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# Development Securities PLC

## Interim Report 2007

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Developing risk averse strategies for property



DEVELOPMENT  
SECURITIES PLC

Development Securities PLC is a property development and investment company. Its principal objective is to carry out substantial, complex developments in a risk-averse manner with a view to adding maximum value for its shareholders.

### Financial highlights

unaudited for the six months ended 30th June 2007

	30th June 2007 unaudited £ million	30th June 2006 unaudited £ million	31st Dec 2006 audited £ million
Profit before taxation	0.5	8.4	22.8
Net assets	231.7	191.3	231.4
Net borrowings*	(53.5)	(29.2)	(14.4)
Earnings per share (pence)	3.2	14.2	63.4
Net assets per share* (pence)	566	521	568
Dividends per share declared* (pence)	2.40	2.25	6.75

\* Refer note 7(a) and 11. Excluding cash pledged in respect of specific development funding, net borrowings as at 30th June 2007 were £92.6 million.

\* Refer note 11.

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# Chairman's statement

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Profit before taxation for the first six months of 2007 amounted to £0.5 million. This represents a reduction of £7.9 million from the £8.4 million profit achieved on a comparable basis in the same period of 2006, primarily due to a lower level of revaluation surplus in the current year.

Shareholder equity rose to £231.7 million, equivalent to 566 pence per share from £231.4 million or 568 pence per share at 31st December 2006.

The reduction in earnings compared to the previous financial year reflects the significant slow down in total returns achieved in the investment property market. As we presaged in our 2006 Annual Report earlier this year, the momentum of the investment market proved unsustainable. However, we continue to believe that attractive returns are available in the property development business. The emphasis of our earnings profile in the next few years will undoubtedly shift from investment returns to gains generated from our active development programme.

Our Balance sheet at 30th June 2007 continues to reflect our near record level of shareholders' funds, with net borrowings (refer note 7(a) and 11) of £53.5 million, reflecting a net gearing of 23 per cent compared to six per cent at 31st December 2006. Accordingly, your Board has declared a dividend of 2.40 pence per share or nearly seven per cent over the equivalent dividend paid in 2006, to be paid on 26th October 2007 to shareholders on the register on 28th September 2007.

Even with the current global credit market difficulties, there has been an overall upward movement in interest rates in 2007, both at the short and long end of the curve. Notwithstanding these fluctuations and the current uncertainties concerning global banking and money market liquidity, we are cautiously optimistic that the underlying fundamentals remain intact for further development activity within the current property cycle. Good progress is being made within our own existing development pipeline, but we nevertheless remain selective before committing further shareholder funds into new projects.

## **DEVELOPMENT**

### **PaddingtonCentral**

We remain on course for practical completion of One Kingdom Street in the first quarter of 2008. This phase, green lighted by our developments partners Morley Fund Management and Union Investments in April 2006, consists of a 252,000 sq. ft. office building and a 206-room Accor hotel. Even at this early stage, the letting programme is gathering momentum, reflecting the significant improvement of this location as well as the shortage of high quality, large floor plate buildings elsewhere in the West End market. 73,000 sq. ft. of office space is now the subject of an agreement to lease with Misys PLC on terms which indicate that the balance of the building will be let at rents at or exceeding £55 per sq. ft. On 3rd August 2007, we obtained planning permission for the next phase, Two Kingdom Street, an office building of some 250,000 sq. ft. net. It is scheduled for completion at the end of 2009, with a start on site anticipated early next year.

We continue to believe that attractive returns are available in the property development business, with good progress being made within our development pipeline.

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#### **Colindale, London NW**

On 14th June, we obtained planning permission for our mixed-use scheme including 300,000 sq. ft. of gross retail space and 340,000 sq. ft. of private and affordable housing, together with a new 80,000 sq. ft. primary school. We are pleased to report that, in response to unsolicited strong demand for consented development sites, we have contracted to sell our interest in the site to a privately owned property company. Upon completion of this disposal in November 2007, we anticipate a net gain in excess of £16 million. Whilst our original commitment and plans were to redevelop the site ourselves over the next few years, it was, in our view, undoubtedly in our shareholders' interests to realise the significant added value component that we have achieved to date and recycle the equity released into our growing development programme.

#### **CityPark, Manchester**

This mixed-use site benefits from a planning consent for a 250-room hotel and a 147,000 sq. ft. office building. The hotel element of the site was sold in June this year. Conditional on the imminent expiry of the judicial review process, the office component has been forward sold to a private investor for part owner-occupation. Commencement of this development is expected within the next few months with practical completion scheduled for mid-2009. We anticipate the generation of a profit from the development of £6 million overall.

#### **Curzon Park, Birmingham**

In August, an outline planning application for this proposed 1.4 million sq. ft. mixed-use project was submitted jointly by ourselves and Grainger PLC. This £350 million scheme will comprise approximately 800,000 sq. ft. of offices, 400,000 sq. ft. of residential accommodation and a 180-bed hotel.

