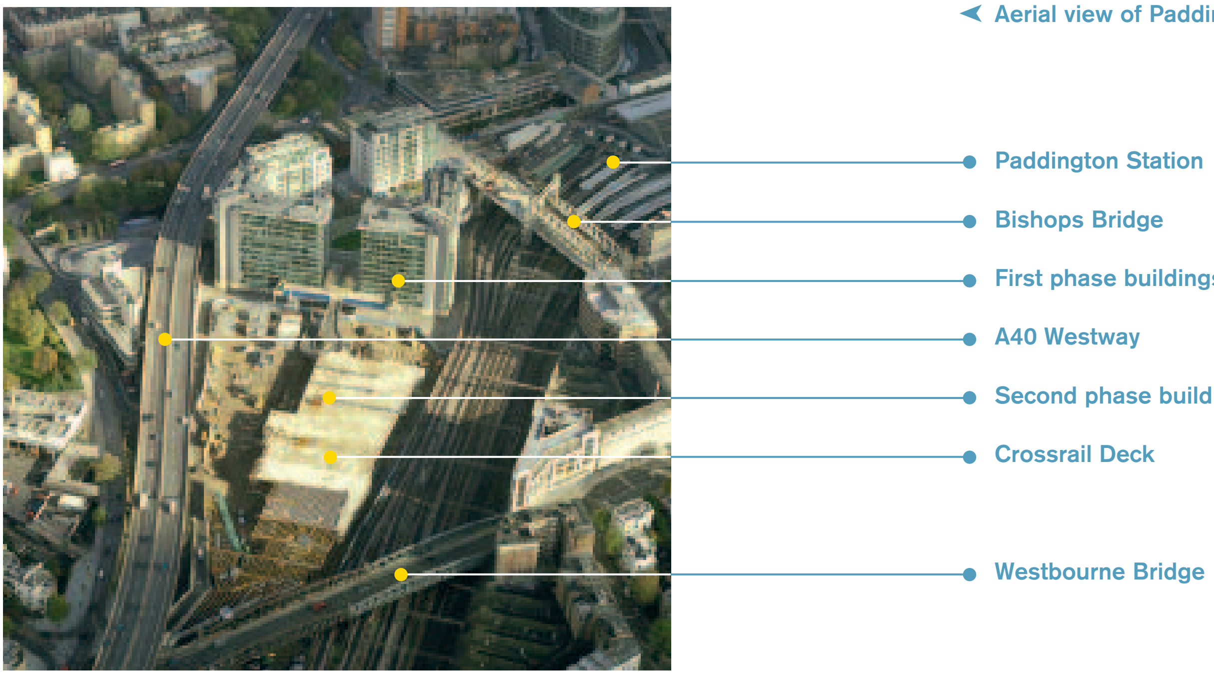
PaddingtonCentral

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.

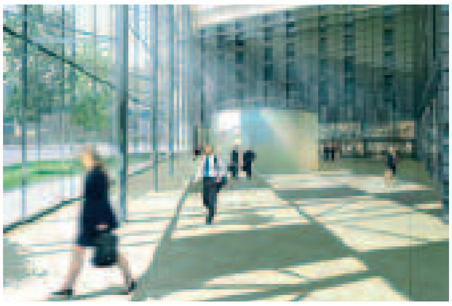
The Royals Business Park

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.



Aerial view of PaddingtonCentral site

CityPark, Manchester



◄ **The planned 290,000 sq. ft. mixed-use development at CityPark, Manchester**

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 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 Limited 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 Retail Park

A proposed mixed-use urban regeneration solution for Colindale, London NW

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 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.

Aerial view of Broughton Retail Park showing proposed development areas

Property investment portfolio

Matthew Weiner
Investment Director

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.

The refurbished warehouse at Vector Point, Redditch, disposed of during 2005

Swanley Shopping Centre

Swanley Shopping Centre offers outstanding asset management opportunities

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.

The extended Waitrose store, is now trading above expectation at The Furlong Centre, Ringwood

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 gained 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, seek 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.

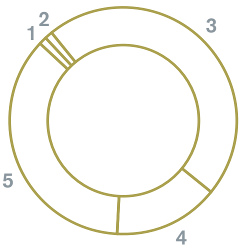
We have achieved five consecutive years of strong performance from the investment portfolio. We plan, by leveraging shareholders' funds more effectively in partnership with other investors, to expand the quantum of assets under management. In December 2005, the first such transaction was secured; the £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

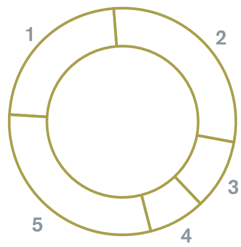
Tenant profile

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



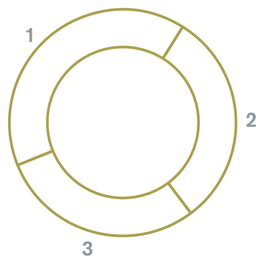
Lease profile

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



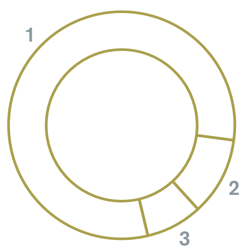
Location profile

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

Sustainable development

We believe that maintaining a balanced approach to social, economic and environmental aspects of our business is crucial to overall success, and will be a significant contributor to enhancing our corporate reputation and ultimately our long-term financial performance.

In late 2005, we published our second report on sustainability, entitled 'Towards Sustainability', which charts the progress we have made since our first report on sustainability and sets out our aspirations as well as defining specific corporate and environmental targets for the future. It illustrates our approach to not only corporate governance but how we communicate with our stakeholders and how we address environmental impacts intrinsic in our development and investment activities.

Sustainability and environmental issues are now far higher on the agenda for businesses and society in general. Planning authorities are demanding, through the town planning process, greater social and environmental benefits for their local communities. Naturally, we achieve the minimum standards but we are striving to contribute more, without adding unnecessary cost.

Through an integrated management approach we have developed an increasingly broad programme of sustainability, rather than the more traditional concept of just addressing environmental issues. In pursuit of attaining our broader targets we have identified sustainability initiatives where we believe our development activities and the resources applied to them will be of greatest benefit and impact.

Of particular importance is the control and management of waste. We have introduced new procedures to monitor and control waste not only on all of our development sites, but also through the design and development phase. We aim to share information we collect from our construction projects with the industry.

We have initiated post completion reviews of our projects to provide feedback from local stakeholders so that for future projects we can apply the lessons learned.

We have set new sustainability objectives and targets for 2006 and beyond, which we believe will contribute to the continuing improvements we are making on our journey towards sustainability.

Principal objectives are:

Corporate

– Complying, as a minimum benchmark, with all relevant legislation, and working towards good practice in sustainability.

– Seeking continuous improvement in performance and reporting progress on a regular basis.

– Communicating our progress both internally and externally.

BREEAM

The Civic Centre for South Cambridgeshire District Council at Cambourne achieved an excellent BREEAM rating, the highest category of this accepted industry standard for environmental assessment.

Urban Regeneration
- Seeking to enrich and improve communities.

- As part of a mixed portfolio, develop mixed use projects contributing to and creating diverse and balanced communities.

- Developing relationships with and engaging with local stakeholders on our approach to sustainability.

Youth and Education
- Sponsoring and supporting youth programmes.

- Co-operating in educational initiatives to improve skills and training.

The Environment
- Controlling and managing waste on our developments.

- Reducing energy and water consumption in our investment properties and our development sites.

- Continue devising travel to work plans for our developments.

Health & Safety
- Implementing our Health & Safety policy thereby ensuring the health and safety of our employees and visitors.

- Through liaison with contractors applying best practice procedures on our development sites.

The Arts
- Sponsoring and supporting project related initiatives.

The Property Industry
- Contributing through debate and sponsorship to the better working of the industry.

Our sustainability targets can be found on our website: www.developmentsecurities.com

Our sustainability programme is developed in conjunction with our advisors, Faber Maunsell and our activities are internally reviewed on an annual basis.

Board of Directors


Michael Marx


Julian Barwick


Matthew Weiner


Paul Willis


Roy Dantzic


William Grant


Paul Manduca


Victoria Mitchell


Michael Soames

Executive Directors

Michael Marx (Aged 58)
Executive Deputy Chairman and Finance Director. Appointed to the Board in September 1994 and elevated from the position of Joint Managing Director with effect from 21st March 2005. A Fellow of the Institute of Chartered Accountants in England and Wales and a Member of the UK Listing Authority Advisory Committee. Non-executive Director of FIBI Bank (UK) PLC. Formerly Finance Director and Commercial Director of Heron International PLC from 1981 to 1994.

Julian Barwick (Aged 52)
A Fellow of the Royal Institution of Chartered Surveyors. Joined the Board in May 1998 being appointed Joint Managing Director in June 2000. Formerly property advisor to the Bedford Estate from 1997 to 2003 and Chairman of the Paddington Regeneration Partnership from 2000 to 2002. Appointed to the Board of London & Continental Railways Limited in 2005. A member of the Board of Management of the British Council of Offices and of the Property Consulting Group, advisors to the Office of the Deputy Prime Minister.

Paul Willis (Aged 52)
Formerly a senior partner at Knight Frank, being partner in charge of the City Office and Chairman of the Knight Frank Continental Group Operations. Took up the position of Executive Director with Development Securities PLC on 30th April 2004, being appointed Joint Managing Director with effect from 21st March 2005. Previously a Non-executive Director of Development Securities PLC from 1995 to 2002. A Fellow of the Royal Institute of Chartered Surveyors and a Member of the Royal Town Planning Institute.

Matthew Weiner (Aged 35)
Investment Director, appointed in March 2004. A Member of the Royal Institution of Chartered Surveyors. Joined Development Securities PLC in November 2000 as Director of Investments. A member of the University of Reading Real Estate Advisory Board and Trustee of the Manor House Trust.

Chairman and Non-executive Directors

Roy Dantzic (Aged 61)
Appointed Chairman in September 2003. Joined the Board as a Non-executive Director in May 2003. A member of the Institute of Chartered Accountants of Scotland. After spending the early part of his career in the City, joined the Board of Stanhope Properties PLC in 1989. Was Managing Director of British Gas Properties from 1996 to 2003. Is a Non-executive Chairman of Interior Services Group PLC, Non-executive Director of Airplanes Limited and Blenheim Bishop Limited, a Council Member of the Architectural Heritage Fund, a Trustee of the Portman Estate and a former Member of the Government's Property Advisory Group.

William Grant (Aged 68)
Appointed in January 1997. Former Partner of the international law firm, Linklaters.

Paul Manduca (Aged 54)
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. Currently a Director of Wm Morrison Supermarkets PLC, AON UK Limited, Henderson Smaller Companies Investment Trust PLC, JPMF Euro Fledgling Investment Trust PLC and other companies.

Victoria Mitchell (Aged 55)
Appointed in August 2002. Currently Consultant Director to Savills PLC, Non-executive Director of The Berkeley Group Holdings PLC and The Golding Group (South Africa). Member of ING REIM Residential Property Fund Advisory Board. Formerly an Executive Director of Savills PLC from 1988 to 2000.

Michael Soames (Aged 55)
Appointed in August 2002. The Surveyor to The Mercers' Company and previously Group Corporate Development Director of Regus PLC and partner of Knight Frank. A Non-executive Director of the ISIS Property Trust Limited. A Fellow of the Royal Institution of Chartered Surveyors and past President of the British Council for Offices.

Report of the Directors

The Directors present their annual report and the financial statements of the Group for the year ended 31st December 2005.

Principal activities

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

Review of the business and future developments

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

Results and dividends

The profit for the financial year attributable to shareholders amounted to £19,790,000 (2004: £18,489,000). An interim Ordinary dividend of £777,632 representing 2.12 pence per Ordinary share was paid on 27th October 2005 (2004: £564,000 representing 2.0 pence per Ordinary share). The Board recommends a final Ordinary dividend of 4.25 pence per Ordinary share amounting to £1,562,000 be payable on 6th July 2006 to shareholders on the register at 9th June 2006 (2004: £1,467,000 representing 4.0 pence per Ordinary share).

Group structure

Details of principal subsidiary undertakings are disclosed on page 46.

Share capital

Three resolutions relating to share capital will be proposed as Special Business at the forthcoming Annual General Meeting. The full text of the resolutions can be found in the enclosed Notice of Annual General Meeting.

