Annual Report 2013

Developing further

Development Securities PLC is a property development and investment company. Our principal objective is to create value and growth through real estate development and regeneration in sectors and locations in the UK where demand is in evidence, generating maximum value for shareholders.

Contents

Financial Highlights

Strengthened financial performance as success of strategy continues to emerge

£306.7m
Net assets

Net assets reduced by £6.5 million after dividends of £6.8 million were paid during the year.

47.9%
Gearing

Gearing, excluding our share of joint ventures, has reduced marginally during the year. The Group continues to maintain a conservative level of level of debt.

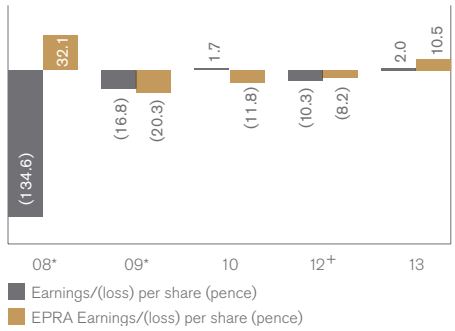
£28.1m
Development and trading gains

The Group has recorded increased development and trading gains across its direct and indirect portfolio during the year. This is in line with our business strategy following our equity raises in 2009 and 2010.

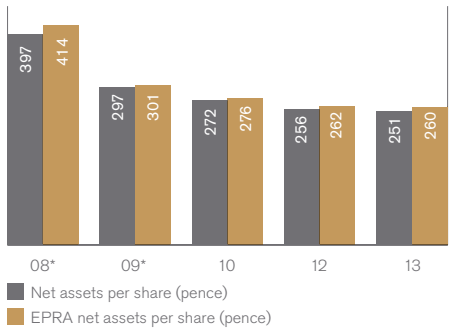
4.8p
Dividend per share

The dividend rate of 4.8 pence per share has been maintained for the year ended 28th February 2013. Excluding the final 2013 dividend, which will be paid to shareholders on 25 October 2013, £16.7 million has been returned to shareholders since the first equity raise in 2009.

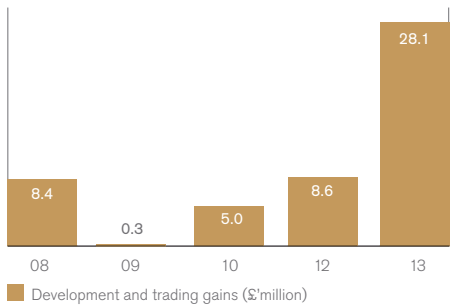
Earning/(loss) and EPRA earnings/(loss) per share



Net assets and EPRA net assets per share



Development and trading gains



*Restated following the Placing and Rights Issue
+14-month period

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On track to achieve our strategic objectives

I am pleased to report a profit after tax of £2.3 million for the year ended 28th February 2013, a significant improvement from the loss after tax of £12.0 million for the 14-month period ended 29th February 2012.

David Jenkins
Chairman

Results

A significant contributor to these results were the substantial and increased gains of £28.1 million generated within our current development and trading portfolio compared with gains of £8.6 million in the 14 months to 29th February 2012. These profits underpin and validate a significant part of our business strategy following the crash of 2008. Notwithstanding the significant progress made within this part of our business, the decline in valuations within our investment portfolio has resulted in your Company reporting a lower level of profitability than would otherwise have been the case. Profits before tax of £0.8 million for the year increased from the loss before tax of £10.2 million for the 14 months ended 29th February 2012. After the payment of £6.8 million to shareholders by way of dividends, shareholders' funds declined by £6.5 million to £306.7 million from £313.2 million at 29th February 2012. Net assets per share ended the year at 251 pence per share compared to 256 pence per share at 29th February 2012.

Gains of £28.1 million generated in our current development and trading portfolio

The principal reason behind the decline in net assets was the fall of £12.8 million in the valuation of our investment portfolio including our share of joint venture assets, compared to £4.1 million for the previous period. Additionally we have recorded provisions of £2.2 million against some of our legacy development and trading assets where the market in some cases not only failed to advance, but actually made it more challenging for us to unlock value.

We have continued to maintain a conservative risk profile consistent with our business principles. Our gearing, excluding our share of joint ventures, remained low at 47.9 per cent compared with 48.8 per cent as at 29th February 2012.

Given our financial strength and stability, the Board has recommended the payment of a final dividend for the year of 2.4 pence per share, payable on 25th October 2013 to shareholders on the register on 27th September 2013. This brings the total dividend payment for the year to 4.8 pence per share consistent with that paid in respect of previous years.

Progress

In the absence of economic growth and momentum, we have continued to focus on real estate opportunities where we can add value. It is our view that there remain opportunities for the regeneration of redundant and undervalued real estate in the UK and, accordingly, we have built a strong pipeline of value-enhancing deals where we can apply our expertise to generate meaningful gains. The profits of £28.1 million that we have made during the year from our current development and trading business have met our expectations and validate our strategic approach to the property market following the crash of 2008.

The year under review saw your Company complete the acquisition of two real estate loan portfolios totalling £143.0 million. It is to the credit of our management team that we were not only able to secure the acquisition of these loans against strong market competition, but were also able, within the same financial year, to realise value from a number of the underlying real estate assets. We look forward to doing more such business in the years ahead.

> Our focus will remain on extending our current pipeline of development and trading opportunities including the acquisition of further real estate loan portfolios.