#### **Hammersmith Grove, London W6**

Earlier this month, we announced the exchange of contracts with London Underground Limited for the acquisition of this 1.5-acre site, located next to the Hammersmith and City Line underground station. The acquisition is subject to planning and an application has been submitted for a 360,000 sq. ft. office-led, mixed-use scheme which will have an estimated end value of circa £250 million. Construction is anticipated to commence early next year, with completion in the second quarter of 2010. Our joint funding partners, taking the majority of the equity commitment, are The Royal London Mutual Assurance Society Limited and The National Bank of Dubai. We believe the timing is appropriate for a speculative office development in the heart of Hammersmith where we shall deliver West End quality accommodation to occupiers seeking a prestige location in the west of London.

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# Chairman's statement

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### **Cambourne Business Park**

Discussions are continuing with the institutional market for the forward-funding of the next 50,000 sq. ft. phase on this 750,000 sq. ft. business park development located nine miles from Cambridge.

### **Broughton**

We are pleased to advise that an Inspector has been appointed to undertake the final stages of review before the emerging Unitary Development Plan (UDP) can be confirmed. In October last year, the Local Authority ratified the status of our 19-acre site as allocated for residential purposes in the emerging UDP and adoption of our site in the Plan is anticipated in 2008.

Planning consent in respect of the 171,000 sq. ft. extension to the existing Broughton Retail Park was issued in March this year, following Flintshire County Council's approval of the Resolution to Grant planning in April 2006. Discussions with our potential joint venture partner, British Land PLC, the owner of the majority of the land required for this retail scheme, have not progressed this year whilst they consider a number of related issues. In order to retain our options and flexibility in the event that this extension to the existing retail park does not proceed, we are preparing two separate planning applications in respect of land directly within our ownership for the provision of 80,000 sq. ft. of retail accommodation and related car parking.

We have already acquired the land necessary to construct the road interchange that will provide enhanced access to the expanded retail facilities and also the 10 acres of land required to construct a reservation for the existing, protected local population of greater crested newts.

### **Hartfield Road, Wimbledon, London**

The recently submitted planning application made by ourselves and our joint venture partner Foinavon Limited was refused by the Local Authority largely in respect of the height and bulk of our proposed scheme. We plan shortly to submit fresh proposals to accommodate these concerns.

### **West Quay, Southampton**

In March, we contracted with Lime Property Fund Limited Partnership to fund the site acquisition and development of the new 150,000 sq. ft. office headquarters for Carnival PLC at West Quay III, Southampton. Upon completion, the letting to Carnival PLC will be for a term of 20 years. Practical completion of this £75 million project is scheduled for the end of 2008. Negotiations are ongoing to acquire the adjacent site with regard to a potential second phase of similar size.

### **Luneside, Lancaster**

Following a Compulsory Purchase Order, the Local Authority now has full control of this 17.5-acre urban regeneration project. Land remediation is scheduled to

commence in the second half of this year. The development will comprise a minimum of 350 new homes, 90,000 sq. ft. of new offices and a hotel. Negotiations are now in hand with regard to the selection of our preferred residential development partner.

#### **The Royals Business Park**

In July this year, Building 1000, the 252,000 sq. ft. initial phase, owned by our development partner Standard Life Investments, was sold to the London Borough of Newham for £75 million. This disposal opens the way for the development of further phases and we are presently in discussion with the London Development Agency to review the current masterplan so that a genuinely mixed-use scheme can be adopted for the remainder of this 52-acre site. Currently, the Royals Business Park has outline planning consent permitting the development of 1.6 million sq. ft. of office accommodation.

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

In June this year, we received planning consent to provide 55,000 sq. ft. of offices and leisure accommodation. This, the only development in the City of London with which we are currently involved, is a speculative scheme and is entirely funded by the Luxembourg-based fund, Sireo Immobilien Fonds. Construction work is expected to commence shortly, with completion scheduled for the end of 2009.

#### **Kirkby**

In April, the Company acquired this town centre retail asset for a cost in excess of £60 million. Clearly, this acquisition was the significant factor in the recent increase to 23 per cent in our level of net gearing. We believe this asset will allow us to implement our full range of asset management and development skills. In the short term, we are working to improve tenant mix and rental levels. In the medium term, the asset has significant development potential and we are working with the Local Authority, and our professional team to maximise the role that our asset can play in the sustainable regeneration of the town centre.

#### **INVESTMENT**

The reappraisal of risk in investment markets has featured notably so far this year. Quite justifiably, the real estate market has not avoided this re-evaluation and there is now clear evidence that the remarkable growth in capital values achieved over the last five years has left all but the very best of assets at pricing levels that did not reflect their specific inherent risks.