Special Resolution 7: The current authority for the Company to purchase its own shares expires at the conclusion of the forthcoming Annual General Meeting. A special resolution is to be proposed at the Annual General Meeting to authorise the repurchase of up to 5,473,000 Ordinary 50 pence shares, representing approximately 14.9 per cent of the Company's issued share capital. The Directors have no present intention of making any market purchases of the Company's shares, but if they considered such action would enhance net assets or earnings per share, they would consider exercising this authority. As at the date of this report, the Company has an unexpired authority to repurchase 5,463,000 Ordinary shares.

Ordinary Resolution 8: The Directors will seek authority to allot relevant securities pursuant to Section 80 of the Companies Act 1985 up to a maximum aggregate nominal value of £6,505,106 being equal to one-third of the issued Ordinary share capital of the Company, together with the number of share options outstanding.

Special Resolution 9: The Directors seek authority to renew the disapplication of shareholders' pre-emptive rights under Section 89 of the Companies Act 1985 up to an aggregate nominal value of £918,333 being equal to 5.0 per cent of the issued ordinary share capital of the Company.

At this year's Annual General Meeting, the Directors are seeking approval for the introduction of two new remuneration incentive plans. Ordinary Resolution 10 is to seek approval for the Development Securities PLC Performance Share Plan 2006 ('PSP') which is to replace the Development Securities PLC Long Term Incentive Plan, approved by shareholders in 1999. Ordinary Resolution 11 is to seek shareholders' approval for the Development Securities PLC Investment Growth Plan 2006 ('IGP').

Details of how the new plans form part of the Company's remuneration policy are set out in the Remuneration report on pages 65 to 71 of the Annual report. A summary of the PSP and the IGP are set out in the Appendix to the Notice of Annual General Meeting, including the initial performance conditions that will be set on the first grant of awards under the PSP and IGP.

Share option schemes
During the year options over 40,000 shares were granted under the Executive Share Option Plan 2005 and none under the Company's Savings Related Share Option Schemes. Further details of the Share Option Schemes are contained on page 51 and in the Remuneration report on pages 65 to 71.

Directors
The Directors serving throughout the year were as follows:

Roy Dantzic	William Grant
Michael Marx	Paul Manduca
Julian Barwick	Victoria Mitchell
Paul Willis	Michael Soames
Matthew Weiner	

William Grant, who joined the Board on 22nd January 1997 and having served as a Non-executive Director for over nine years, has resolved to stand down at the 2006 Annual General Meeting.

The Directors retiring by rotation at the Annual General Meeting are Victoria Mitchell and Michael Soames, who being eligible, offer themselves for re-election. The Chairman has confirmed to the Board and has been endorsed by them that following the performance evaluation conducted during the year, both individuals have made a significant contribution to the Board's deliberations, reflecting their commitment to the role.

Directors' service contracts and interests in the Company's shares
The unexpired period of Directors' service contracts and the interests of the Directors who were in office as at 31st December 2005 are fully disclosed in the Remuneration report on pages 65 to 71.

Other substantial interests
At the date of this report, the Directors have been notified of the following interests in 3.0 per cent or more of the Company's issued share capital:

	Number of shares	%
F & C Asset Management PLC	3,786,382	10.31
Standard Life Group	1,428,067	3.89
Stichting Pensioenfonds ABP	1,305,000	3.55
Legal & General Group PLC	1,259,185	3.43
Britel Fund Trustees Limited as The Trustees of BT Pension Scheme	1,158,690	3.15
Prudential PLC	1,153,586	3.14
Barclays PLC	1,133,524	3.09

Financial risk management
Disclosures in respect of financial risk management objectives and exposures are set out in note 16 on pages 47 to 49.

Charitable and political donations
Charitable donations during the year, principally to local charities serving the communities in which the Group operates, were £24,800 (2004: £26,900). No political donations were made during the year (2004: £Nil).

Disabled employees
It is the Group's policy to encourage good employment practices with regard to the disabled in accordance with Government recommended guidelines.

Payment policy
Amounts due to suppliers are settled promptly within their terms of payment, except in cases of dispute. The number of creditor days outstanding for the Company at 31st December 2005 was one day (2004: one day).

Auditors
A resolution to reappoint Deloitte & Touche LLP as the Company's auditors will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors

Signed on its behalf by:

S A Lanes
Secretary
28th March 2006

Corporate governance

The Company complied throughout the financial year with the code provisions set out in Section 1 of the July 2003 FRC Combined Code on Corporate Governance, except that with effect from 8th December 2005, no member of the Audit Committee is considered to have recent and relevant financial experience as required under code provision C.3.1. The reason for non-compliance is that, with the exception of the Chairman of the Company, no other Non-executive Director is considered to have such experience. Nevertheless, members of the Audit Committee consider that they have sufficient business experience to fulfil their role.

The Board

The Board discusses and makes decisions relating to, but not limited to, strategy, executive performance and retention, remuneration and succession, financial performance, development opportunities, investment portfolio acquisitions and disposals, corporate reputation and communication, internal control and risk management and the Board's own effectiveness. It delegates certain defined tasks and responsibilities to both its various Committees, which report to the Board, and to individual Executive Directors.

The Board, which met eight times during the year, currently consists of five Non-executive Directors, each of whom is considered to be independent, and four Executive Directors. The Board met informally to consider corporate strategy, which was subsequently reviewed at a formal Board Meeting later in the year. All Directors have access to the services of the Company Secretary and may seek independent professional advice, as necessary, at the Company's expense, subject to the consent of the Chairman.

Upon election, or re-election, Non-executives are invited to serve for three-year fixed terms and their terms of appointment are available from the Company Secretary. Directors may receive appropriate training on introduction and whilst in office. W Grant remained as the Senior Independent Director throughout the year and, on his retirement at the forthcoming Annual General Meeting, he will be replaced by P V S Manduca.

The Chairman and the Non-executive Directors met on two occasions during the year with no Executive Directors in attendance. In addition, the Senior Independent Director also met twice with the Non-executive Directors, without the Chairman or Executive Directors present, to consider inter alia the appraisal of the Chairman's performance.

The Board has undertaken a performance evaluation of the Board itself, each of its Committees and of its individual Directors. This was conducted by questionnaire co-ordinated by the Company Secretary. The overall conclusions were considered by the Board and areas of significance have been addressed, including, for example, the reconstitution of the membership of the Audit Committee. The Non-executive Directors, led by the Senior Independent Director separately considered the performance evaluation of the Chairman, taking account of the views of the Executive Directors.

The Board has established a number of Standing Committees:

– The Audit Committee comprises P V S Manduca as Chairman and V M Mitchell. R M Dantzic resigned as Chairman and as a member of the Committee on 8th December 2005. None of the present members of the Committee are considered to have recent and relevant financial experience.

– The Nomination Committee comprises R M Dantzic as Chairman, P V S Manduca and M H Marx. W Grant resigned as a member of the Committee on 23rd June 2005.

– The Remuneration Committee comprises W Grant as Chairman, V M Mitchell and M S Soames. The Committee is authorised to determine remuneration policy, including the exercise of powers to grant options under the Group's option schemes to the Executive Directors and senior management and to determine the annual bonus, special discretionary bonus (re-titled the Development Profit Plan), discretionary bonus plan for senior investment professionals, (proposed to be replaced by the Development Securities PLC Investment Growth Plan 2006), ad hoc bonuses for exceptional contributions and awards under the Long-Term Incentive Plan (proposed to be replaced by the Development Securities PLC Performance Share Plan 2006). The Remuneration report to shareholders can be found on pages 65 to 71.

– The Approvals Committee comprises M H Marx, C J Barwick and a minimum of any two Non-executive Directors. Its remit is to permit the approval of certain transactions between £1 million (increased to £2 million on 8th December 2005) and £5 million, which are then reported to the Board at its next meeting. Those transactions below this level are delegated to the relevant Executive Directors responsible.

The following table identifies the attendance of the Directors at the meetings of the Board and the Audit, Nomination and Remuneration Committees held during 2005:

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Number of meetings	8	3	3	3
R M Dantzic	8	3	3	
M H Marx	8		3	
C J Barwick	8			
P J Willis	8			
M S Weiner	8			
W Grant	8		2	3
P V S Manduca	8	3	1	
M S Soames	7			3
V M Mitchell	8	3		3

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

Audit Committee

The Audit Committee is responsible, inter alia, for the appointment of the external auditors, the accounting policies, major judgemental areas, financial reporting and acts as a conduit between the Board and the external auditors.

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

Apart from conducting the annual audit, Deloitte & Touche LLP were also engaged during the year to conduct a review of the interim results to 30th June 2005 and tax compliance work for the Group, for the period to October 2005, being then replaced by PricewaterhouseCoopers LLP in respect of tax compliance work. Due to the limited scope of these additional activities, for instance not being engaged in tax advisory or planning work, the auditors' objectivity and independence is not considered to be infringed.

In forming their opinion of the independence, objectivity and effectiveness of the external auditors, the Audit Committee takes into account the safe-guards operating within Deloitte & Touche LLP. Regard is given to the nature of remuneration received for other services provided by Deloitte & Touche LLP to the Company and, inter alia, confirmation is sought from them that the fee payable for the annual audit is adequate to enable them to fulfil their obligation in accordance with the scope of the audit.

Nomination Committee
The Nomination Committee's principal role is to evaluate the structure, size and composition of the Board, preparing a succession plan for the appointment of members, both Executive and Non-executive, which is then fulfilled through an effective search, interview and evaluation process.

The principal issue considered by the Nomination Committee during the year was, following the decision by W Grant not to stand for re-election at the 2006 Annual General Meeting, whether the Board required a further Non-executive Director to be appointed in his stead. Furthermore, to resolve the replacement of W Grant's existing roles as Senior Independent Director and Chairman of the Remuneration Committee by other members of the Board. As from the 2006 Annual General Meeting, it was resolved that P V S Manduca will become the Senior Independent Director and M S Soames, assuming re-elected as a Director at the Meeting, will become Chairman of the Remuneration Committee.

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

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

The Board has conducted a thorough risk assessment of the business, identifying risks, their potential impact, likelihood of occurrence, controls and mitigating actions, together with early warning systems and further actions which need to be implemented.

The regular process of identifying, evaluating and managing significant risks has been delegated by the Board to a Risk Committee, consisting of M H Marx as Chairman, C J Barwick, M S Weiner and two executives, R H Pearse and C Christofi. The Committee meets quarterly during the year to ensure that the risk control procedures are further embedded within the culture of the Company. The minutes of the Committee's deliberations are reviewed by the Board.

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

The Board has adopted a schedule of matters reserved for its decision which includes the level of individual transactions which are approved by the Board and those which may be delegated. The roles and remit of the Chairman, Deputy Executive Chairman and Joint Managing Directors are set out in writing and agreed by the Board.

The Board, following a recommendation from the Audit Committee, has considered the need for an internal audit function, but has resolved that, due to the size of the Company and the risk review process evident through the Risk Committee, this cannot be justified at present. The Board will review this decision next year.

The Board has conducted a review of the effectiveness of the system of internal control for the year ended 31st December 2005 and to the date of this report and considers there is an ongoing process for identifying, evaluating and managing the Group's significant risks including financial, operational and compliance controls and risk management system, that it has been in place for the year ended 31st December 2005 and up to the date of approval of these financial statements, that it is regularly reviewed by the Board and that it accords with the Guidance on Internal Control ('The Turnbull Guidance').

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

Directors' responsibilities in respect of the preparation of the financial statements
The Directors are responsible for preparing the Annual report and the consolidated financial statements for the Group in accordance with International Financial Reporting Standards (IFRS), company law and relevant regulations. They have chosen to continue to prepare the accounts for the Company in accordance with United Kingdom Generally Accepted Accounting Practice.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards.

Directors are also required to:

- properly select and apply accounting policies;
- present relevant, reliable and comparable information, including accounting policies; and
- state whether applicable accounting standards have been followed.

In the case of UK GAAP company accounts, the Directors are also required to prepare financial statements for each financial year which give a true view of the state of affairs of the Company and of the profit or loss of the Company for that period and to make judgements and estimates that are reasonable and prudent.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' report and Directors' Remuneration report which comply with the requirements of the Companies Act 1985. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board
S A Lanes
Secretary
28th March 2006

Contents of the financial statements

Group independent auditors' report

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEVELOPMENT SECURITIES PLC

We have audited the Group financial statements of Development Securities PLC for the year ended 31st December 2005 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of recognised income and expense, the consolidated cash flow statement and the related notes 1 to 25. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration report that is described as having been audited.