Yields on secondary property drifted further away from those on prime property during most of 2012, resulting in a weakening of the value of our investment portfolio. Whilst a double-dip recession is not something we had anticipated, we would expect this yield differential to narrow again once the UK economy begins to evidence a meaningful and sustained recovery. In the meantime, we continue to proactively manage our investment assets and progress opportunities to drive growth through asset enhancement in order to support values and to maximise cash yield.

Large-scale office development is traditionally a late-cycle performer and as such we are unlikely to see your Company refocus its resources into the major office developments that were its hallmark product in the final phase of the previous cycle. Nonetheless, we have retained our core expertise in this area in order to ensure that we have adequate resource for when that part of the cycle begins to gather strength. It is, however, pleasing to note that as we approach practical completion at our significant office development, 10 Hammersmith Grove, interest in the office space is strong.

Outlook

The UK economic stagnation which I anticipated in my report to shareholders twelve months ago, proved to be a reality. Problems in the banking sector, most of them self-inflicted, have continued to constrain the ability of banks to provide adequate levels of liquidity to the property markets. The lack of consumer confidence and the deleveraging processes at work, in particular within the European economies, have inhibited business confidence generally. With such economic conditions continuing into 2013, it is hard to foresee anything other than the weakest of economic recoveries in the near- to medium-term. Property values rise on a sustained basis consequent upon either rental growth or yield compression and, to be candid, it is difficult to present a case for either at present. Whilst it is conceivable that largely cash based investors will drive up values still further in Central London, we are not of the opinion that this relates to true underlying real estate values.

As long as these conditions persist, our focus will remain on extending our current pipeline of development and trading opportunities including the acquisition of further real estate loan portfolios. In the current market, it is the regeneration of obsolete land and assets that would appear to provide the enhanced returns that we are seeking.

Conclusion

Our considerable efforts in our development and trading portfolio have generated handsome returns during the year with a strong pipeline of further gains to be delivered over the coming years. Our investment portfolio continued to drift downwards as a result of market-driven valuation declines. Clearly, the return of higher investment property values outside of London must await the broader recovery of economic activity in the UK.

Our management and staff at Development Securities have worked hard, applying diligence and expertise in capturing value. In this respect, I would like to thank them for their continued efforts on our behalf.

In February this year, we welcomed Marcus Shepherd as our new Finance Director, who joined us from Aviva Investors where he was Finance Director (Global Real Estate). Marcus has taken up the position previously occupied by Graham Prothero who moved on after four years of excellent service as our Finance Director. I would like to thank not only Graham, but all of my Executive and Non-executive colleagues for their commitment and unstinting efforts on behalf of the Company.

David Jenkins
Chairman
1st May 2013

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chairmans-statement

Creating value through real estate regeneration

During the year we have continued to make strong progress in the execution of the strategy that we initiated in 2009.

Michael Marx
Chief Executive

Our focus remains to proactively generate value and growth through the regeneration of redundant real estate across a diversified portfolio of UK assets. Before provisions of £2.2 million against certain legacy assets, we are pleased to have delivered gains of £28.1 million within our current development and trading portfolio during the year ended 28th February 2013. These profits will continue to flow over the coming years as we dispose of further value-enhanced assets.

Wider market

Whilst the UK economic backdrop was much the same as in the previous year, with stagnation largely continuing across the UK outside of London, FY 2013 was a year which saw the deepening impact of both cyclical and structural changes within the real estate sector. The dominant cyclical theme was the continued flow of funds from overseas investors into the Central London property markets. Such investors now comprise approximately 70 per cent of new purchasers as compared to some 60 per cent a year or so ago. We are unsure whether the surge in values in these markets resulting from this inflow of capital is a true reflection of property fundamentals, or whether it is asset inflation fuelled by "irrational exuberance" and a search for safe haven status. We suspect the latter. If we are right, Central London values could now be caught within a cyclical play which may end with a value correction whose timing and magnitude are challenging to predict. It is for this reason that we have in recent years avoided undue exposure to Central London markets, preferring instead to explore value opportunities within London, the South East and other regions of the UK where we see elements of demand underpinned by credible economic activity.

Central London has provided some evidence of a structural change in recent years, with the conversion of over one million sq. ft. of office space into residential accommodation. This has helped to ease the potential pricing pressure in the prime Central London residential market as well as restricting supply and lowering vacancy rates in the office market. The latter may appear to indicate a healthy office market, when in fact current take up levels are lower than historic trends. A second structural change that continued throughout the year was apparent in the retail sector, where increasing amounts of high street shops fell vacant. Reduced consumer disposable income, the increasing market share taken by major urban shopping centres and supermarkets, and the further inroads into conventional retailing made possible via the internet all conspired to undermine the traditional high street retailer base. Whilst it is likely that the former structural change may reverse itself in time, this is less obvious with regards to the changes to the high street.

Generating value in the real estate market

With interest rates at record low levels, it is difficult to see how further meaningful yield compression can be generated. Typically, rental growth moves in line with GDP growth. Since GDP growth is presently absent and expected to remain so for some time, it is not immediately obvious how, with the exception of one or two specific markets, the UK economy can be expected to generate meaningful rental growth.