The first half of the year has seen falling capital values for those assets which cannot demonstrate real growth. Since property assets are sensitive to interest rate fluctuations, it is not easy to predict with certainty how far values may fall, given current stresses in the capital markets. Whilst a hard landing cannot be ruled out, a

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# Chairman's statement

## continued

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more moderate decline seems likely at least while there remains uninvested money awaiting value readjustments. Now more than ever, stock selection, sector rotation and the successful implementation of asset management initiatives will be the key drivers to increasing values and delivering shareholder returns.

In this context, the investment property revaluation review at June 2007 generated a satisfactory gain of £2.8 million or 2.0 per cent. Given that we hold a significant proportion of our portfolio in the retail sector and not in the highly performing Central London office sector, this is a creditable performance. By comparison, the All Property IPD capital return for the first six months of 2007 was 1.9 per cent and 0.6 per cent for the retail sector.

Activity on the transactional side was muted whilst we assessed the impact of changing sentiment towards the property sector. The majority of the Company's remaining secondary assets were sold during the last few years and therefore we are relatively sanguine regarding this increased uncertainty. This is reflected in the half-year valuations where there were limited and specific write downs against an overall tone of rising values.

We have remained focused on implementing asset management initiatives at our Shopping Centre assets including the continued acquisition of adjoining land holdings to facilitate further growth in size and quality. At Thatcham, we obtained planning consent for an extension to the scheme on land acquired over the course of the last two years and we are now preparing our detailed development plans.

At Ringwood, the premier asset in the portfolio, we hope shortly to complete the letting of a unit at yet another sizeable step-up in rental levels. In the current retail climate, to have received firm expressions of interest in the unit from more than 10 retailers, demonstrates the success of this scheme. Further added value should ensue from the next phase of development at Ringwood, for which a planning application has now been made. With negotiations in hand for possible pre-lets, a start on site should be expected next year.

### **Joint ventures**

We continue to expand our joint venture relationships, and over the course of the first half of the year have made substantial progress both in terms of new relationships and progress on existing projects.

In mid-2007, we entered into a £15 million revolving five-year funding agreement with Fiducia Group PLC. Trading through its two main subsidiaries, Henry Davidson Developments Limited and Eden Park Developments Limited, this group is a leading developer of neighbourhood shopping parades. It has an extensive pipeline of projects derived from a close relationship with major house building companies and Local Authorities. We look forward to an active and profitable relationship with this rapidly growing business in a sector of the market with which we have traditionally not been so closely involved.

Good progress so far this year has been made at all of our joint ventures. At Winchester, we completed the land assembly and obtained detailed planning for a mixed-use scheme anchored by a food store; at Crawley, we obtained planning consent for a 312-unit residential scheme; at Wells, we have now been selected as the preferred developer, of a retail scheme, by the Local Authority; and finally, Staines, where planning consent for a 300,000 sq. ft. office building was obtained and the site subsequently sold in July this year.

## **MANAGEMENT**

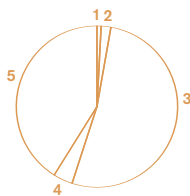
In March 2007, Paul Willis retired as an Executive Director, due to family reasons. An Executive Director for three years, having been previously a Non-executive Director of your company for a seven-year period to 2002, we much regret his retirement and wish him well for the future. In September 2007, we welcomed Paul Redstone to Development Securities as Head of Retail, a senior management appointment. Paul, having spent the last 10 years with CBRE/Hillier Parker, will be bringing to bear a wealth of experience in the retail investment and development arena.

D S Jenkins  
Chairman  
19th September 2007

# Portfolio analysis

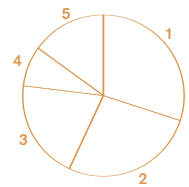
## Tenant profile

1 FTSE 100	1%
2 Government	2%
3 PLC/Nationals	52%
4 Regional Multiples	4%
5 Local Businesses	41%



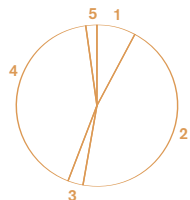
## Lease profile

1 0-5 years	30%
2 5-10 years	27%
3 10-15 years	20%
4 15-20 years	8%
5 20 years +	15%



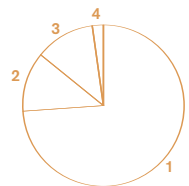
## Location profile

1 London	8%
2 South East	45%
3 Midlands	3%
4 North	42%
5 South West	2%



## Analysis by sector

1 Retail	74%
2 Office	12%
3 Industrial	12%
4 Residential	2%



Income generating properties as at 31st July 2007.

Oriental City, Colindale is excluded. The property is contracted for sale in November 2007.