We have reported separately on the individual Company financial statements of Development Securities PLC for the year ended 31st December 2005.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report, the Directors' Remuneration report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the Group financial statements and the part of the Directors' Remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the Group financial statements and the part of the Directors' Remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you if, in our opinion, the Directors' report is not consistent with the Group financial statements. We also report to you if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' transactions with the Company and other members of the Group is not disclosed.

We also report to you if, in our opinion, the Company has not complied with any of the four Directors' Remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long-term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or form an opinion on the effectiveness of the Group's Corporate governance procedures or its risk and control procedures.

We read the Directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the Directors' Remuneration report and we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements and the part of the Directors' Remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements and the part of the Directors' Remuneration report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements and the part of the Directors' Remuneration report described as having been audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the Group's affairs as at 31st December 2005 and of its profit for the year then ended; and
- the Group financial statements and the part of the Directors' Remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
28th March 2006

Consolidated income statement
For the year ended 31st December 2005

Continuing operations:

	Notes	2005 £'000	2004 restated £'000
Revenue	3	**25,468**	23,736
Direct costs	3	**(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	4	**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	21	**5,759**	–
Profit before interest and taxation		**28,655**	23,632
Finance income	6	**2,262**	2,570
Finance costs	6	**(7,667)**	(7,366)
Profit before taxation		**23,250**	18,836
Taxation	7	**(3,460)**	(347)
Profit after taxation attributable to equity shareholders of the parent		**19,790**	18,489
Basic earnings per share	9	**54.0p**	54.3p
Diluted earnings per share	9	**53.7p**	54.2p

Consolidated balance sheet
As at 31st December 2005

	Notes	2005 £'000	2005 £'000	2004 restated £'000	2004 restated £'000
Non-current assets					
Property, plant and equipment					
– Operating properties	10	**10,393**		10,573	
– Other property, plant and equipment	10	**3,776**		3,793	
Investment properties	11	**160,246**		156,572	
Investments	12	**1,920**		8,439	
			176,335		179,377
Current assets					
Land, developments and trading properties	13	**56,479**		21,235	
Trade and other receivables	14	**10,419**		18,029	
Cash and cash equivalents		**73,094**		53,766	
		139,992		93,030	
Current liabilities					
Trade and other payables	15	**(22,594)**		(15,332)	
Current tax liabilities		**(154)**		(1,060)	
Deferred tax liabilities	17	**(340)**		–	
Net current assets			**116,904**		76,638
Total assets less current liabilities			**293,239**		256,015
Non-current liabilities					
Borrowings	16		**(98,632)**		(82,829)
Deferred tax liabilities	17		**(3,107)**		–
Net assets			**191,500**		173,186
Equity					
Share capital	18		**18,361**		18,334
Share premium account	19		**87,635**		87,417
Revaluation reserve	19		**2,074**		1,673
Other reserves	19		**45,793**		45,683
Retained earnings	19		**37,637**		20,079
Equity attributable to equity shareholders of the parent			**191,500**		173,186
Basic net assets per share	9		**521p**		472p
Diluted net assets per share	9		**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 £'000	2004 restated £'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

	Notes	2005 £'000	2004 restated £'000
Net cash from operating activities	20	**(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

Notes to the consolidated financial statements
For the year ended 31st December 2005

1. ACCOUNTING POLICIES
a) Basis of accounting
The restated results presented for the year ended 31st December 2004 are not statutory accounts within the meaning of s240, Companies Act 1985. Statutory accounts for that period were prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) and filed with the Registrar of Companies and received an unqualified audit report.

These financial statements, for the year ended 31st December 2005, have been prepared under the historical cost convention as modified by the revaluation of certain items and in accordance with applicable International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). These financial statements have also been prepared in accordance with IFRSs adopted for use in the European Union (EU) and therefore comply with Article 4 of the EU IAS Regulation.

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. The recognition of development revenues is described in the note 1(c) below. 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. The accounting policies in respect of the valuation of the property portfolio are set out in note 1(e) and 1(f) below. Key judgements relating to such valuations include estimates of future rental income and yields.

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.

c) Revenue and operating profit
Revenue, which excludes value added tax, represents:
i) the sales proceeds of trading properties, undeveloped land and building units sold during the year, which is recognised when the significant risk and returns have transferred to the buyer. For conditional contracts revenue is recognised when the conditions are satisfied;
ii) rental income is calculated on an accruals basis, together, where applicable, with sales and services as principal in the ordinary course of business, excluding sales of investment properties. Any incentives for lessees to enter into a lease agreement are spread evenly over the period to the earlier of lease expiry and any tenant option to break, where that option is likely to be exercised;
iii) trading income from operating properties comprises licence fee income and services recognised on an accruals basis;
iv) development profits are recognised on an accruals basis in accordance with the terms of development agreements where applicable. Profits are only recognised where the development is substantially complete and the outcome can be determined with reasonable certainty;
v) project management fee income is recognised on an accruals basis and in accordance with specific development agreements, where such agreements include performance conditions.
vi) finance income is recognised on an accruals basis by reference to the principal outstanding and prevailing interest rate applicable; and
vii) dividend income from investments is recognised when the Group's right to receive income has been established.

Operating profit is stated after profit on disposal of investment properties and the revaluation of the property portfolio and before the results of the associate and finance income and costs.

Notes to the consolidated financial statements continued
For the year ended 31st December 2005

1. ACCOUNTING POLICIES continued
d) Associates and jointly controlled entities

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

A jointly controlled entity is defined as an undertaking other than a subsidiary or associated undertaking in which the Group has the power to exercise significant influence and which is jointly controlled by two or more venturers. The Group's share of the post-acquisition results of jointly controlled entities is shown in the consolidated income statement. Investments in material jointly controlled entities are included in the consolidated balance sheet at cost plus the appropriate share of post-acquisition results and reserves less provisions for any impairment.

e) Investment properties

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

ii) Investment properties are revalued each year on the basis of Market Value, unless the market value cannot be reliably estimated, in which case the assets are carried at cost. Surpluses and deficits arising are recognised in the consolidated income statement for the period.

iii) Profits and losses on disposal of investment properties are calculated by reference to book value.

iv) In the light of the policy on revaluations, no depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years to run. This treatment, as regards certain of the Group's investment properties, may be a departure from the requirements of the Companies Act 1985 concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the Directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the accounts to give a true and fair view. Depreciation or amortisation is only one of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

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

f) Property, plant and equipment

i) Operating properties

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

ii) Other non-current assets

Other non-current assets are held at cost less accumulated depreciation and any provision for impairment. Depreciation is provided so as to write off the cost less estimated residual value of fixed assets over their expected useful lives. The principal annual rates used for this purpose are as follows:

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

g) Leases

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

h) Land, developments in progress and trading properties

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

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

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

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

j) Financial assets and financial liabilities
Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual terms of the instrument.

i) trade and other receivables are recognised initially at fair value and subsequently at amortised cost. A provision for estimated irrecoverable amounts of trade receivables is established where there is evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables concerned;
ii) trade and other payables are stated at fair value;
iii) cash and cash equivalents comprise cash balances, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less and no significant risk of changes in value. Bank overdrafts that are repayable on demand and which form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows;
iv) financial liabilities are stated at fair value on initial recognition and thereafter at amortised cost.
v) the Group recognises the fair value of its derivatives including interest rate swaps on the balance sheet and movements on those values within the income statement; and
vi) deferred revenue expenditure relating to the establishment of financial liabilities is offset against the carrying value of these financial liabilities and released to the income statement at a constant rate on carrying value.

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

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

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

m) Foreign currencies
Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Exchange movements are dealt with in the consolidated income statement.

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

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

p) Definitions
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.

Notes to the consolidated financial statements continued
For the year ended 31st December 2005

2. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS
All listed companies in the EU are required to present their consolidated financial statements for accounting periods beginning on or after 1st January 2005 in accordance with IFRS, as adopted by the EU. Therefore, the Group's consolidated financial statements for the year ending 31st December 2005 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. These 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 these financial statements, to comply with IFRS. Reconciliation and description of the effect of the transition from UK GAAP to IFRS on the Group's reported financial position and financial performance set out in note 25.

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.

	Investment £'000	Trading and development £'000	Operating £'000	Total £'000
				Year ended 31st December 2005
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			(968)	(968)
Unallocated depreciation				(181)

	Investment £'000	Trading and development £'000	Operating £'000	Total £'000
				Year ended 31st December 2005
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 other fixed asset investments				149
Finance income				2,262
				27,879

3. SEGMENTAL ANALYSIS continued

	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**
Assets and liabilities				
Segment assets	208,301	29,441	12,619	250,361
Unallocated assets				22,046
Total assets				**272,407**
Segment 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 fee	–	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 other fixed asset investments				125
Finance income				2,570
				26,431

4. PROFIT FROM OPERATIONS

		2005 £'000	2004 restated £'000
The profit from operations is stated after charging:			
Share based payments expense		**110**	64
Depreciation of property, plant and equipment		**1,149**	974
Operating leases in respect of land and buildings		**2,254**	2,260
Auditors' remuneration	– audit	**132**	119
	– audit related reporting	**65**	15
	– tax compliance	**156**	150

5. EMPLOYEE INFORMATION

	2005 £'000	2004 restated £'000
Wages and salaries	**5,462**	3,937
Social security	**633**	449
Pension costs	**416**	345
	6,511	4,731

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

	2005 Number	2004 Number
Property development and investment	**34**	31
Operating property activities	**41**	37
	75	68

The compensation of key management personnel is shown in the Remuneration report on pages 65 to 71.

6. FINANCE INCOME AND COSTS

	2005 £'000	2004 restated £'000
Finance costs		
Interest on bank loans and other borrowings	**5,925**	5,618
Other loans and overdrafts	**2,200**	2,200
Share of interest payable in joint venture	**–**	50
Capitalised interest	**(458)**	(502)
Finance income	**7,667**	7,366
Interest receivable	**(2,262)**	(2,570)
	5,405	4,796

Interest has been capitalised at a rate of 6.50% (2004: 6.50%). Capitalised interest in the amount of £181,000 (2004: £71,000) was written off in the year against gross profit.

Notes to the consolidated financial statements continued

For the year ended 31st December 2005

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2005 £'000	2004 restated £'000
Corporation tax on income at 30.00% (2004: 30.00%)	–	–
Adjustment in respect of prior years	–	333
Total current tax charge	–	333
Share of associate tax	–	(267)
Deferred taxation expense	**3,460**	281
	3,460	347

	2005 £'000	2004 restated £'000
Analysis of charge in the period (continuing operations):		
Current tax	–	–
Deferred tax	**3,460**	–
	3,460	–

	2005 £'000	2004 restated £'000
Tax on items charged to equity:		
Deferred tax credit in respect of share based payments	**(13)**	–
	(13)	–

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

	2005 £'000	2004 restated £'000
Profit on ordinary activities before taxation	**23,250**	18,836
Tax on profit on ordinary activities at 30% (2004: 30%)	**6,975**	5,651
Permanent differences	–	333
Expenses not deductible for tax purposes	**378**	–
Short-term timing differences	**(83)**	(283)
Relief for capital losses	**(2,042)**	(6,621)
Non-taxable income	**(1,481)**	(202)
Losses carried forward	–	991
Other	**(287)**	131
Adjustment in respect of prior years	–	333
	3,460	333

8. DIVIDENDS

	2005 £'000	2004 restated £'000
Amounts recognised as distributions to equity holders in the year	**2,244**	1,579
Proposed final dividend for the year ended 31st December	**1,562**	1,467

	Pence	Pence
Interim dividend per share	**2.12**	2.00
Final dividend per share	**4.25**	4.00

The final dividend was approved by the Board on 23rd March 2006 and has not been included as a liability as at 31st December 2005. The final dividend is payable on 6th July 2006 to Ordinary shareholders on the register at the close of business on 9th June 2006.