Against this backdrop, your Company has sought to generate value by continuing to exploit the dislocation in the property markets caused by the crash of 2008. We have identified opportunities both inside and outside of Central London where value can be generated through the transformation of real estate from secondary to prime markets, capturing the arbitrage between the two. The proceeds of our two equity raises, now fully invested, have enabled us to build up a portfolio of over 40 real estate opportunities from which we are crystallising gains. It is pleasing to note that the year ended 28th February 2013 has seen profits of £28.1 million arising from this development and trading activity. We anticipate continued strong returns in the years ahead as further phases of our work come to maturity.

> “It is pleasing to note the year ended 28th February 2013 has seen profits of £28.1 million arising from our current development and trading activity. We anticipate continued strong returns in the years ahead as further phases of our work come to maturity.

Development and trading portfolio

The development and trading profit which we are reporting this year broadly falls into two categories. First, profits generated from our active development and trading programme. Notable successes in the development arena have been our projects at Westminster Palace Gardens in Central London, our Morrisons foodstore scheme in Littlehampton and two of the three phases at The MVMNT in Greenwich. We have now fully disposed of the first two of these schemes, both of which were functionally obsolete when we acquired them in 2010. The second area has been to realise gains through the acquisition of loan portfolios secured against underlying real estate assets from banks and financial institutions. These loans are efficiently disposed of, sometimes after redevelopment or repositioning the underlying real estate, to end users or into areas of the market best able to transition them to the more appropriate end investors or users. After the investment of significant time and energy, it is pleasing to see that during the year we were able to secure two bank loan portfolios, secured against 56 real estate assets and totalling £143.0 million. I feel that the longer our track record extends in this area of the market, the better positioned we will be for further such business.

Investment portfolio

We continue to believe that our investment portfolio comprises well-placed property assets that will once again add value in the next upward phase of the economic cycle. The cash yield from our investment portfolio is strong and we continue to asset manage on an aggressive basis enabling us to maintain income and reduce void levels during the year. It was nonetheless disappointing to report a continuing decline in secondary property values during the year, especially outside of London. We feel that these valuation declines have been exacerbated by low levels of liquidity in the market that render these assets challenging for the valuers to mark to market. This is compounded by the reduced level of bank lending to this sector. Valuation comparables may not be strictly relevant to our portfolio since they involve disposals by weak or distressed vendors or even administrators.

The lower level of valuations across the market encourage a further downward spiral in prices as more weak holders are compelled by their sources of finance to monetise their property assets. This process will continue until a “floor” is reached from which values can once again recover. The implication for the banking sector, however inevitable and healthy for the market in the longer term, will not be pleasant as they are themselves obliged to recognise further loan loss provisions.

Major developments portfolio

We have been selective in our major developments pipeline over the past few years given the weak underlying fundamentals for the London office market and lack of significant GDP growth. However, we have been active in certain locations that are signalling demand strength. In Hammersmith, West London, we are approaching practical completion at the first phase of our 275,000 sq. ft. prime office development which was funded on a speculative basis by Scottish Widows Investment Property Partnership Trust. There is good occupier interest in the majority of the space. Our next phase at PaddingtonCentral in London's West End, of 140,000 sq. ft. net, is a similar opportunity both in terms of size and centrality.

Legacy assets

It is key to our business plan that we resolve our legacy assets, monetising them at the earliest opportunity. At Broughton, near Chester, we were pleased to have exchanged contracts to sell our residential consented land in April 2013 for £11.4 million and appear to be making encouraging progress in our strategy to secure revised planning consent at our site at 399 Edgware Road. More challenging for us is how to resolve our joint venture land holding in Central Birmingham, a significant part of which is blighted by the plans for HS2.

Conclusion

We are confident that the profits arising from within our development and trading portfolio will continue to be a significant component of our results for several more years. We also hope that the UK economy will soon begin to show evidence of some growth, especially in the wider economy outside of London. We believe that the latter will be the catalyst that once again begins to narrow the widening yield differential between secondary and prime real estate valuations.

Michael Marx
Chief Executive
1st May 2013

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ceo-statement

Who we are

Development Securities PLC is an experienced property investor and developer.

Michael Marx, Chief Executive

Marcus Shepherd, Finance Director

Julian Barwick, Executive Director

Matthew Weiner, Executive Director

A stable management team with a strong track record.

Our principal objective is to create value and growth across a diversified portfolio of UK real estate assets and through changing property and economic cycles.

We do this by applying a creative and expert approach to complex and major developments, strategic investments and asset management, identifying sectors and locations where demand is in evidence. For 20 years, we have adopted a consistent approach to risk management and commercial focus. This has allowed us to mitigate the effects of major market fluctuations whilst pursuing opportunities in different stages of the property cycle.

The following five principles underpin our strategy and approach. Adherence to these principles has enabled the Company to remain financially robust even during the most severe of market conditions.

Principles	Strategy and approach	More
01 **We operate a low risk financial and funding structure**	The Group seeks to maintain a modest level of gearing at 50–60 per cent.	p39–40
02 **We undertake major developments in partnership with long-term institutional investors**	We do not undertake our major developments on our own Balance Sheet but limit development risk largely through forward-funding.	p28–29
03 **We focus on commercial and mixed-use property**	We have a strong track record of securing planning consents and developing commercial property, predominantly mixed-use regeneration projects, food-anchored retail schemes and prime office developments.	p22–29
04 **We maintain an investment portfolio to generate a steady income stream**	Our investment portfolio accounts for a significant element of our invested equity. We focus mainly on assets with core defensive income and opportunities to increase value through enhancement or redevelopment. This provides a steady and predictable flow of income which supports our central overheads and mitigates the more uneven profits and cash flow arising from our development and trading portfolio.	p30–33
05 **We only operate in the UK**	All of our development and investment activity is conducted within the United Kingdom.	p10

At a glance

What we do

We apply our investment and development expertise across a diversified portfolio of assets in order to mitigate risk and maximise returns.