## Principal properties

### Retail

Kingsland Shopping Centre, Thatcham, Berkshire  
 131 The Broadway, Bexleyheath, Kent  
 The Furlong Centre, Ringwood, Hampshire  
 Swanley Shopping Centre, Swanley, Kent  
 Kirkby Shopping Centre, Kirkby, Merseyside

### Offices

The Genesis Centre, Birchwood, Warrington, Cheshire

### Industrial

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

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## Consolidated income statement

unaudited for the six months ended 30th June 2007

	Notes	Six months to 30th June 2007 unaudited £ million	Six months to 30th June 2006 unaudited £ million	Year ended 31st Dec 2006 audited £ million
<b>Revenue</b>	2	<b>11.6</b>	7.2	48.7
Direct costs	2	<b>(7.0)</b>	(3.8)	(32.8)
<b>Gross profit</b>	2	<b>4.6</b>	3.4	15.9
Operating costs	2	<b>(4.3)</b>	(4.1)	(10.2)
Gain/(loss) on disposal of investment properties	2	<b>0.1</b>	0.9	(0.1)
Gain on revaluation of property portfolio	2	<b>2.8</b>	10.4	21.8
Deficit on revaluation of operating properties	2	<b>(0.8)</b>	–	(0.5)
<b>Operating profit</b>	2	<b>2.4</b>	10.6	26.9
Share of results of associates and joint ventures	2	<b>(0.1)</b>	–	0.2
Income from financial assets	2	–	–	0.1
<b>Profit before interest and taxation</b>	2	<b>2.3</b>	10.6	27.2
Finance income		<b>2.1</b>	1.6	2.9
Finance costs		<b>(3.9)</b>	(3.8)	(7.3)
<b>Profit before taxation</b>		<b>0.5</b>	8.4	22.8
Taxation	3	<b>0.8</b>	(3.2)	0.8
<b>Profit after taxation for the period attributable to equity shareholders of the parent</b>		<b>1.3</b>	5.2	23.6
<b>Basic earnings per share (pence)</b>	5	<b>3.2p</b>	14.2p	63.4p
<b>Diluted earnings per share (pence)</b>	5	<b>3.2p</b>	14.1p	63.0p

## Consolidated balance sheet

unaudited as at 30th June 2007

		30th June 2007	30th June 2006	31st Dec 2006
	Notes	unaudited £ million	restated* unaudited £ million	audited £ million
<b>Non-current assets</b>				
Property, plant and equipment				
– Operating properties		7.1	9.1	8.1
– Other non-current assets		3.4	3.7	3.6
Investment properties	6	144.6	135.3	139.4
Financial assets		6.1	5.8	5.9
Investments in joint ventures		8.7	0.2	20.5
Investments in associates		0.7	0.7	0.7
Trade and other receivables		1.5	–	1.5
Deferred tax asset		5.2	2.3	5.6
		<b>177.3</b>	157.1	185.3
<b>Investment property – held for sale</b>		–	–	5.3
<b>Current assets</b>				
Inventory – land, developments and trading properties		156.2	73.9	74.7
Financial assets		11.0	–	–
Trade and other receivables		18.2	13.1	10.0
Cash and short-term deposits	7	89.0	62.4	88.5
		<b>274.4</b>	149.4	173.2
<b>Total assets</b>		<b>451.7</b>	306.5	363.8
<b>Current liabilities</b>				
Trade and other payables		(65.7)	(13.7)	(16.8)
Financial liabilities	7	(33.5)	(6.1)	(15.5)
		<b>(99.2)</b>	(19.8)	(32.3)
<b>Non-current liabilities</b>				
Financial liabilities	7	(109.0)	(85.5)	(87.4)
Deferred tax liabilities		(10.3)	(9.9)	(11.6)
Provisions		(1.5)	–	(1.1)
		<b>(120.8)</b>	(95.4)	(100.1)
<b>Total liabilities</b>		<b>(220.0)</b>	(115.2)	(132.4)
<b>Net assets</b>		<b>231.7</b>	191.3	231.4
<b>Equity</b>				
Share capital	8	20.5	18.4	20.4
Other reserves	9	156.2	133.9	155.4
Retained earnings	9	55.0	39.0	55.6
<b>Equity attributable to equity shareholders of the parent</b>		<b>231.7</b>	191.3	231.4
<b>Basic net assets per share</b>	5	<b>566p</b>	521p	568p
<b>Diluted net assets per share</b>	5	<b>565p</b>	518p	565p

\*refer note 1(c)

## Consolidated statement of recognised income and expense

unaudited as at 30th June 2007

	Six months to 30th June 2007 unaudited £ million	Six months to 30th June 2006 unaudited £ million	Year ended 31st Dec 2006 audited £ million
Gains on revaluation of operating properties	–	–	0.5
Deferred tax	–	–	(1.0)
<b>Net expense recognised directly in equity</b>	<b>–</b>	<b>–</b>	<b>(0.5)</b>
Profit for the period	<b>1.3</b>	5.2	23.6
<b>Total recognised income for the period attributable to equity shareholders of the parent</b>	<b>1.3</b>	5.2	23.1