9. EARNINGS PER SHARE AND NET ASSETS PER SHARE

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

	2005 £'000	2004 restated £'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**19,790**	18,489
Number of shares		
Weighted average number of Ordinary shares for the purposes of basic earnings per share ('000s)	**36,675**	34,040
Effect of dilutive potential Ordinary shares:		
Share options ('000s)	**208**	76
Weighted average number of Ordinary shares for the purpose of diluted earnings per share ('000s)	**36,883**	34,116
Basic earnings per share (pence)	**54.0**	54.3
Diluted earnings per share (pence)	**53.7**	54.2

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

	2005			2004 restated		
	Net assets £'000	No. of shares '000	Net assets per share pence	Net assets £'000	No. of shares '000	Net assets per share pence
Net assets per share	**191,500**	**36,722**	**521**	**173,186**	**36,667**	**472**
Effect of dilutive potential Ordinary shares	2,647	779	–	2,625	796	–
Diluted net assets per share	194,147	37,501	**518**	175,811	37,463	**469**

Notes to the consolidated financial statements continued
For the year ended 31st December 2005

10. PROPERTY, PLANT AND EQUIPMENT
a) Operating properties

	Freehold £'000	Long leasehold £'000	Short leasehold £'000	Total £'000
At cost or valuation 1st January 2004	4,059	1,472	1,460	6,991
Additions	2,823	–	–	2,823
Depreciation charge for the year	(124)	(46)	(63)	(233)
(Deficit)/surplus on revaluation	992	49	(49)	992
At cost or valuation 31st December 2004	**7,750**	**1,475**	**1,348**	**10,573**
Additions	6	–	–	6
Disposals	(47)	–	–	(47)
Depreciation charge for the year	(261)	(46)	(59)	(366)
(Deficit)/surplus on revaluation	(198)	321	104	227
At cost or valuation 31st December 2005	**7,250**	**1,750**	**1,393**	**10,393**
Original cost of operating properties at 31st December 2005	**8,367**	**1,315**	**–**	**9,682**
Original cost of operating properties at 31st December 2004	8,361	1,315	–	9,676

£9,000,000 (2004: £9,225,000) of operating properties are charged as security against the Group's borrowings (refer notes 15 and 16).

The Group's operating properties have been valued as at 31st December 2005 by Independent Professional Valuers: either DTZ Debenham Tie Leung, Chartered Surveyors, or Colliers CRE, Chartered Surveyors, on the basis of Existing Use Value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

b) Other property, plant and equipment

	Fixtures and fittings £'000	Motor vehicles and other tangible assets £'000	Total £'000
Cost:			
At 1st January 2004	5,569	539	6,108
Additions	686	168	854
Disposals	(11)	(160)	(171)
At 31st December 2004	**6,244**	**547**	**6,791**
Additions	763	107	870
Disposals	(752)	(91)	(843)
At 31st December 2005	**6,255**	**563**	**6,818**
Depreciation:			
At 1st January 2004	2,132	231	2,363
Charge for the year	681	60	741
Disposals	(6)	(100)	(106)
At 31st December 2004	**2,807**	**191**	**2,998**
Charge for the year	717	66	783
Disposals	(690)	(49)	(739)
At 31st December 2005	**2,834**	**208**	**3,042**
Net book value 31st December 2005	**3,421**	**355**	**3,776**
Net book value 31st December 2004	3,437	356	3,793

11. INVESTMENT PROPERTIES

	Freehold £'000	Long Leasehold £'000	Total £'000
At cost or valuation 1st January 2004	102,423	12,932	115,355
Additions:			
– acquisitions	41,461	–	41,461
– capital expenditure	7,892	–	7,892
Disposals	(13,516)	(8,699)	(22,215)
Surplus on revaluation	13,504	575	14,079
At cost or valuation 31st December 2004	**151,764**	**4,808**	**156,572**
Additions			
– acquisitions	7,110	–	7,110
– capital expenditure	4,735	–	4,735
Disposals	(24,314)	(1,885)	(26,199)
Surplus on revaluation	18,028	–	18,028
At cost or valuation 31st December 2005	**157,323**	**2,923**	**160,246**
Original cost of investment properties at 31st December 2005	**121,622**	**2,174**	**123,796**
Original cost of investment properties at 31st December 2004	131,513	3,418	134,931

The Group investment properties include freehold land and developments in progress of £5,050,000 (2004: £nil) held at Directors' valuation, £15,501,000 (2004: £15,633,000) held at cost including capitalised interest of £2,678,000 (2004: £2,597,000). The Directors consider that assets held at cost, which represent land and related infrastructure, cannot be reliably valued due to uncertainties over future planning consents and development potential. The other investment properties have been valued as at 31st December 2005 by Independent Professional Valuers: either DTZ Debenham Tie Leung, Chartered Surveyors, or Colliers CRE, Chartered Surveyors, on the basis of Market Value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

£121,635,000 (2004: £102,187,000) of investment properties are charged as security against the Group's borrowings (refer notes 15 and 16).

12. INVESTMENTS

a) Investments

	Fair value of equity shares £'000	Share of post-acquisition reserves £'000	Interest in preference share of associate £'000	Total interest in associated undertakings £'000	Interest in joint ventures £'000	Total £'000
Cost and share of post-acquisition reserves:						
At 1st January 2005 (restated)	1,995	4,139	1,500	7,634	805	8,439
Acquisition of shares	454	–	711	1,165	–	1,165
Share of profit for the year	–	1,453	–	1,453	–	1,453
Disposal of associated undertaking	(1,995)	(5,592)	(1,500)	(9,087)	–	(9,087)
Provisions against investment in joint venture	–	–	–	–	(50)	(50)
At 31st December 2005	**454**	**–**	**711**	**1,165**	**755**	**1,920**

Interests in joint ventures include £755,000 (2004: £755,000) invested in the loan stock of Continental Estates Corporation BV, together with a 29 per cent interest in the equity of that company. The Directors consider that the Group's share of the assets and liabilities of that company is not material. Continental Estates Corporation BV is incorporated and registered in The Netherlands. The company's principal activity is currently as an investment holding company.

During the year, the Group acquired 50 per cent of the Ordinary shares and 10 per cent of the Preference shares of Peacock Place Limited, a company incorporated and registered in Jersey.

During the year, the Group disposed of its 39 per cent (2004: 39 per cent) investment in the Ordinary Share capital and 1,524,126 preference shares of £1 each in Stead & Simpson Group Limited (2004: 1,524,126 shares), a company incorporated in Great Britain and registered in England and Wales and operating in the United Kingdom as a shoe retailing business.

Notes to the consolidated financial statements continued
For the year ended 31st December 2005

12. INVESTMENTS continued
b) Principal subsidiary undertakings

The following were principal subsidiary undertakings at 31st December 2005:

	% holding in ordinary shares at 31st December 2005	Principal activity
DS Property Developments Limited*	100	Property Development
Development Securities Estates PLC	100	Management and Investment Company
Development Securities (Investments) PLC	100	Property Investment
DS Jersey (No. 1) Limited	100	Investment
DS Jersey (No. 3) Limited*	100	Property Investment
DS Jersey (No. 7) Limited	100	Investment

* indirectly held

13. LAND, DEVELOPMENTS AND TRADING PROPERTIES

	2005 £'000	2004 restated £'000
Developments in progress	**15,086**	14,090
Trading properties	**41,393**	7,145
	56,479	21,235

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

14. TRADE AND OTHER RECEIVABLES

	2005 £'000	2004 restated £'000
Trade debtors	**2,838**	3,428
Other debtors	**5,891**	12,434
Other taxation recoverable	**362**	885
Prepayments	**1,328**	1,282
	10,419	18,029

Other debtors include accrued development profits of £1,387,000 (2004: £1,384,000).

The provision for bad debts was £7,000 (2004: £223,000).

15. TRADE AND OTHER PAYABLES

	2005 £'000	2004 restated £'000
Bank loans and overdrafts	**6,204**	1,725
Trade creditors	**97**	1,623
Other creditors	**2,737**	1,912
Other tax and social security	**518**	452
Accruals and deferred income	**13,038**	9,620
	22,594	15,332

Bank loans and overdrafts are secured by way of mortgages and legal charges on certain properties and cash deposits held by the Group.

16. BORROWINGS

	2005 £'000	2004 restated £'000
First mortgage debenture 11% due 2016	**20,000**	20,000
Bank loans	**78,632**	62,829
	98,632	82,829

All bank loans and overdrafts are denominated in sterling. Bank loans and the Debenture are supported by way of mortgages and legal charges on certain properties and cash deposits held by the Group.

Bank loans and overdrafts in the sum of £56,320,000 (2004: £30,836,000), included in notes 15 and 16, attract variable rates of interest based on LIBOR/base rate in the range +1.0625 per cent to +1.075 per cent and £48,516,000 (2004: £53,718,000) attract fixed rates between 8.8 per cent and 11 per cent.

	2005 Fixed £'000	2005 Floating £'000	2004 Fixed restated £'000	2004 Floating restated £'000
Analysis of borrowings by date of repayment:				
Less than 1 year	**236**	**5,968**	288	1,437
Between 1 and 2 years	**264**	**21,906**	397	–
Between 2 and 3 years	**295**	**28,446**	438	–
Between 3 and 4 years	**340**	**–**	482	–
Between 4 and 5 years	**407**	**–**	4,740	29,399
After 5 years	**46,974**	**–**	47,373	–
	48,516	**56,320**	53,718	30,836

Cash in the amount of £24,743,000 (2004: £19,121,000) is held on deposit as security against the above borrowings and facilities. Borrowings due for repayment after five years include £5,467,000 (2004: £5,904,000) repayable by instalments.

Notes to the consolidated financial statements continued
For the year ended 31st December 2005

16. BORROWINGS continued
FINANCE REVIEW
The Group's financial instruments, other than trade debtor and creditor balances arising from its operations, comprise borrowings, cash resources and equity investments. Monetary assets and liabilities, other than certain equity investments, amounting to £1,727,000 (2004: £1,776,000), are denominated in sterling.

The Group had net borrowings of £31,742,000 at 31st December 2005 (2004: £30,788,000). Cash balances were £73,094,000 (2004: £53,766,000), of which £24,743,000 (2004: £19,121,000) was pledged as security against borrowings. Undrawn, committed revolving credit facilities were £24,738,000 (2004: £27,546,000).

The increase in net borrowings largely reflects net cash outflows for investment and trading property acquisitions during the year.

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

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

Fixed and floating rate liabilities and financial assets as at 31st December 2005 are analysed as:

	2005 £ million	Weighted average interest rate %	Weighted average debt maturity Years	2004 £ million	Weighted average interest rate %	Weighted average debt maturiity Years
Fixed rate debt	**48.5**	**9.7**	**11.1**	53.8	9.5	12.6
Floating rate debt	**56.3**	**5.9**	**2.0**	30.8	5.6	4.1
Gross debt	**104.8**	**7.7**	**6.3**	84.6	8.2	9.7
Cash balances	**(73.1)**	**4.4**	**–**	(53.8)	4.8	–
Net debt	**31.7**	**–**	**–**	30.8	–	–
Undrawn facilities	**24.7**	**5.9**	**2.7**	27.5	5.9	5.5
	56.4	**6.3**	**5.6**	58.3	6.7	8.7

Floating rate debt is generally re-priced quarterly based on prevailing LIBOR rates.

Valuation of financial assets and liabilities
A valuation was carried out as at 31st December 2005 by J C Rathbone Associates Limited, to calculate the market value of the Group's fixed rate debt on a replacement basis, taking into account the difference between fixed interest rates for the Group's borrowings and the market value and prevailing interest rate of appropriate debt instruments as a fair value adjustment. Whilst the replacement basis provides a consistent method for valuation of fixed rate debt, such financing facilities are in place to provide continuing funding for the Group's activities. The valuation is therefore only an indication of a notional effect on the net asset value of the Group as at 31st December 2005 and may be subject to daily fluctuations in line with money market movements.

The debt valuation as at 31st December 2005 is analysed as:

	Book value 31 December 2005 £'million	Fair value 31 December 2005 £'million	Fair value adjustment 31 December 2005 £'million	Fair value adjustment 28 February 2006 £'million
Fixed rate mortgage facilities	28.5	36.3	(7.8)	(7.5)
First Mortgage debenture 11% due 2016	20.0	27.3	(7.3)	(7.1)
Total fixed rate financial liabilities	48.5	63.6	(15.1)	(14.6)

The fair value adjustment of £15,100,000 at 31st December 2005 (2004: £14,200,000) represents approximately 31.1 per cent of gross, fixed rate borrowings (2004: 26.4 per cent). The effect on net assets per share after tax of this adjustment would be a decrease of 28.8 pence (2004: 27.1 pence). As at 28th February 2006, the fair value adjustment had decreased to £14,600,000, equivalent to a decrease of 27.8 pence per share after tax. The Directors consider that the fair value of other remaining financial assets and liabilities is not materially different to their book values as at 31st December 2005.