The three aspects of our portfolio and the strategy applied to each:

01
Development and trading portfolio
further details on p22–27

Objectives
To create value through the regeneration of redundant or undervalued real estate, creating a product that can be sold into the prime or near-prime market.

Strategy
- Identify strong buying opportunities
- Maximise value and growth through planning gains, proactive asset management and development
- Target project life cycles of three to four years and IRRs in excess of 20 per cent

Key schemes
- The Old Vinyl Factory, Hayes
- Cross Quarter, Abbey Wood, London
- The MVMNT, Greenwich, London
- Kensington Church Street, London
- Rock portfolio

02
Major developments portfolio
further details on p28–29

Objectives
To deliver prime developments that achieve maximum returns with reduced risk exposure.

Strategy
- Target locations where supply of prime product is limited and occupier demand is strong
- Apply development and planning expertise to take sites from land assembly and acquisition to scheme completion and full occupancy
- Mitigate development risk through institutional forward-funding and pre-lets

Key schemes
- Four and Five Kingdom Street, PaddingtonCentral, London
- 10 Hammersmith Grove, London
- Cambridge Science Park

Real estate loan portfolios

Objectives
To realise gains through the acquisition of property loan portfolios from banks/financial institutions.

Strategy
- Acquire real estate loan portfolios with opportunities for value enhancement e.g. through repositioning of underlying real estate assets
- Dispose of the loans as rapidly as markets will allow to appropriate end users

Key scheme
- Chrome portfolio

03
Investment portfolio
further details on p30–33

Objectives
To grow a stable income stream from higher yielding investment assets with enhancement potential

Strategy
- Target assets in sectors where occupier demand is robust
- Drive income growth through proactive asset management and enhancement

Key schemes
- The Furlong Shopping Centre, Ringwood
- Manchester Arena Complex
- Wick Lane Wharf, London

Our market

The year was notable for the headwinds in the UK economy and property market. Effectively, the UK economy has continued to flat line and has failed to gain traction into a sustained recovery phase.

Economic weakness holding back real estate growth

With GDP growth largely absent and interest rates at record low levels, both rental growth and yield compression – the two components that drive property values – are challenging to generate outside of Central London markets (see figure 1).

Central London asset values soaring

The flow of funds from overseas investors has continued into the Central London property markets, notably prime residential markets. We have remained cautious, given that surges in asset valuations often lead to rapidly elevated pricing, which may at some later point be vulnerable to downward momentum. We feel this is especially the case where market pricing levels are somewhat dislocated from real estate fundamentals and diverge from long-term trends (see figure 2).

Retail landcape dramatically changing

The retail sector is undergoing structural change and an increasing number of high street shops fell vacant during the year. The traditional high street retailer base continues to be undermined by reduced consumer disposable income, the rising dominance of major urban shopping centres/supermarkets, and the increasing importance of internet shopping.

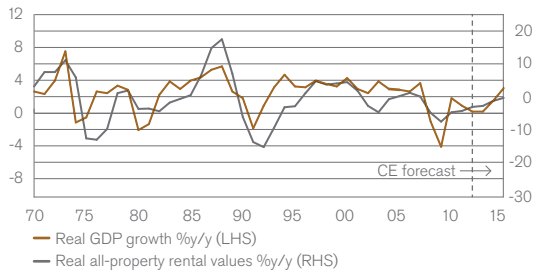
Bank lending remains constricted

Excluding the first two quarters of 2011, net new lending to real estate has been negative for four years (see figure 3). Confidence levels amongst tenants and investors remain low and banks remain over exposed to real estate. We anticipate that it will take several years before banks are in a position to resume an appropriate level of real estate loan origination.

Prime and secondary markets diverge further

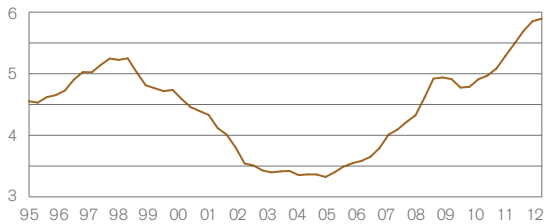
The gap in pricing of prime and secondary property has reached unprecedented levels (see figure 4). On one hand this provides us with opportunities to acquire assets cheaply and reposition them into prime markets to capture the value uplift. On the other hand it has to some extent impacted negatively on our investment portfolio.