## Consolidated cash flow statement

unaudited for the six months ended 30th June 2007

	Notes	Six months to 30th June 2007  unaudited £ million	Six months to 30th June 2006 restated* unaudited £ million	Year ended 31st Dec 2006 restated* audited £ million
<b>Net cash flow from operating activities</b>	10	<b>(45.2)</b>	(28.8)	(18.0)
<b>Investing activities:</b>				
Interest received		2.1	1.2	3.1
Proceeds on disposal of investment properties		5.8	38.5	45.1
Proceeds from refinancing of joint ventures		11.7	–	–
Purchase of property, plant and equipment		(0.1)	(0.5)	(1.6)
Investment in financial assets		(11.3)	(5.0)	(5.0)
Purchase of investment properties		(2.8)	(2.9)	(6.9)
Purchase of investments		–	–	(20.2)
<b>Net cash flow from investing activities</b>		<b>5.4</b>	31.3	14.5
<b>Financing activities:</b>				
Dividends paid		–	–	(2.4)
Issue of new shares		0.8	0.1	23.2
Repayments of borrowings		(0.1)	(13.2)	(18.7)
New bank loans raised		44.7	–	12.0
<b>Net cash flow from financing activities</b>		<b>45.4</b>	(13.1)	14.1
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>5.6</b>	(10.6)	10.6
Cash and cash equivalents at the beginning of the period		82.6	72.0	72.0
<b>Cash and cash equivalents at the end of the period</b>		<b>88.2</b>	61.4	82.6
<b>Cash and cash equivalents comprise:</b>				
Cash excluding pledged cash	7	5.8	1.4	8.1
Short-term deposits		42.8	45.2	73.5
Pledged cash held as security against financial liabilities	7	40.4	15.8	6.9
Bank overdrafts		(0.8)	(1.0)	(5.9)
<b>Cash and cash equivalents at the end of the period</b>		<b>88.2</b>	61.4	82.6

\*refer note 1(c)

## Notes to the interim financial statements

unaudited for the six months ended 30th June 2007

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

#### a) General information

The Consolidated interim financial statements of the Group for the six months ended 30th June 2007 comprise the results of the Company and its subsidiaries and were authorised by the Board for issue on 19th September 2007.

#### b) Basis of preparation

The accounting policies applied in these Consolidated interim financial statements are consistent with those reported in the Group's annual financial statements for the year ended 31st December 2006.

The Consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31st December 2006.

The Interim report is unaudited and does not constitute statutory accounts within the meaning of S240 of the Companies Act 1985. The statutory accounts for 2006, which were prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union ("IFRS"), and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS, have been delivered to the Registrar of Companies. The auditors' opinion on these accounts was unqualified and did not contain a statement made under S237(2) or S237(3) of the Companies Act 1985.

#### c) Prior year restatement

The Directors have reclassified the following balances at 30th June 2006 to more fully comply with IFRS requirements, with no impact on net assets at that date:

Lease incentives, previously included within Investment property balances, are now separately identified within Prepayments and accrued income. The financial effect is a reduction in Investment properties of £0.7 million and an increase in Prepayments and accrued income of the corresponding amount (refer note 6).

An investment in the loan notes of an associate, amounting to £0.8 million, previously classified as part of an Investment in joint venture, was reclassified to Financial assets. The financial effect of this adjustment is a reduction in Investment in joint ventures of £0.8 million and an increase in Financial assets of the corresponding amount. In addition, an amount of £5.0 million, previously classified as part of Other non-current assets, relating to a participating loan, has been reclassified as a Financial asset at 30th June 2006. The financial effect of the reclassification is a reduction in Other non-current assets of £5.0 million and an increase in Financial assets of £5.0 million.

Investments amounting to £0.9 million as at 30th June 2007 have been further analysed as Investments in joint ventures of £0.2 million and Investments in associates of £0.7 million.

Bank overdrafts are now included in Financial liabilities. The financial effect is to increase Cash and short-term deposits by £1.0 million and increase Financial liabilities by £1.0 million at 30th June 2006.

The presentation of the Cash flow statements at 30th June 2006 and 31st December 2006 has been revised to conform with the presentation adopted at 30th June 2007.

## 2. SEGMENTAL ANALYSIS

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

Investment	– management of the Group's investment property portfolio, generating rental income and valuation surpluses from property management;
Trading and development	– managing the Group's development projects. Revenue is received from project management fees 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 £1.3 million (30th June 2006: £1.9 million, 31st December 2006: £1.4 million), which are located in France and The Netherlands. Accordingly, no secondary segmental information is shown. All revenue arises from continuing operations.