Debt maturity
The maturity profile of the Group's borrowings is set out above in this note. Of the total of £24,738,000 of currently undrawn revolving credit facilities, £500,000 expire in 2006, with the remaining £2,988,000 in 2007 and £21,250,000 in 2008.

Gearing
Gearing, measured as net debt to total shareholders' funds, has decreased to 16.5 per cent (2004: 18.0 per cent) as at 31st December 2005.

Currency risk
The Group does not undertake significant trade overseas, but does hold certain assets, amounting to £1,727,000 (2004: £1,776,000) denominated in foreign currencies. The currency exposure arising from these investments is not considered to materially affect the Group's operations and is not subject to hedging arrangements.

Credit risk
The Group's principal financial assets are bank balances and cash, trade and other receivables and investments. The Group's credit risk is primarily attributable to its trade and other receivables. The amounts shown in the balance sheet are net of any provision for bad debts. Such provisions are made where there is an identified event which provides evidence of a reduction in the recoverability of debts. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks and financial institutions with high credit-ratings. The Group has no significant concentration of credit risk, with exposure spread over a large number of tenants and counterparties.

Notes to the consolidated financial statements continued
For the year ended 31st December 2005

17. DEFERRED TAX
The following are the major deferred tax liabilities and assets and movements thereon recognised by the Group during the current and previous financial year. Deferred tax is calculated in full on the temporary differences under the liability method using a tax rate of 30% (2004: 30%).

	2005 £'000	2004 restated £'000
At 1st January	–	–
Charge for the year	3,460	–
Credited directly to equity	(13)	–
At 31st December	**3,447**	**–**

	2005 £'000	2004 restated £'000
The deferred income tax credited to equity during the year is as follows:		
– Share based payments	(13)	–
	(13)	–

	Accelerated tax depreciation £'000	Revaluation of property £'000	Other £'000	Total £'000
Deferred tax liabilities recognised:				
Charged to profit and loss account	394	7,140	–	7,534
At 31st December 2005	394	7,140	–	7,534
Liabilities due in less than one year	394	–	–	394
Liabilities due in more than one year	–	7,140	–	7,140
	394	7,140	–	7,534

	Provisions £'000	Tax losses £'000	Other £'000	Total £'000
Deferred tax assets recognised:				
Charged to profit and loss account	(54)	(4,020)	–	(4,074)
Other reserve	–	–	(13)	(13)
At 31st December 2005	(54)	(4,020)	(13)	(4,087)
Assets receivable in less than one year	(54)	–	–	(54)
Assets receivable in more than one year	–	(4,020)	(13)	(4,033)
	(54)	(4,020)	(13)	(4,087)

	2005 £'000
Net deferred tax liability:	
Net liabilities due in less than one year	340
Net liabilities due in more than one year	3,107
At 31st December 2005	3,447

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. Deferred tax assets arising from the Group's trading and capital losses are recognised on the basis that there will be sufficient future profits to utilise such losses.

Movements in deferred tax assets and liabilities (prior to the offsetting of balances) are shown above.

18. SHARE CAPITAL

	2005 £'000	2004 restated £'000
Authorised:		
50,000,000 Ordinary shares of 50 pence (2004: 50,000,000 Ordinary shares of 50 pence)	**25,000**	25,000
Issued, called up and fully paid:		
36,722,286 Ordinary shares of 50 pence (2004: 36,667,308 Ordinary shares of 50 pence)	**18,361**	18,334

	Number of shares
Shares in issue at the date of this report	**36,733,336**

During the year, £163,577 cash consideration was also received following the allotment of 54,978 Ordinary shares as a consequence of the exercise of share options.

The Company has one class of Ordinary shares which carry no right to fixed income.

Share option schemes

As at 31st December 2005 and at the date of this report the options outstanding under the Company's share option schemes were exercisable as follows (price stated in pence per share):

Executive share option scheme 1995:

Date of grant	Number 31.12.05	Number 28.03.06	Exercise Dates	Price
6th June 1996	30,284	30,284	6th June 1999 to 5th June 2006	189.0
19th May 1997	20,189	20,189	19th May 2000 to 18th May 2007	248.0
21st May 1998	30,284	30,284	21st May 2001 to 20th May 2008	325.5
26th May 1998	216,431	216,431	26th May 2001 to 25th May 2008	323.5
27th March 2001	59,207	59,207	27th March 2004 to 26th March 2011	338.0
30th April 2001	78,239	68,145	30th April 2004 to 29th April 2011	397.0
19th April 2004	66,979	66,979	19th April 2007 to 18th April 2014	360.0
30th April 2004	151,424	151,424	30th April 2007 to 29th April 2014	361.0
9th November 2004	50,000	50,000	9th November 2007 to 8th November 2014	392.5
	703,037	692,943		

Executive share option plan 2005:

Date of grant	Number 31.12.05	Number 28.03.06	Exercise Dates	Price
9th November 2005	40,000	40,000	9th November 2008 to 8th November 2015	445.75

Savings related share option scheme 1995:

Date of grant	Number 31.12.05	Number 28.03.06	Exercise Dates	Price
20th May 2004	36,085	32,824	1st July 2007 to 31st December 2007	289.0

Notes to the consolidated financial statements continued
For the year ended 31st December 2005

18. SHARE CAPITAL continued
Share option schemes continued

	2005 Number	2005 Weighted average exercise price (pence)	2004 Number	2004 Weighted average exercise price (pence)
At 1st January	**796,496**	**329.6**	652,693	306.9
Options granted	**40,000**	**445.8**	310,524	339.4
Options exercised	**(54,978)**	**297.5**	(152,600)	251.7
Options expired/lapsed	**(2,396)**	**289.0**	(22,493)	330.0
Adjustment in respect of share placing	**–**	**–**	8,372	318.4
At 31st December	**779,122**	**339.7**	796,496	329.6

The weighted average share price during the year was 481.9 pence (2004: 372.1 pence). Of the 779,122 (2004: 796,476) outstanding options at 31st December 2005, 434,634 were exercisable (2004: 447,242).

The options outstanding at 31st December 2005 were exercisable between 189.0 pence and 445.75 pence per share and have a weighted average remaining contractual life of 4.6 years.

The grants issued in the current and preceding year have been valued using a Black-Scholes pricing model. The main assumptions are as follows:

Grant date	19.04.04	30.04.04	20.05.04	09.11.04	09.11.05
Exercise price (p)	360.0	361.0	289.0	392.5	445.75
Term (years)	7	7	3	7	6
Expected volatility	10%	10%	10%	7%	20%
Expected dividend yield p.a.	1.5%	1.5%	1.5%	1.5%	1.5%
Risk free rate	4.5%	4.5%	4.5%	4.5%	4.5%
Expected forfeiture p.a.	Nil	Nil	Nil	Nil	Nil

19. RESERVES AND MOVEMENTS IN EQUITY

	Share premium £'000	Property revaluation reserve £'000	Share based payments reserve £'000	Capital redemption reserve £'000	Capital reserve £'000
At 1st January 2004	63,016	6,048	–	1,431	44,188
Adoption of IFRS	–	(4,464)	–	–	–
At 1st January 2004 (restated)	**63,016**	**1,584**	**–**	**1,431**	**44,188**
Net proceeds of issue of new shares	24,401	–	–	–	–
Net surplus on revaluation of operating properties	–	89	–	–	–
Share based payments cost	–	–	64	–	–
At 31st December 2004	**87,417**	**1,673**	**64**	**1,431**	**44,188**
Net proceeds of issue of new shares	134	–	–	–	–
VAT recovered on share issue costs	84	–	–	–	–
Net surplus on revaluation of operating properties	–	401	–	–	–
Share based payments cost	–	–	110	–	–
At 31st December 2005	**87,635**	**2,074**	**174**	**1,431**	**44,188**

The capital reserve arose from business combinations in prior financial periods. None of these reserves are distributable.

Retained earnings

	Retained earnings £'000
At 1st January 2004	(3,712)
Adoption of IFRS	6,814
At 1st January 2004 (restated)	**3,102**
IFRS adjustment	67
Retained profit for the year	18,489
Interim dividend 2004	(564)
Final dividend 2003	(1,015)
At 31st December 2004	**20,079**
Retained profit for the year	19,790
Adjustment to tax in respect of share based payments	13
Interim dividend 2005	(778)
Final dividend 2004	(1,467)
At 31st December 2005	**37,637**

20. NOTE TO THE CASH FLOW STATEMENT

	2005 £'000	2004 restated £'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)

21. DISPOSAL OF ASSOCIATED UNDERTAKING

On 23rd December 2005, the Group disposed of its investment in Stead & Simpson Group Limited. The profit on disposal is presented in the consolidated income statement and is calculated by reference to the book value of the investment at the date of disposal, after accounting for the Group's share of the associate's results and net asset value at 23rd December 2005.

Notes to the consolidated financial statements continued
For the year ended 31st December 2005

22. FINANCIAL COMMITMENTS AND OPERATING LEASE ARRANGEMENTS
Financial commitments authorised and commitments not provided for in these financial statements are estimated at:

		2005 £'000	2004 restated £'000
Financial commitments		**4,240**	2,230
Annual commitments in respect of operating leases expiring:	within one year	**27**	577
	after more than five years	**2,227**	1,683
		2,254	2,260

Operating lease arrangements

The Group as lessee

	2005 £'000	2004 restated £'000
Minimum lease payments under operating leases recognised in income for the year	2,254	2,260

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2005 £'000	2004 restated £'000
Within one year	2,254	2,260
In the second to fifth years inclusive	8,142	6,078
After five years	13,615	12,505
	24,011	20,843

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases were negotiated for an average term of 13.8 years.

The Group as lessor
Property rental income earned during the year was £10,626,000 (2004: £9,259,000). Certain of the Group's properties held for rental purposes, with a carrying amount of £31,000,000, have been disposed of since the balance sheet date. The remaining properties are expected to generate rental yields of approximately 6 per cent on an ongoing basis.

At the balance sheet date, the Group had contracted with tenants for the following future minimum payments:

	2005 £'000	2004 restated £'000
Within one year	12,008	10,797
In the second to fifth years inclusive	41,155	38,655
After five years	90,863	70,168
	144,026	199,620

23. CONTINGENT LIABILITIES
Performance bonds of Group companies are guaranteed by banks in favour of third parties for a total of £161,185 (2004: £173,435). The due performance of obligations under various leases entered into by Group companies, expiring subsequent to 2014, amount to £1,593,000 per annum (2004: £1,460,000). The net present value after tax of estimated negative cash flows over the term of certain leases to Stead & Simpson Limited amounted to £2,221,000 at 31st December 2005 (2004: £2,240,000).

24. PENSION SCHEME
The Company operates a defined contribution scheme for Directors and employees. Monthly premia are invested in an independent insured fund. The amounts charged to the profit and loss acount during the year are set out in note 5.

25. EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Consolidated balance sheet

		As at 1st Jan 2004 (date of transition)		
	Notes	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS (opening balance sheet) £'000
Non-current assets				
Property, plant and equipment				
– Operating properties		6,991	–	6,991
– Other property, plant and equipment		3,745	–	3,745
Investment properties		115,355	–	115,355
Investments	4	3,104	1,335	4,439
		129,195	1,335	130,530
Current assets				
Land, developments and trading properties		15,318	–	15,318
Trade and other receivables		13,863	–	13,863
Cash and cash equivalents		56,339	–	56,339
		85,520	–	85,520
Current liabilities				
Trade and other payables	3	(13,018)	1,015	(12,003)
Current tax liabilities		(1,685)	–	(1,685)
Net current assets		70,817	1,015	71,832
Total assets less current liabilities		200,012	2,350	202,362
Non-current liabilities				
Borrowings		(74,950)	–	(74,950)
Net assets		**125,062**	**2,350**	**127,412**
Equity				
Share capital		14,091	–	14,091
Share premium account		63,016	–	63,016
Revaluation reserve		6,048	(4,464)	1,584
Reserves		45,619	–	45,619
Retained earnings		(3,712)	6,814	3,102
Equity attributable to equity shareholders of the parent		**125,062**	**2,350**	**127,412**

Notes to the consolidated financial statements continued

For the year ended 31st December 2005

25. EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS continued

Consolidated balance sheet

	Notes	As at 31st Dec 2004 (last period presented under UK GAAP) UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Non-current assets				
Property, plant and equipment				
– Operating properties		10,573	–	10,573
– Other property, plant and equipment		3,793	–	3,793
Investment properties		156,572	–	156,572
Investments	4	7,704	735	8,439
		178,642	735	179,377
Current assets				
Land, developments and trading properties		21,235	–	21,235
Trade and other receivables		18,029	–	18,029
Cash and cash equivalents		53,766	–	53,766
		93,030	–	93,030
Current liabilities				
Trade and other payables	3	(16,793)	1,461	(15,332)
Current tax liabilities		(1,060)	–	(1,060)
Net current assets		75,177	1,461	76,638
Total assets less current liabilities		253,819	2,196	256,015
Non-current liabilities				
Borrowings		(82,829)	–	(82,829)
Net assets		**170,990**	**2,196**	**173,186**
Equity				
Share capital		18,334	–	18,334
Share premium account		87,417	–	87,417
Revaluation reserve		22,538	(20,865)	1,673
Other reserves		45,619	64	45,683
Retained earnings		(2,918)	22,997	20,079
Equity attributable to equity shareholders of the parent		**170,990**	**2,196**	**173,186**

Reconciliation of equity

	Notes	31st Dec 2004 £ million	1st Jan 2004 £ million
Total equity UK GAAP		170,990	125,062
Longer amortisation period for lease incentives	2	399	163
Longer amortisation period for lease incentives – adjustment of property value	2	(399)	(163)
Dividend not recognised as liability until declared	3	1,461	1,015
Negative goodwill released at date of transition	4	735	1,335
Total adjustment to equity		2,196	2,350
Total equity IFRS		**173,186**	**127,412**

Notes to the balance sheet and reconciliation of equity

1. As required by IAS 40 'Investment Property', gains and losses arising on revaluation of investment properties are recorded as operating income in the income statement. For the year ended 31st December 2004, this includes gains previously reported in the revaluation reserve of £14,689,000 million on the Group's investment properties.
2. Under SIC 15 'Operating Lease Incentives', investment property lease rent-free periods and other incentives are amortised over the non-cancellable lease term rather than the period to first open market rent review. In addition direct costs of lease negotiations are capitalised and amortised under IAS 17 'Leases'.
3. Under IAS 10 'Events After The Balance Sheet Date', dividends are recognised as liabilities in the period in which they are declared. Accordingly, compared with UK GAAP, equity shareholders' funds have increased, and current liabilities have decreased.
4. Under IFRS 3 'Business Combinations', negative goodwill, being the excess of fair value of net assets acquired over consideration paid, is recognised directly to reserves. The net financial effect is a release of £1,335,000 recognised in retained earnings at the transition date, and a reduction in share of result of associate of £600,000 for the year ended 31st December 2004.

Consolidated income statement

Continuing operations:

		Year ended 31st December 2004		
	Notes	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Revenue	5	23,598	138	23,736
Direct costs	5	(14,236)	88	(14,148)
Gross profit		9,362	226	9,588
Operating costs	6	(8,386)	(64)	(8,450)
Profit on disposal of investment properties		4,057	–	4,057
Net gain on revaluation of property portfolio		–	14,689	14,689
Operating profit		5,033	14,851	19,884
Share of results of associate	4	4,223	(600)	3,623
Income from other fixed asset investments		125	–	125
Profit before interest and taxation		9,381	14,251	23,632
Finance income		2,570	–	2,570
Finance costs		(7,366)	–	(7,366)
Profit before taxation		4,585	14,251	18,836
Taxation		(347)	–	(347)
Profit after taxation attributable to equity shareholders of the parent		**4,238**	**14,251**	**18,489**

Notes to the reconciliation of profit

5. Under IAS 17 'Leases', investment property lease rent-free periods and other incentives are capitalised and amortised over the full lease term rather than the period to first open market rent review.
6. In accordance with IFRS 2 'Share-Based Payments', only share-based transactions after 7th November 2002 that had not vested by 1st January 2005 have been restated, with a resulting reduction in profit before taxation of £64,000 up to 31st December 2004.
Under IFRS, the consolidated cash flow statement reconciles the movements in cash and cash equivalents, whereas in the last audited UK GAAP financial statements it reconciled the movements in cash only. Other than this, there are no material differences in the restated consolidated cash flow statement from that previously published.

Company independent auditors' report

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEVELOPMENT SECURITIES PLC

We have audited the individual Company financial statements of Development Securities PLC for the year ended 31st December 2005 which comprise the balance sheet and the related notes 26 to 35. These individual Company financial statements have been prepared under the accounting policies set out therein.

The Corporate governance statement and the Directors' Remuneration report are included in the Group annual report of Development Securities PLC for the year ended 31st December 2005. We have reported separately on the Group financial statements of Development Securities PLC for the year ended 31st December 2005 and on the information in the Directors' Remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report and the individual Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the individual Company financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the individual Company financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985. We report to you if, in our opinion, the Directors' report is not consistent with the individual Company financial statements. We also report to you if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' Remuneration and other transactions is not disclosed.

We read the Directors' report and the other information contained in the Annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the individual Company financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the individual Company financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the individual Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the individual Company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the individual Company financial statements.

Opinion

In our opinion:

- the individual Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31st December 2005; and

- the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
28th March 2006

Company balance sheet
As at 31st December 2005

	Notes	2005 £'000	2005 £'000	2004 restated* £'000	2004 restated* £'000
Fixed assets					
Other tangible assets	30	**704**		445	
Investments	31	**94,696**		120,093	
			95,400		120,538
Current assets					
Debtors	32	**272,407**		250,289	
Cash at hand in bank		**9,422**		5,251	
		281,829		255,540	
Creditors					
Amounts falling due within one year	33	**(242,254)**		(245,872)	
Net current assets			**39,575**		9,668
Total assets less current liabilities			**134,975**		130,206
Financed by:					
Capital and reserves					
Called up share capital	34		**18,361**		18,334
Share premium reserve	35		**87,635**		87,417
Share based payments reserve	35		**174**		64
Capital redemption reserve	35		**1,431**		1,431
Retained earnings	35		**27,374**		22,960
Total equity shareholders' funds			**134,975**		130,206

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

M H Marx
Director

*refer notes 26 and 34

Notes to the company financial statements
For the year ended 31st December 2005

26. ACCOUNTING POLICIES
a) Basis of accounting
The Company's financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention as modified by the revaluation of certain assets. The accounting policies adopted are consistent with the previous year and are set out below.

b) Subsidiaries, associates and joint ventures
The Company's investments in subsidiaries, associates and joint ventures are accounted for in the financial statements at cost less any provision for impairment.

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

d) Tangible fixed assets
Tangible fixed assets are held at cost less accumulated depreciation and any provision for impairment. Depreciation is provided so as to write off the cost less estimated residual value of such assets over their expected useful lives.
The principal annual rates used for this purpose are as follows:

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

e) Taxation
Current tax, including UK corporation tax and foreign tax where applicable, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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

f) Pension schemes
The Company operates a defined contribution scheme on behalf of the Development Securities PLC group. The charge to the profit and loss account in the period represents the actual amount payable to the scheme in the year. Differences between contributions payable in the year and contributions paid are shown as either accruals or prepayments in the balance sheet.

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

h) Change in accounting policy
The accounts for the year ended 31st December 2004 have been restated for the adoption of FRS 20 'Share based payments' and FRS 21 'Events after the balance sheet date'. The effects of the adoption of these accounting standards are set out in note 35.

27. PROFIT FROM OPERATIONS

	2005 £'000	2004 £'000
The profit from operations is stated after charging:		
Depreciation of property, plant and equipment	**181**	191
Share based payments	**110**	64
Operating leases in respect of land and buildings	**500**	577
Auditors' remuneration – audit	**88**	77

28. EMPLOYEE INFORMATION

Staff costs including Directors:

	2005 £'000	2004 restated £'000
Wages and salaries	**4,785**	3,293
Social security	**592**	407
Pension costs	**401**	328
	5,778	4,028

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

	2005 Number	2004 Number
Property development and investment	**34**	31

29. DIVIDENDS

	2005 £'000	2004 restated £'000
Amounts recognised as distributions to equity holders in the year	**2,244**	1,579
Proposed final dividend for the year ended 31st December	**1,562**	1,467

	Pence	Pence
Interim dividend per share	**2.12**	2.00
Final dividend per share	**4.25**	4.00

The final dividend was approved by the Board on 23rd March 2006 and has not been included as a liability as at 31st December 2005. The final dividend is payable on 6th July 2006 to Ordinary shareholders on the register at the close of business on 9th June 2006.

Notes to the company financial statements continued
For the year ended 31st December 2005

30. TANGIBLE FIXED ASSETS

	Fixtures and fittings £'000	Motor vehicles and other tangible assets £'000	Total £'000
Cost:			
At 1st January 2005	1,037	291	1,328
Additions	420	107	527
Disposals	(724)	(91)	(815)
At 31st December 2005	**733**	**307**	**1,040**
Depreciation:			
At 1st January 2005	799	84	883
Charge for the year	119	62	181
Disposals	(680)	(48)	(728)
At 31st December 2005	**238**	**98**	**336**
Net book value 31st December 2005	**495**	**209**	**704**
Net book value 31st December 2004	238	207	445

31. INVESTMENTS

Company

	Shares in subsidiary undertakings £'000	Interest in associated undertakings £'000	Interest in preference shares of associate £'000	Total interest in associated undertakings £'000	Interest in joint ventures £'000	Total £'000
Cost and share of post-acquisition reserves:						
At 1st January 2005	117,451	337	1,500	1,837	805	120,093
Acquisition of shares	750	236	–	236	–	986
Disposal of shares	(24,496)	(337)	(1,500)	(1,837)	–	(26,333)
Provisions against investment in joint venture	–	–	–	–	(50)	(50)
At 31st December 2005	**93,705**	**236**	**–**	**236**	**755**	**94,696**

Interests in joint ventures include £755,000 (2004: £755,000) invested in the loan stock of Continental Estates Corporation BV, together with a 29 per cent interest in the equity of that company. Continental Estates Corporation BV is incorporated and registered in The Netherlands. The company's principal activity is currently as an investment holding company.

During the year, the Company disposed of its 39 per cent (2004: 39 per cent) investment in the Ordinary share capital and 1,524,126 Preference shares of £1 each in Stead & Simpson Group Limited (2004: 1,524,126 shares), a company incorporated in Great Britain and registered in England and Wales and operating in the United Kingdom as a shoe retailing business.

The principal subsidiaries are set out in note 12(b) of the Group financial statements.

32. DEBTORS

	2005 £'000	2004 £'000
Trade debtors	**54**	32
Amounts owed by subsidiary companies	**269,591**	246,185
Other debtors	**1,459**	3,106
Other taxation recoverable	**635**	464
Deferred tax	**400**	87
Prepayments	**268**	415
	272,407	250,289

Trade debtors include loans, accrued interest and preference share redemption premium of £nil (2004: £2,617,000), due from Stead & Simpson Group Limited, which were received during the year.

Deferred tax assets arising from the Company's trading and capital losses are recognised on the basis that there will be sufficient future profits to utilise such losses.

33. CREDITORS: amounts falling due within one year

	2005 £'000	2004 restated £'000
Bank loans and overdrafts	**16**	16
Trade creditors	**–**	9
Amounts owed to subsidiary undertakings	**221,664**	225,978
Other creditors	**15,958**	16,324
Corporation tax	**1,685**	1,685
Other tax and social security	**511**	447
Accruals and deferred income	**2,420**	1,413
	242,254	245,872

34. SHARE CAPITAL

	2005 £'000	2004 restated £'000
Authorised:		
50,000,000 Ordinary shares of 50 pence (2004: 50,000,000 Ordinary shares of 50 pence)	**25,000**	25,000
Issued, called up and fully paid:		
36,722,286 Ordinary shares of 50 pence (2004: 36,667,308 Ordinary shares of 50 pence)	**18,361**	18,334

	Number of shares
Shares in issue at the date of this report	**36,733,336**

During the year, £163,577 cash consideration was also received following the allotment of 54,978 Ordinary shares as a consequence of the exercise of share options.

The Company has one class of Ordinary shares which have no right to fixed income.