Figure 1: GDP and Real All-Property Rental Values



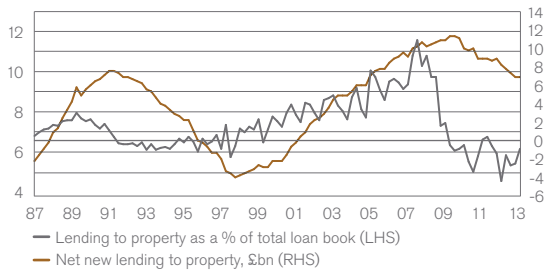
Source: Capital Economics

Figure 2: Price of Prime Central London (PCL) property relative to UK (Ratio PCL/UK)



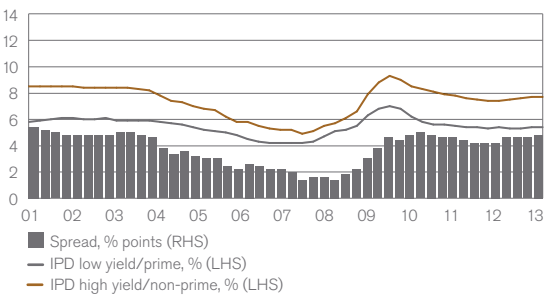
Sources: Fathom and Zoopla

Figure 3: Lending to commercial property



Source: Capital Economics

Figure 4: Initial yield



Source: Capital Economics

At a glance

Our focus

Since our equity raises in 2009 and 2010, we have employed a strategy that focuses on the regeneration of redundant and undervalued assets.

This strategy is relevant and effective against the backdrop of a weak economy where prospects for rental growth or yield compression to drive value growth outside of prime London markets are limited.

We have invested in over 40 deals in the past three years, protecting ourselves from volatility by spreading risk across a diversified portfolio of assets. Rather than relying solely on market momentum to drive value, we have applied our development and planning expertise to take functionally obsolete sites from acquisition, through the planning process and to ultimate disposal, capitalising on the value uplift therein.

How we have applied our business principles within the current market:

Business principle	Application in the year ended 28th February 2013	More
01 We operate a low risk financial and funding structure	▪ We maintained gearing at 63.9 per cent including our share of joint ventures	p39–40
02 We undertake major developments in partnership with long-term institutional investors	▪ The first phase (110,000 sq. ft.) of our 275,000 sq. ft. prime office development in Hammersmith is due for practical completion in Q2 2013 ▪ We continue to progress the final lettings at Two Kingdom Street, PaddingtonCentral	p28–29
03 We focus on commercial and mixed-use property	▪ Since 2009, we have sought to maximise returns by diversifying into sectors where demand is evident. This includes selected residential schemes, student accommodation, hotels and food-anchored retail schemes ▪ Where appropriate, we have partnered with specialist operators in these sectors	p22–29
04 We maintain an investment portfolio to generate a steady income stream	▪ We have continued to proactively asset manage our investment portfolio to improve income returns against strong headwinds in the secondary real estate sector ▪ The 4.7 per cent decline in our investment portfolio compared against a 6.0 per cent decline in the UK IPD 12-month Capital Index excluding Central London	p30–33
05 We only operate in the UK	▪ We continue to maintain our focus on UK real estate with an emphasis on locations of relative economic strength including London, the South East and Manchester	p10

Where we operate

A diversified portfolio of UK real estate in locations where demand is in evidence.

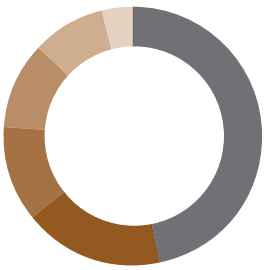
We apply our development and investment skills across a number of locations, identifying real estate opportunities that offer potential for value enhancement. This allows us to shift our focus according to the challenges and opportunities presented by changing property and economic cycles. Our portfolio is diverse, allowing us to spread risk across different locations and sectors in which value can be generated.

A geographic analysis of our portfolio reveals a weighting towards London and the South East, both in our investment portfolio and our development and trading portfolio, of particular weighting are suburban London locations which will benefit from Crossrail.

Portfolio assets across the UK

Number of portfolio assets
- 16–21 properties
- 11–15 properties
- 6–10 properties
- 1–5 properties
- 0 properties

Investment portfolio – location profile by capital value



South East	46.9%
South West	17.5%
North	11.8%
London	10.8%
Wales	9.3%
Midlands	3.7%

Development and trading portfolio – location profile by equity investment

London	43.0%
South East	14.3%
South West	12.2%
North West	10.8%
Other UK	19.7%

London and Crossrail

Key London assets
1 Kensington Church Street
2 Shepherds Bush
3 10 Hammersmith Grove
4 399 Edgware Road
5 Morden Wharf, Greenwich
6 The MVMNT, Greenwich
7 Wick Lane Wharf

Crossrail-enhanced projects
8 Brunel Place, Slough
9 The Old Vinyl Factory, Hayes
10 PaddingtonCentral
11 Valentine's House, Ilford
12 Cross Quarter, Abbey Wood
13 Market Place, Romford

Risks

Principal risks

The Group's business model is defined by the nature and extent of the risks which the Directors consider appropriate to its skills and size. Project specific risk and cumulative portfolio risk are key measures by which the Executive Directors appraise potential new transactions. The Group's risk profile is maintained under continual review by its Risk Committee, which meets quarterly, and by the Board.

The Directors consider the following to be the principal risks and uncertainties facing the business. They may be grouped as external risks, whose occurrence is beyond the control of the Group, and business risks, which the Directors choose to manage as part of the Group's operations.

External risks

Market risk

The real estate market is closely linked with the health of the local and national economies. Recessionary or stagnant conditions undermine the demand for new developments and exacerbate occupier risk in existing investment properties, hence significantly reducing their value. Taking into account changing consumer behaviour, some properties may be rendered not merely cyclically redundant, but functionally obsolete.