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

Six months to 30th June 2006 (unaudited)				
	Investment £ million	Trading and development £ million	Operating £ million	Total £ million
<b>Segment revenue</b>	4.5	0.4	2.3	7.2
Direct costs	(0.7)	(0.6)	(2.5)	(3.8)
<b>Segment result</b>	3.8	(0.2)	(0.2)	3.4
Unallocated operating costs				(4.1)
Profit on disposal of investment properties	0.9	–	–	0.9
Net gain on revaluation of property portfolio	10.4	–	–	10.4
<b>Operating profit</b>				10.6
<b>Profit before interest and taxation</b>				<b>10.6</b>

## Notes to the interim financial statements

unaudited for the six months ended 30th June 2007

### 2. SEGMENTAL ANALYSIS continued

	Year ended 31st December 2006 (audited)			
	Investment £ million	Trading and development £ million	Operating £ million	Total £ million
<b>Segment revenue</b>	9.0	34.6	5.1	48.7
Direct costs	(1.6)	(26.2)	(5.0)	(32.8)
<b>Segment result</b>	7.4	8.4	0.1	15.9
Unallocated operating costs				(10.2)
Loss on disposal of investment properties	(0.1)	–	–	(0.1)
Net gain/(deficit) on revaluation of property portfolio	21.8	–	(0.5)	21.3
<b>Operating profit</b>				26.9
Share of results of associates and joint ventures				0.2
Income from financial assets				0.1
<b>Profit before interest and taxation</b>				<b>27.2</b>

### 3. TAXATION

Corporation tax for the interim period is charged at 30 per cent (30th June and 31st December 2006: 30 per cent).

	Six months to 30th June 2007 unaudited £ million	Six months to 30th June 2006 unaudited £ million	Year ended 31st Dec 2006 audited £ million
UK corporation tax:			
Adjustments in respect of prior years	–	0.3	0.2
Deferred tax (credit)/expense	<b>(0.8)</b>	2.9	(1.0)
	<b>(0.8)</b>	3.2	(0.8)
Analysis of tax charge:			
Current tax:			
Continuing operations	–	0.3	0.2
Deferred tax (credit)/expense	<b>(0.8)</b>	2.9	0.5
Deferred tax (sale of investment property)	–	–	(1.5)
	<b>(0.8)</b>	3.2	(0.8)

#### 4. DIVIDENDS

	Six months to 30th June 2007 unaudited £ million	Six months to 30th June 2006 unaudited £ million	Year ended 31st Dec 2006 audited £ million
Amounts recognised as distributions to equity holders in the period	1.8	1.6	2.4
Proposed dividend	0.9	0.8	1.8
	Pence	Pence	Pence
<b>Interim dividend per share</b>	<b>2.40</b>	2.25	2.25
<b>Final dividend per share</b>	–	–	4.50

The interim dividend was approved by the Board on 18th September 2007 and has not been included as a liability or deducted from retained earnings as at 30th June 2007. The interim dividend is payable on 26th October 2007 to Ordinary shareholders on the register at the close of business on 28th September 2007 and will be recorded in the financial statements for the year ending 31st December 2007.

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

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

	Six months to 30th June 2007 unaudited	Six months to 30th June 2006 unaudited	Year ended 31st Dec 2006 audited
<b>Earnings for the purposes of basic and diluted earnings per share (£ million)</b>	<b>1.3</b>	5.2	23.6
<b>Number of shares (million):</b>			
Weighted average number of Ordinary shares for the purposes of basic earnings per share	40.8	36.7	37.1
Effect of dilutive potential Ordinary shares:			
– Share options	0.1	0.2	0.3
Weighted average number of Ordinary shares for the purpose of diluted earnings per share	40.9	36.9	37.4
<b>Basic earnings per share (pence)</b>	<b>3.2</b>	14.2	63.4
<b>Diluted earnings per share (pence)</b>	<b>3.2</b>	14.1	63.0

## Notes to the interim financial statements

unaudited for the six months ended 30th June 2007

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

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

	30th June 2007 unaudited	30th June 2006 unaudited	31st Dec 2006 audited
<b>Net assets (£ million):</b>			
<b>Basic net assets</b>	<b>231.7</b>	191.3	231.4
Effect of dilutive potential Ordinary shares	<b>1.3</b>	2.8	2.1
<b>Diluted net assets</b>	<b>233.0</b>	194.1	233.5
<b>Number of shares (million):</b>			
<b>Number of shares in issue at the balance sheet date</b>	<b>40.9</b>	36.8	40.7
Effect of dilutive potential Ordinary shares	<b>0.3</b>	0.7	0.5
<b>Diluted number of shares in issue at the balance sheet date</b>	<b>41.2</b>	37.5	41.2
<b>Basic net assets per share (pence)</b>	<b>566</b>	521	568
<b>Diluted net assets per share (pence)</b>	<b>565</b>	518	565

## 6. INVESTMENT PROPERTIES

The movement in investment properties for the period ended 30th June 2007 was:

	Freehold £ million	Long leasehold £ million	Total £ million
At valuation 1st January 2006	157.3	2.9	160.2
Prior year restatement in respect of lease incentives (refer note 1(c))	(0.7)	–	(0.7)
<b>As restated at 1st January 2006</b>	<b>156.6</b>	<b>2.9</b>	<b>159.5</b>
Additions:			
– acquisitions	1.5	0.3	1.8
– capital expenditure	1.1	–	1.1
Disposals	(34.8)	(2.7)	(37.5)
Surplus on revaluation	10.4	–	10.4
<b>At valuation 30th June 2006 (restated)</b>	<b>134.8</b>	<b>0.5</b>	<b>135.3</b>
Additions:			
– acquisitions	1.8	1.9	3.7
– capital expenditure	0.4	–	0.4
Transfer from operating properties	1.5	–	1.5
Transfer to investment property – held for sale	(5.3)	–	(5.3)
Disposals	(7.6)	–	(7.6)
Surplus on revaluation	11.4	–	11.4
<b>At valuation 31st December 2006</b>	<b>137.0</b>	<b>2.4</b>	<b>139.4</b>
Additions:			
– acquisitions	0.4	–	0.4
– capital expenditure	2.4	–	2.4
Disposals	(0.4)	–	(0.4)
Surplus on revaluation	2.8	–	2.8
<b>At valuation 30th June 2007</b>	<b>142.2</b>	<b>2.4</b>	<b>144.6</b>

No interest was capitalised in respect of investment properties in the six months ended 30th June 2007 (30th June 2006: £0.1million, 31st December 2006: £0.7 million).

Certain Investment properties were independently valued at 30th June 2007 by DTZ Debenham Tie Leung, Chartered Surveyors and Colliers CRE, Chartered Surveyors. The valuations at 31st December 2006 and 30th June 2007 have been carried out in accordance with The Royal Institute of Chartered Surveyors' (RICS) Appraisal and Valuation Standards published in February 2003 ("The Red Book"). The remaining Investment properties in the sum of £62.5 million (30th June 2006: £15.4 million, 31st December 2006: £60.2 million) were valued by the Directors. Of these assets £44.6 million (30th June 2006: £41.5 million, 31st December 2006: £42.7 million) were also valued by the Group's independent valuers.

## Notes to the interim financial statements

unaudited for the six months ended 30th June 2007

### 7. CASH AND FINANCIAL LIABILITIES

- a) Cash balances shown on the Balance sheet at 30th June 2007 include £39.1 million of cash received in respect of a specific property development funding which cannot be utilised for other purposes.
- b) At 30th June 2007, an external valuation, undertaken by J C Rathbone Associates Limited, appraised the market value of the Group's fixed rate debt on a replacement basis, taking into account the difference between fixed interest rates for the Group's borrowings and the market value and prevailing interest rates of appropriate debt instruments, resulting in an excess of fair value over book value of £8.1 million before tax (30th June 2006: £12.4 million, 31st December 2006: £11.9 million) at that date. The valuation, which is subject to daily fluctuations in line with money market movements, is only an indication of the notional effect on the net asset value of the Group at 30th June 2007 and is not recognised in the Balance sheet.
- c) During the period, additional net borrowings of £44.7 million were drawn down (30th June 2006: nil, 31st December 2006: £12.0 million) and £0.1 million loans repaid (30th June 2006: £13.2 million, 31st December 2006: £18.7 million).

### 8. SHARE CAPITAL

	30th June 2007 unaudited £ million	30th June 2006 unaudited £ million	31st Dec 2006 audited £ million
<b>Authorised:</b>			
50,000,000 Ordinary shares of 50 pence (30th June and 31st December 2006:			
50,000,000 Ordinary shares of 50 pence)	25.0	25.0	25.0
<b>Issued, called up and fully paid:</b>			
40,933,265 Ordinary shares of 50 pence (30th June 2006: 36,792,688 Ordinary shares of 50 pence, 31st December 2006: 40,711,652 Ordinary shares of 50 pence)	20.5	18.4	20.4

## 9. RESERVES

	Share premium £ million	Property revaluation reserve £ million	Other reserves £ million	Total £ million
At 1st January 2006	87.6	0.3	45.8	133.7
Net proceeds of issue of new shares	0.1	–	–	0.1
Share based payments	–	–	0.1	0.1
<b>At 30th June 2006</b>	<b>87.7</b>	<b>0.3</b>	<b>45.9</b>	<b>133.9</b>
Net proceeds of issue of new shares	21.1	–	–	21.1
Net surplus on revaluation of operating properties	–	0.5	–	0.5
Share based payments	–	–	(0.1)	(0.1)
<b>At 31st December 2006</b>	<b>108.8</b>	<b>0.8</b>	<b>45.8</b>	<b>155.4</b>
Net proceeds of issue of new shares	0.7	–	–	0.7
Share based payments	0.2	–	(0.1)	0.1
<b>At 30th June 2007</b>	<b>109.7</b>	<b>0.8</b>	<b>45.7</b>	<b>156.2</b>