Share option schemes

As at 31st December 2005 and at the date of this Report the options outstanding under the Company's share option schemes were exercisable as follows (price stated in pence per share):

Executive share option scheme 1995:

Date of grant	Number 31.12.05	Number 28.03.06	Exercise Dates	Price
6th June 1996	30,284	30,284	6th June 1999 to 5th June 2006	189.0
19th May 1997	20,189	20,189	19th May 2000 to 18th May 2007	248.0
21st May 1998	30,284	30,284	21st May 2001 to 20th May 2008	325.5
26th May 1998	216,431	216,431	26th May 2001 to 25th May 2008	323.5
27th March 2001	59,207	59,207	27th March 2004 to 26th March 2011	338.0
30th April 2001	78,239	68,145	30th April 2004 to 29th April 2011	397.0
19th April 2004	66,979	66,979	19th April 2007 to 18th April 2014	360.0
30th April 2004	151,424	151,424	30th April 2007 to 29th April 2014	361.0
9th November 2004	50,000	50,000	9th November 2007 to 8th November 2014	392.5
	703,037	692,943		

Notes to the company financial statements continued
For the year ended 31st December 2005

34. SHARE CAPITAL continued
Executive share option plan 2005:

Date of grant	Number 31.12.05	Number 28.03.06	Exercise Dates	Price
9th November 2005	40,000	40,000	9th November 2008 to 8th November 2015	445.75

Savings related share option scheme 1995:

Date of grant	Number 31.12.05	Number 28.03.06	Exercise Dates	Price
20th May 2004	36,085	32,824	1st July 2007 to 31st December 2007	289.0

The details regarding share options granted, exercised and expired during the financial year are set out in note 18 on page 52.

35. RESERVES

	Share premium £'000	Share based payments £'000	Capital redemption reserve £'000
At 1st January 2005	87,417	–	1,431
Impact of FRS 20 (refer note 26)	–	64	–
At 1st January 2005 – restated	87,417	64	1,431
Net proceeds of issue of new shares	134	–	–
VAT recovered on share issue costs	84	–	–
Share based payments cost	–	110	–
At 31st December 2005	**87,635**	**174**	**1,431**

	Retained earnings £'000
As previously reported	21,557
Impact of FRS 20 (refer note 26)	(64)
Impact of FRS 21 (refer note 26)	1,467
As at 1st January 2005 – restated	22,960
Retained profit for the year	4,414
As at 31st December 2005	**27,374**

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented. The profit after tax of the Company was £6,662,000 (2004: £2,018,000).

Remuneration report

The Remuneration Committee, as constituted by the Board, is responsible for the determination of the remuneration policy for the Development Securities' Executive Directors and for ensuring that the remuneration of senior executives and other employees is consistent with the Company's remuneration philosophy. The Committee, which met three times during the year, comprises W Grant as Chairman, V M Mitchell and M S Soames, all of whom served throughout the year. All three members of the Committee are considered independent Non-executive Directors of the Company. No member has any personal financial interest in the matters to be decided.

The Committee's principal role is to determine the total remuneration of the Executive Directors and to ensure that senior management remuneration is consistent with corporate policy. Apart from the support of the Executive Director, M H Marx and the Company Secretary, S A Lanes, the Committee sought professional advice from external consultants Towers Perrin and legal support from Linklaters. Towers Perrin, who currently do no other work for the Group, were appointed by the Remuneration Committee. Linklaters are also the Group's principal legal advisor.

During the year, the Committee carried out a thorough review of all elements of the remuneration package, assisted by the Committee's professional advisors. Where changes to previous practice have been determined, then these are specifically referred to in the relevant section under Executive Remuneration Policy below. The emphasis following this review is to provide a balanced remuneration package for both Executive Directors and senior executives, requiring attention to both short and long-term performance.

This report sets out the Committee's existing policy and disclosures on Executive Directors' and senior executives' pay and also outlines the several incentive plans and option schemes in operation by the Company. The Company has complied throughout the period with The FRC Combined Code on Corporate Governance July 2003 in relation to Directors' remuneration. In addition, the report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002. As part of the Regulation requirements, sections 2 and 3 of this report have been audited.

1. EXECUTIVE REMUNERATION POLICY

The objective of the Development Securities' remuneration policy is to ensure that Executive Directors and senior executives are rewarded in a way that attracts, retains, motivates and rewards management of the highest quality. The long-term incentive plan, proposed to be replaced by the Development Securities PLC Performance Share Plan 2006, together with the various option schemes are designed to encourage Executive Directors and senior executives to align their long-term career aspirations with the long-term interests of the Group, promoting both individual and corporate achievements against performance criteria. They are also designed to ensure a significant proportion of the total remuneration package is performance related, thereby correlating with the interests of shareholders through either the attainment of net asset value per share growth or total shareholder return.

a) Salary

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

b) Annual bonus

The non-pensionable annual bonus is based on the performance of the Company during the year, team achievements and the specific contribution of the individuals concerned. The maximum amount which any individual could previously be awarded was normally limited to 75 per cent of salary (at the rate payable at the time the award was granted) for Executive Directors, 50 per cent for executives and 25 per cent for other staff. In addition to the annual bonus, unless a special discretionary bonus was awarded, a similar amount to the annual bonus formed the basis of the award under the long-term incentive plan described in (e) overleaf.

In future, save for M H Marx, Executive Directors will be set a target bonus of 37.5 per cent of salary and an above target maximum of 75 per cent. As M H Marx would not normally qualify for the special discretionary bonus described below, his target bonus will be 75 per cent of salary, with a maximum of 150 per cent. The annual bonus in respect of the Executive Directors will be determined by the three main drivers for the creation of shareholder value in our business; namely, accurate reading of the economic and market cycles in which we operate, the pipeline of future development projects and the maintenance of the standards of excellence that are embedded within the Company's corporate culture.

c) Special discretionary bonus

The Remuneration Committee reserves the right to award special discretionary bonuses to Executive Directors and other executives who have been instrumental in securing development opportunities for the Company.

Formerly, such bonuses have been awarded on projects where the first phase was likely to produce profits in excess of £2.0 million and the return on the Group's equity employed in the scheme exceeded 20 per cent. No more than 10 per cent of the profits of the transaction would have been awarded in total and no individual would have received more than 5 per cent of such profit. When any particular development project became unconditional, the Remuneration Committee would determine which individuals should receive special discretionary bonuses and the amount of the award. In recognition of the efforts required to secure such transactions, normally 20 per cent of the special discretionary bonus would have been paid on account to the specified individuals, with the balance of the bonus being dependent upon the amount of profit actually realised, being paid when the project was completed.

Remuneration report continued

In awarding annual and special discretionary bonuses there was no "double-counting". The contribution of any team and individual performance, which leads to a special discretionary bonus being awarded, was disregarded in assessing the annual bonus, but was not disregarded in making an award under the long-term incentive plan as described in (e) overleaf.

Following review by the Remuneration Committee, it has been agreed that in future the plan should largely remain unaltered. However, the return on equity criteria for assessing whether a bonus should be awarded on a particular project is to be removed and the constraint that an individual may receive no more than 5 per cent of such profit is also extinguished. On the other hand, the on account payment of 20 per cent of the bonus being paid upon the transaction becoming unconditional is withdrawn, with the full bonus being paid only once the profit is actually realised. The special discretionary bonus is to be retitled the Development Profit Plan.

No special discretionary bonuses were awarded or payments made during the year.

In addition to awarding special discretionary bonuses in securing development opportunities, the Remuneration Committee retains the discretion to award bonuses to Executive Directors and other executives at any time for making an exceptional contribution towards the Company. Such awards will not be applied in securing any corporate acquisitions.

For his role in achieving a successful turnaround at footwear retailer Stead & Simpson Group Limited ('Steads'), securing an increased shareholding and the eventual sale of Development Securities' interest in Steads, M H Marx has been awarded a bonus of £850,000.

M H Marx first became involved with Steads in 1995 when they were in significant financial difficulties and the Company, as guarantor of Steads' obligations under certain of its leases, faced a significant financial exposure. Following a review of Steads business, M H Marx recommended that the Company inject £1,500,000 in return for a 19 per cent equity stake. Over the next three years, trading continued to suffer such that the Company and its fellow outside shareholder, Apax Ventures, provided additional support.

After assisting in the selection and appointment of the new management team in 1997, M H Marx provided active support to management in the difficult task of arranging new lines of finance for Steads. This brought a period of stability, enabling Steads to not only improve its market position but also to expand by way of certain acquisitions in which M H Marx was also actively involved. This strategy enabled Steads to return to profitability. In November 2003, Apax Ventures sold its holding to Development Securities. M H Marx recommended that the Company increase its shareholding by a further 20 per cent at a cost of £212,000. In 2005, M H Marx played an active role in the sale of Steads which was completed in December 2005. The Group's shareholding realised £13,000,000 and the repayment of all outstanding loans.

None of the above were considered part of M H Marx's normal day-to-day duties.

d) Discretionary bonus plan for senior investment professionals
The Remuneration Committee reserves the right to award bonuses under the discretionary bonus plan for senior investment professionals. 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 Investment Property Databank 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 amount of the bonus previously represented 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. One half of the award would be remitted following the end of the financial year when the award is then determined, with the remainder remitted two years thereafter, provided that during the intervening period the total investment portfolio return exceeds a specified proportion of the index.

The bonus award to M S Weiner for the 2005 financial year was £422,520, of which one-half has been deferred. The amount deferred from 2003 has satisfied the additional condition, giving rise to a further remittance of £168,795. The amount deferred from 2004 of £160,622 will be retested next year.

Following review, it has been agreed by the Remuneration Committee for the total initial award for any financial year to represent 5 per cent of the value determined, but with an equal amount subject to a separate performance condition after the two-year deferral period. The reason for this doubling of the award is to include in future awards not only M S Weiner but also members of his team of senior investment executives. Shareholder approval will be sought for this plan, now entitled the Development Securities PLC Investment Growth Plan 2006, at this year's Annual General Meeting. The principal terms are summarised in the Appendix to the Notice of Annual General Meeting.

e) Long-term incentive plan

The long-term incentive plan was approved by shareholders at an Extraordinary General Meeting of the Company on 15th December 1999. The Plan which first became operative in respect of the financial year ended 31st December 2000, permits the Remuneration Committee to award performance-related deferred bonuses. The deferred bonuses will vest over a three-year period and, unless a special discretionary bonus is awarded, the maximum amount which can be awarded to any individual is twice the amount of the annual bonus referred to in (b) above. The award will be paid in cash all of which will be used to buy shares in the Company, except where participants are subject to tax and social security in respect of the award, they will, to that extent receive cash only. At the end of each year, the Group's net asset value per share will be calculated. If the increase in the Group's net asset value per share is at least equal to that of the median of a group of 19 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. The 19 listed property companies comprised: Ashtenne Holdings PLC, The British Land Company PLC, Brixton PLC, CLS Holdings PLC, Capital & Regional PLC, Daejan Holdings PLC, Derwent Valley Holdings PLC, Great Portland Estates PLC, Hammerson PLC, Helical Bar PLC, Land Securities Group PLC, Liberty International PLC, London Merchant Securities PLC, McKay Securities PLC, Pillar Property PLC, Quintain Estates and Development PLC, Rugby Estates PLC, Slough Estates PLC and Warner Estate Holdings PLC. Furthermore, there will be an underpin that the increase in the Group's net asset value per share must also have at least equalled the increase in the retail price index plus 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. Remittance of the vestings are subject to the Rules of the Scheme, normally once the full three years of vesting have been determined by the Remuneration Committee, following which the deferred bonus is then capable of exercise during the period of 42 days from the announcement of the Company's results.

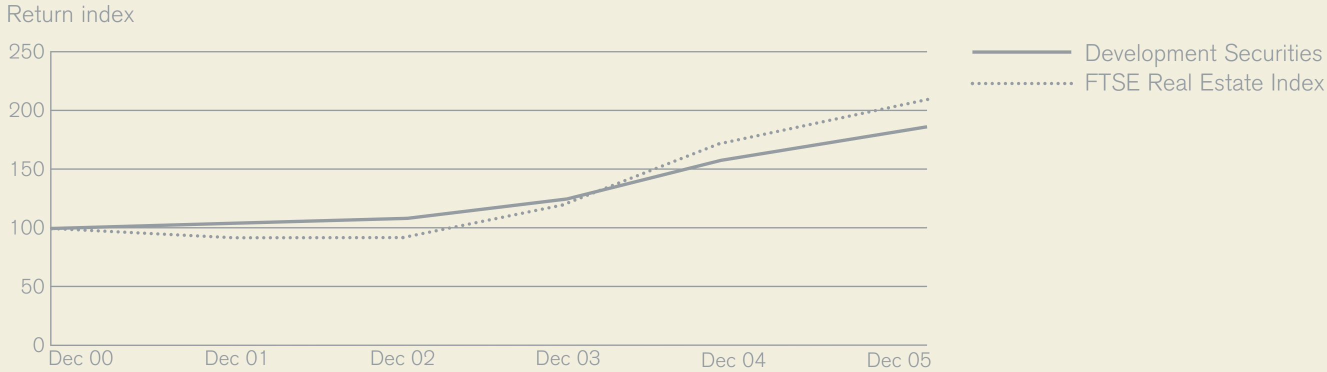
On 29th April 2005, a deferred bonus under the long-term incentive plan was granted to the Executive Directors and 29 members of staff with a maximum award of £1,298,000 in total, including £220,000 each in respect of C J Barwick and M H Marx and £150,000 each to P J Willis and to M S Weiner. Deferred bonuses representing £50,500 of the total maximum award have subsequently lapsed.