Lack of liquidity available to prospective purchasers of our completed projects may delay our ability to realise planned disposals or reduce the prices we achieve.

Current and prospective market conditions are a principal focus for both executive management and the Board. Our more detailed assessment of the position and our strategic and operating responses are set out in the Chairman's Statement and Chief Executive's Review on pages 2 to 5, and in the Operating Review on pages 12 to 33.

Scarcity of opportunities

The Group's business is transactional and requires a flow of opportunities, which can be sparse either because of lack of market demand for new product or through excess equity forcing uncompetitive market pricing. Since the first equity raising in 2009, the Group's strategy of exploiting the current spread between prime and secondary yields, targeting properties which offer opportunities for refurbishment or redevelopment, has attracted a strong pipeline of potential projects, owing to the lack of liquidity generally available for this part of the market and a restricted field of competition for such complex projects.

The Group maintains a flexible approach to market opportunity, resisting the temptation to chase activity when prices move too high, and seeking sectors and locations where value can be generated, as described in the Operating Review on pages 12 to 33.

People risk

The Group's success depends on the ability and experience of its Directors and management. The departure of key individuals or the failure to attract and retain new talent can result in the loss of core competencies and industry knowledge and networks.

The Group aims to motivate and reward its team appropriately and competitively as described in the Remuneration Report, and the Board keeps the strength and depth of the team under continual review.

Funding, liquidity and counterparty risks

The transactional nature of our development and trading businesses means that the amount and timing of cash receipts is subject to variability, making cash flow forecasts uncertain. In addition the pressure on banks to reduce their exposure to real estate and to increase the risk-weighting of such lending, as well as the continuing risk of a credit crisis in the European banking sector, all threaten to constrain the liquidity available to market participants to fund acquisitions or refinance existing borrowings as they fall due.

Such conditions also heighten counterparty risk both operationally, in sale contracts and joint venture agreements, and financially, in cash deposit and hedging arrangements.

These risks are kept under continuous review by the executive team and discussed by the Board at every meeting. Further analysis of the risks and our processes for analysis and management are set out in the Financial Review on pages 39 to 47.

Business risks

Planning risk

Procuring an appropriate and valuable planning consent is often a key element of the creation of value through property development. Our current strategic focus on regeneration and redevelopment relies significantly on our skills in this area. Securing planning permission in an often changing regulatory environment is a complex and uncertain process with applications subject to objection from a wide range of potential stakeholders, and hence is prone to delay, modification and rejection.

The Directors rely on their experience and local knowledge supplemented by advisors and, in some cases, by sector-specialist partners, to maximise the chance of success and reduce the risks and costs of failure.

Construction risk

Construction is subject to risks of cost overruns, delay and the failure of an appointed contractor.

The Group examines these risks in each case, conducting appropriate due diligence on the capabilities and financial security of its prospective contractors. The Group deploys its own experienced project managers to minimise the likelihood and impact of the above risks.

Our year at a glance

Significant progress achieved throughout the year to enhance value across our portfolio.

Q1 2012
March—May

- Pre-let secured for an 80,000 sq. ft. Morrisons foodstore at 399 Edgware Road
- £15.7 million acquisition of Wick Lane Wharf, a 112-unit residential block in East London, in joint venture with Realstar Group
- Development management agreement signed with Trinity Hall, Cambridge, for 110,000 sq. ft. scheme at Cambridge Science Park

Q2 2012
June—August

- 26,000 sq. ft. letting secured with Statoil at Two Kingdom Street, PaddingtonCentral
- Pre-let secured with Sainsbury's for an 81,000 sq. ft. foodstore at Cross Quarter, Abbey Wood, London
- Disposals achieved at The MVMNT, Greenwich, to Willmott Dixon for a residential scheme and McLaren for a 358-bed student village for £16.2 million and £9.0 million respectively
- Acquisition of the Chrome portfolio of real estate loans for £103.0 million in joint venture with the Pears Group
- Completed sale of Wick Site, Littlehampton generating cumulative profits of £3.5 million

Q3 2012
September—November

- Acquisition of 19-acre site on the Greenwich Peninsula in joint venture with Cathedral Group
- Acquisition of £40.0 million real estate bank loan portfolio

Q4 2012
December—February

- Planning consent secured at The Old Vinyl Factory, Hayes for £250 million regeneration scheme
- Practical completion reached at Eastgate Quarter, Llanelli – now 88 per cent let
- Practical completion reached at mixed-use scheme, Lawley Village, Telford – 70 per cent of retail units let
- Exited Westminster Palace Gardens following sale of freehold generating cumulative profits of £4.3 million
- Marcus Shepherd joins as new Finance Director

Q1 2013
March—May

- Resolution to Grant Planning secured at £85 million scheme, Cross Quarter, Abbey Wood, London
- Contracts exchanged for sale of residential consented land at Broughton, near Chester for £11.4 million

399 Edgware Road, London

Wick Lane Wharf, London

Cross Quarter, Abbey Wood, London

Westminster Palace Gardens, London

Wick Site, Littlehampton

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year-at-a-glance

Operating Review

Developing further

10 Hammersmith Grove, London.

Development and trading

Kensington Church Street, London

Development and trading

The MVMNT, Greenwich, London

Development and trading

Chrome Portfolio: Acre House, Covent Garden, London

Major developments

10 Hammersmith Grove, London

Development and trading portfolio

The IPD headline Total Return figure of 2.4 per cent masks the continued divergence in returns between London and the rest of the UK. Over 2012, values in Central London rose by 4.7 per cent but fell by 6.0 per cent outside of the capital. The polarisation of prices has now reached unprecedented levels.