	Retained earnings £ million
At 1st January 2006	35.4
Retained profit for the period	5.2
Final dividend 2005	(1.6)
<b>At 30th June 2006</b>	<b>39.0</b>
Retained profit for the period	18.4
Net deferred tax on property revaluations	(1.0)
Interim dividend 2006	(0.8)
<b>At 31st December 2006</b>	<b>55.6</b>
Retained profit for the period	1.3
Share based payments	(0.1)
Final dividend 2006	(1.8)
<b>At 30th June 2007</b>	<b>55.0</b>

## Notes to the interim financial statements

unaudited for the six months ended 30th June 2007

### 10. NOTE TO THE CASH FLOW STATEMENT

	Six months to 30th June 2007 unaudited £ million	Six months to 30th June 2006 unaudited £ million	Year ended 31st Dec 2006 audited £ million
<b>Operating profit</b>	<b>2.4</b>	10.6	26.9
<b>Adjustments for:</b>			
(Gain)/loss on disposal of investment properties	<b>(0.1)</b>	(0.9)	0.1
Net gain on revaluation of property portfolio and operating properties	<b>(2.0)</b>	(10.4)	(21.3)
Share based payments	<b>0.1</b>	0.1	0.1
Depreciation of property, plant and equipment	<b>0.6</b>	0.6	1.2
<b>Operating cash flows before movements in working capital</b>	<b>1.0</b>	0.0	7.0
Increase in developments	<b>(4.7)</b>	(0.6)	(3.6)
Increase in trading properties	<b>(75.1)</b>	(16.5)	(15.0)
Increase in receivables	<b>(8.2)</b>	(1.7)	(0.2)
Increase/(decrease) in payables	<b>46.3</b>	(2.7)	1.7
Decrease in provisions	<b>-</b>	(0.3)	(0.4)
<b>Cash generated by operations</b>	<b>(40.7)</b>	(21.8)	(10.5)
Income taxes paid	<b>(0.1)</b>	(1.9)	(0.5)
Interest paid	<b>(4.4)</b>	(5.1)	(8.1)
Capitalised interest charged to direct costs	<b>-</b>	-	1.1
<b>Net cash flow from operating activities</b>	<b>(45.2)</b>	(28.8)	(18.0)

### 11. GLOSSARY

Net borrowings: Net borrowings are defined as total debt less cash and short-term deposits, including pledged cash.

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

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

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

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

### 12. SUBSEQUENT EVENTS

On 18th July 2007, the Group disposed of its interest in three trading properties with a book value of £3.9 million.

The Board proposed and declared an interim dividend of 2.40 pence per share (30th June 2006: 2.25 pence, 31st December 2006: 4.50 pence) at the Board meeting held on 18th September 2007. The dividend will be paid on 26th October 2007 to shareholders on the Register on 28th September 2007.

## Independent review report to Development Securities PLC

### Introduction

We have been instructed by the Company to review the financial information for the six months ended 30th June 2007 which comprises the consolidated income statement, the consolidated balance sheet, the consolidated statement of recognised income and expense, the consolidated cash flow statement and related notes 1 to 12. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with the guidance contained in Bulletin 1999/4 'Review of Interim Financial Information' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

### Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

### Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 'Review of Interim Financial Information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

### Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30th June 2007.

Ernst & Young LLP  
London  
19th September 2007

## **Officers, committees and advisors**

### **Directors**

D S Jenkins Chairman\*  
(appointed as a Director on 1st February 2007 and  
Chairman on 15th May 2007)  
M H Marx, Chief Executive  
and Finance Director  
C J Barwick  
M S Weiner  
P V S Manduca\*  
V M Mitchell\*  
M S Soames\*

### **Secretary**

S A Lanes

### **Remuneration committee**

M S Soames, Chairman\*  
V M Mitchell\*

### **Audit committee**

P V S Manduca, Chairman\*  
V M Mitchell\*

### **Nomination committee**

D S Jenkins, Chairman\*  
M H Marx, Chief Executive and  
Finance Director  
P V S Manduca\*

### **Registered Office**

Portland House  
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London SW1E 5DS  
Telephone: 020 7828 4777  
Facsimile: 020 7828 4999  
Website: [www.developmentsecurities.com](http://www.developmentsecurities.com)

### **Registered Number**

1528784

### **Auditors**

Ernst & Young LLP

### **Principal Bankers**

Barclays Bank PLC  
HSH Nordbank  
Bank of Scotland  
Norwich Union Mortgage Finance Limited

### **Corporate Solicitors**

Linklaters LLP

### **Financial Advisor and Corporate Stockbroker**

Collins Stewart Limited

### **Registrars and Transfer Office**

Capita Registrars  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield  
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HD8 0LA  
Telephone: 0870 162 3100

\*Non-executive