Development Securities PLC ranked nineteenth 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 8th May 2002, the second vesting of the deferred bonus granted on 7th May 2003 and first vesting of the deferred bonus granted on 30th April 2004. The value of each of these vestings was £nil.

The deferred bonus award granted on 8th May 2002 matured during the year and was exercised by all the participants. The total award was £389,100, including £101,250, each in respect of C J Barwick and M H Marx and £30,000 for M S Weiner. Following deduction for tax and social security, the balance was used to acquire 46,715 shares in the Company in the market, including 12,269 shares to M H Marx, 12,513 to C J Barwick and 3,707 to M S Weiner. The deferred bonus awards granted on 7th May 2003 and 30th April 2004 both have a total vesting to date of £nil.

The long-term incentive plan as described above is considered by the Remuneration Committee to be complicated and unmotivational. Accordingly shareholder approval is sought for the Development Securities PLC Performance Share Plan 2006 as a replacement, which if approved, will result in no further awards under the current long-term incentive plan. The principal terms of the new plan are summarised in the Appendix to the Notice of Annual General Meeting.

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



Remuneration report continued

f) Option scheme 1993
The option scheme 1993 is a share-based bonus scheme approved by shareholders in that year. It allows individuals to benefit from movements in the price of the Company's shares over the period between the third and tenth year following grant. The Directors may at the date of grant limit the aggregate notional bonus which may become payable.

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

g) Share option schemes
The Executive Share Option Scheme 1995 was approved by shareholders in that year. This was replaced by the Executive Share Option Plan 2005 which was approved by the shareholders at the 2005 Annual General Meeting on 12th May 2005. The options under the Executive Share Option Scheme 1995 were granted on the basis that they may only be exercised if a performance condition is satisfied.

Options over 40,000 shares were granted on 27th October 2005 to M S Weiner at 445.75 pence per share under the Executive Share Option Plan 2005. The performance condition is to measure the average net asset growth of the Company over three consecutive financial years against the growth in the Investment Property Databank Index (All Property). The options will vest on a sliding scale with 50 per cent if average net asset growth is at least equal to that of the Index, 100 per cent if in excess of the Index by 4 per cent per annum and pro rata vesting in-between. The performance condition will not be retested after the end of the performance period. The performance condition is considered appropriate as the Index measures against the Company's added value.

It is intended that M S Weiner be granted a further 40,000 options under the Executive Share Plan 2005, within six weeks of the release of the Company's 2005 preliminary results to bring the total number of options granted to him into line with the other Executive Directors. Thereafter, it is the intention of the Remuneration Committee that no further grants be made to Executive Directors except under exceptional circumstances, for example a new appointment or an acute retention requirement. Grants to executives may continue in the future as appropriate.

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

h) Savings related option scheme
The grant made on 22nd October 2002 under the Savings Related Option Plan 1995 at an option price of 267.5 pence per share matured on 1st December 2005, resulting in 41,505 shares being allotted, following exercise by 19 members of staff, including 3,532 shares in favour of C J Barwick and 2,472 shares for M S Weiner. The Savings Related Option Plan 1995 was replaced by the Save As You Earn Option Plan 2005 at the 2005 Annual General Meeting held on 12th May 2005, following the expiry of the earlier scheme's 10-year life.

i) Directors' contracts
The contracts of employment in relation to M H Marx dated 24th June 1994, of C J Barwick dated 12th May 1998, P J Willis dated 15th March 2004 and M S Weiner dated 17th March 2004 may all be terminated upon 12 months' notice by either party. The contracts do not specify an expiry date. Severance payments are based upon the service contract terms, 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 sections described above, subject to the rules of the individual schemes and plans. R M Dantzic, P V S Manduca, V M Mitchell and M S Soames serve for fixed terms expiring at the date of the Annual General Meetings to be held in 2007, 2008, 2006 and 2006 respectively. R M Dantzic's letter of appointment may be terminated with 12 months' notice by either party and those for P V S Manduca, V M Mitchell and M S Soames may be terminated with six months' notice by either party. W Grant will be standing down at the 2006 Annual General Meeting which coincides with the end of his fixed term.

A consultancy service agreement has been executed with Executive Services Overseas Inc for the provision by M R Landau, a former Director of services on a non-exclusive basis for the period 1st January 2003 to 31st December 2005 on a number of specific potential development projects. A fee of £20,000 per annum was payable, together with in broad terms 10 per cent of the development profits on completed projects, with a deduction of £675,000 from any profit entitlement in respect of future development at Broughton Park, near Chester. The agreement has been extended for a further period to 31st December 2006, but removing the annual fee commitment.

The fees of the Non-executive Directors are determined by the Board within the aggregate limit set by the Articles of Association. No Director participates in any discussion about their own particular remuneration. The fee levels have not been reviewed during the year and remain at £50,000 per annum for the Chairman; £25,000 per annum for each of the Non-executive Directors and £7,500 per annum to W Grant for Chairmanship of the Remuneration Committee.

Executive Directors may accept appointment to an external Non-executive Directorship to gain experience, provided this does not create any conflict of interest and for which they may retain any attributable fees. The only Executive Directors to have received any external Non-executive Directorship fees during the year were M H Marx, who received £10,600 from FIBI Bank (UK) PLC and C J Barwick, who received £3,500 from London & Continental Railways Limited.

j) Retirement benefits

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

k) Executive Directors' shareholding requirement

During 2003, it was determined that Executive Directors should align themselves with shareholders' interests, with any new Executive Director obliged to establish a beneficial shareholding to the value of one-half of their basic salary within two years of appointment, rising to an amount equivalent to basic salary after four years. M H Marx and C J Barwick, the two Executive Directors then in position at the time of resolution, were required to secure and maintain a beneficial shareholding to an amount equivalent to basic salary by 1st April 2006. Both Directors have met this objective. The Remuneration Committee retains the discretion to reduce this requirement in the event of corporate or personal constraints.

2. DIRECTORS' EMOLUMENTS (AUDITED)

The total Directors' remuneration was as follows:

	2005 £'000	2004 £'000
Emoluments	**2,827**	1,593
Long-term incentive plan	**232**	382
Company contributions to money purchase pension schemes	**167**	128
Gain on exercise of share options	**13**	223
	3,239	2,326

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

	Salaries and Fees £'000	Bonus £'000	Benefits in kind £'000	**Total 2005 £'000**	Total 2004 £'000	**Long-term incentive plan 2005 £'000**	Long-term incentive plan 2004 £'000	**Pension Contributions 2005 £'000**	Pension Contributions 2004 £'000
Chairman:									
R M Dantzic	50	–	–	**50**	50	**–**	–	**–**	–
Executive Directors:									
M H Marx									
(highest paid Director)	280	950	18	**1,248**	367	**101**	191	**53**	39
C J Barwick	250	100	17	**367**	367	**101**	191	**42**	40
P J Willis	250	100	20	**370**	250	**–**	–	**39**	28
M S Weiner	190	480	15	**685**	452	**30**	–	**33**	21
Non-executive Directors:									
W Grant	32	–	–	**32**	32	**–**	–	**–**	–
P V S Manduca	25	–	–	**25**	25	**–**	–	**–**	–
M S Soames	25	–	–	**25**	25	**–**	–	**–**	–
V M Mitchell	25	–	–	**25**	25	**–**	–	**–**	–
	1,127	1,630	70	**2,827**	1,593	**232**	382	**167**	128

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

Remuneration report continued

3. DIRECTORS' SHARE INTERESTS (AUDITED)

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

Ordinary Shares	2005 Number	2004 Number
R M Dantzic	**5,739**	5,739
M H Marx	**277,895**	265,626
C J Barwick	**69,643**	53,598
P J Willis	**4,635**	4,635
M S Weiner	**6,179**	–
W Grant	**5,739**	5,739
V M Mitchell	**1,549**	1,549
M S Soames	**5,739**	5,739
	377,118	342,625

Options:

	1st January 2005 Number	Granted	Exercised	31st December 2005 Number	Exercise price Pence	Market price at exercise Pence	Gain on exercise £'000	Date from which exercisable	Expiry date
M H Marx									
Savings related scheme	3,261	–	–	3,261	289.0	–	–	01/07/07	31/12/07
C J Barwick									
Executive option scheme 1995	216,431	–	–	216,431	323.5	–	–	26/05/01	25/05/08
Savings related scheme	3,532	–	3,532	–	267.5	480.0	8	01/12/05	31/05/06
P J Willis									
Executive option scheme 1995	151,424	–	–	151,424	361.0	–	–	30/04/07	29/04/14
Executive option scheme 1995	50,000	–	–	50,000	392.5	–	–	09/11/07	08/11/14
M S Weiner									
Executive option scheme 1995	59,207	–	–	59,207	338.0	–	–	27/03/04	26/03/11
Savings related scheme	2,472	–	2,472	–	267.5	473.5	5	01/12/05	31/05/06
Executive option scheme 1995	66,979	–	–	66,979	360.0	–	–	19/04/07	18/04/14
Savings related scheme	978	–	–	978	289.0	–	–	01/07/07	31/12/07
Executive option scheme 2005	–	40,000	–	40,000	445.75	–	–	27/10/08	26/10/15
							13		

Long-term Incentive Plan:

	Date of grant	1st January 2005 maximum award £'000	Awarded during year maximum award £'000	Exercised during year maximum award £'000	31st December 2005 maximum award £'000	Vested during year £'000	Vested to date £'000	Final vesting date
M H Marx	08.05.02	337	–	337	–	–	101	31.12.04
	07.05.03	345	–	–	345	–	–	31.12.05
	30.04.04	180	–	–	180	–	–	31.12.06
	29.04.05	–	220	–	220	–	–	31.12.07
C J Barwick	08.05.02	337	–	337	–	–	101	31.12.04
	07.05.03	345	–	–	345	–	–	31.12.05
	30.04.04	180	–	–	180	–	–	31.12.06
	29.04.05	–	220	–	220	–	–	31.12.07
P J Willis	29.04.05	–	150	–	150	–	–	31.12.07
M S Weiner	08.05.02	100	–	100	–	–	30	31.12.04
	07.05.03	120	–	–	120	–	–	31.12.05
	30.04.04	120	–	–	120	–	–	31.12.06
	29.04.05	–	150	–	150	–	–	31.12.07
							232	

a) The final vesting dates represent the dates at which the Group's net assets are compared against the 19 listed property companies as outlined in section 1(e). In practice, however, it is several months thereafter that the relevant annual report and accounts are published, in order that the final vesting can be determined.

b) None of the Directors had a beneficial interest in the shares of any subsidiary company.

c) The mid-market price of the shares as at 31st December 2005 was 498.5 pence and the range during 2005 was 431 pence to 558 pence.

d) No options lapsed or were exercised during the year, except as disclosed above.

On 9th January 2006, P J Willis acquired a further 7,280 shares in the Company, taking his total holding to 11,915 shares. With this exception, there were no transactions between 31st December 2005 and the date of this report.

Approved by the Board and signed on its behalf by:

W Grant
Chairman of the Remuneration Committee
28th March 2006

Financial calendar and advisors

FINANCIAL CALENDAR

Annual General Meeting	11th May 2006
Payment of Ordinary Dividend	6th July 2006
Announcement of Interim Results to 30th June 2006	September 2006

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Development Securities PLC is incorporated in Great Britain and registered in England and Wales.

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Chartered Accountants

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HSBC Property Finance
Bank of Scotland
Norwich Union Mortgage Finance Limited

CORPORATE SOLICITORS
Linklaters

FINANCIAL ADVISOR AND CORPORATE STOCKBROKER
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