Overview and performance

We have chosen to apply our expertise and equity in seeking to use the yield differential between secondary and prime assets to our advantage. Our focus since the 2008 financial crisis has been to acquire secondary or tertiary assets which, through repositioning and redevelopment, can be sold into prime markets.

Since 2009, we have acquired over 40 assets within our development and trading portfolio covering a range of sectors and opportunities. We have partnered with expert operators where appropriate and with larger capital providers where the individual asset size does not suit our risk profile. The majority of these acquisitions have been within parts of the market that are in distress, whereby the terms of trade move in our favour to create attractive buying opportunities.

We have continued to focus on sectors and locations with strong demand including food-anchored retail schemes, mixed-use regeneration projects, student accommodation and selected residential schemes. Our portfolio is largely focused on London, the South East and Manchester, locations of relative economic strength.

Since 2009, we have secured planning consent for change of use on 28 assets across all of our property interests. In most cases, this has involved repositioning vacant or redundant sites to create real estate opportunities for which ultimate demand is strong.

The Old Vinyl Factory, Hayes
Masterplan

Loan portfolio acquisitions

This has become an increasing focus of activity for your Company. We believe that the banks' ongoing need to reduce their exposure to real estate is structural rather than cyclical, with the impact likely to be felt for at least the next five years. Banks are increasingly better organised and more realistic about values. The challenge for us is to identify those assets that the banks bring to market that have significant upside opportunity, and where we can apply our development or asset management expertise to drive value.

During the year, we acquired two real estate loan portfolios from banks. The Chrome portfolio was acquired in August 2012 from NAMA for £103.0 million in partnership with the Pears Group. The underlying real estate comprised several Central London residential properties, accounting for approximately 65 per cent of the portfolio by value with the remainder consisting of neighbourhood retail schemes anchored by Tesco convenience stores and further residential, high street retail and commercial assets. The second acquisition of £40.0 million was completed in October 2012 comprising bank loans secured against 17 investment and development assets located in London and the South East of England. The portfolio consisted of 76 per cent commercial and 24 per cent residential assets. To date, a significant element of the underlying properties within these loan portfolios has been sold. The majority of the remaining properties will either be sold or actively repositioned through change of use, refurbishment or other asset management initiatives by the end of the current financial year.

Disposals

During the year, we were pleased to report increased profits of £28.1 million arising from our current development and trading activity through selected disposals of a number of the properties and developments acquired since our first equity raise in 2009. At Westminster Palace Gardens, we completed the disposal of the final freehold element of this scheme taking cumulative total profits to £4.3 million and representing an IRR of 31.1 per cent. At the Wick Site, Littlehampton, having obtained planning consent, we completed the sale of the property to Morrisons taking cumulative total profits on this scheme to £3.5 million and representing an IRR of 27.2 per cent. Further disposals have been achieved within the Rock portfolio with only one property now remaining, for which a sale contract has been exchanged. Total profits booked to date across the portfolio equal £8.1 million, an IRR of 40.9 per cent. These disposals validate our strategy, whereby we have added value through the repositioning of undervalued assets and created product that can be sold into the prime or near-prime markets. We anticipate further disposals across our development and trading portfolio, at similar levels of profitability in the coming years.

Planning gain

The driver for a significant element of the above gains is the improvement in value derived from securing planning consents for a change of use, as the assets are repositioned into different product for which good demand exists. During the year, we achieved notable success at The Old Vinyl Factory, Hayes, where we secured planning consent for a £250 million regeneration project. This significant scheme, covering an 18-acre site which is largely derelict and vacant, will deliver a comprehensive new mixed-use development.

In April this year, we were pleased to secure Resolution to Grant Planning at our ten-acre site, Cross Quarter, Abbey Wood, London. This planning success followed on from the announcement in July 2012 that we had secured a pre-let to Sainsbury's for an 81,000 sq. ft. foodstore to anchor this scheme. It is less than two years since we first acquired this derelict site from LPA receivers acting on behalf of Lloyds Banking Group. The consented mixed-use scheme is now being marketed for funding.

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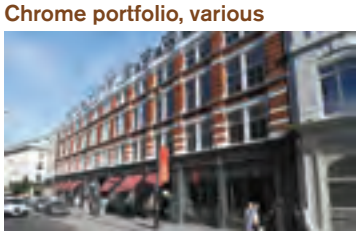
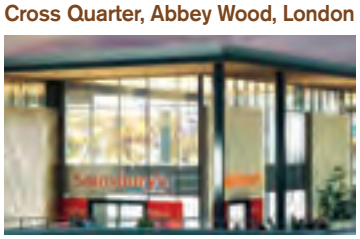
Development and trading property portfolio

Property status key

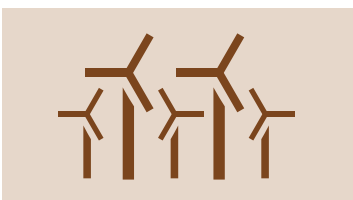
Planning submitted | Planning secured | Acquisition | Under construction | Practical completion | Sales achieved | New lettings | Forward-funded

Asset name/location	Overview	Progress in 2013
Chrome portfolio, various 	Acquired: August 2012 ▪ £103.0 million real estate loan portfolio acquired in joint venture with the Pears Group. Underlying real estate comprises 65 per cent Central London residential assets with the remainder consisting of neighbourhood retail schemes anchored by Tesco convenience stores and further residential, high street retail and commercial assets	▪ A number of loan repayments have been achieved through the sale of underlying real estate assets ▪ Selected assets will be repositioned through planning change to enhance value ahead of ultimate disposal
Westminster Palace Gardens, London 	Acquired: June 2010 ▪ Period Grade II listed building in Central London acquired for £10.1 million consisting of commercial, residential and retail space ▪ Planning consent achieved for conversion of office to residential providing 23 new luxury apartments which were pre-sold	▪ Office, retail and freehold elements sold during the year taking cumulative profits to £4.3 million and representing an IRR of 31.1 per cent ▪ Scheme now fully exited
Rock portfolio, various 	Acquired: October 2010 ▪ Portfolio of properties acquired for £23.2 million from administrators acting on behalf of Lloyds Banking Group. A mixture of commercial, leisure and residential assets across the UK	▪ Business plan for the assets now complete ▪ Total profits of £8.1 million achieved to date representing an IRR of 40.9 per cent
399 Edgware Road, London 	Acquired: 2005 ▪ Seven-acre development site in North West London. Former site of Oriental City, an Asian retail and food centre	▪ Planning application submitted for a foodstore anchored mixed-use development including: – 80,000 sq. ft. Morrisons (pre-let) – 183 residential units – a new Asian foodcourt and retailing centre
Cross Quarter, Abbey Wood, London 	Acquired: May 2011 ▪ Ten-acre gateway site for redevelopment adjacent to Abbey Wood station (South East terminus of Crossrail)	▪ Resolution to Grant Planning secured for a foodstore anchored mixed-use scheme comprising: – 220 homes – 80-bed hotel – 5,000 sq. ft. of commercial space – 81,000 sq. ft. foodstore ▪ Pre-let secured with Sainsbury's for foodstore anchor

Asset name/location	Overview	Progress in 2013
Kensington Church Street, Central London 	Acquired: June 2011 ▪ One-acre gateway site in Central London including 14-storey office block, retail units and car park ▪ Acquired in joint venture with Brockton Capital	▪ Feasibility study undertaken and pre-application meetings held with Royal Borough of Kensington & Chelsea regarding the site's potential for a comprehensive mixed-use development ▪ Planning application to be submitted later in the year
Wick Site, Littlehampton 	Acquired: July 2010 ▪ Seven-acre site and former headquarters of the Body Shop International acquired for £7.6 million ▪ Planning consent secured in February 2012 for a food-anchored redevelopment, including a 47,500 sq. ft. foodstore which was pre-sold to Morrisons	▪ Sale to Morrisons completed in July 2012 taking total cumulative profits to £3.5 million and representing an IRR of 27.2 per cent
The MVMNT, Greenwich, London 	Acquired: September 2010 ▪ 350,000 sq. ft. mixed-use development adjacent to Greenwich DLR station comprising: – 181 residential units – 358-bed student accommodation – 106-bed hotel – 7,000 sq. ft. of business incubator units ▪ Practical completion anticipated in Q3 2014	▪ Sale of first two phases of scheme now complete generating overall gains to the Group of £1.3 million in the year: – sale of residential element to Willmott Dixon for £16.2 million – sale of land to McLaren for development of 358-bed student accommodation scheme for £9.0 million – 106-bed hotel pre-let to Travelodge. Terms agreed for funding of this element of the scheme – additional sale of incubator units to Greenwich Enterprise Board
The Old Vinyl Factory, Hayes 	Acquired: April 2011 ▪ 18-acre development site in Hayes, West London, acquired in joint venture with Cathedral Group for £16.0 million ▪ The former HQ of EMI, the site contains one occupied office building and several vacant industrial buildings	▪ Planning consent secured for a £250 million mixed-use regeneration project comprising: – up to 642 residential units – 550,000 sq. ft. of new commercial space – a nine-screen multiplex cinema – a central street running through the development with cafes and restaurants ▪ Discussions underway regarding residential delivery strategy
Shepherds Bush Market, London 	Acquired: May 2010 ▪ Six-acre development site including the existing Shepherds Bush market ▪ Outline planning consent secured in February 2012 for a comprehensive regeneration including: – up to 212 residential units – new retail and leisure units – a revitalised market at the heart of the scheme	▪ CPO made by London Borough of Hammersmith & Fulham council to gain vacant possession of site ▪ Awaiting outcome of judicial review which is due for full hearing in July 2013

Property status key

Asset name/location	Overview	Progress in 2013
Morden Wharf, Greenwich, London 	Acquired: March 2012 ▪ Part-leasehold, part-freehold, 19-acre site on the Greenwich Peninsula acquired in joint venture with Cathedral Group. The site is cleared, remediated and vacant bar an office building and two warehouses totalling c.128,000 sq. ft.	▪ Continuing to generate short-term income to cover head rent ▪ Development of masterplan and negotiations with freeholder ongoing
328 Sandbanks Road, Dorset 	Acquired: February 2011 ▪ Five luxury waterside apartments developed on the site of a former single residence in a prime location on the Sandbanks coast	▪ Practical completion of development reached in November 2012 and sale of penthouse apartment for £3.8 million achieved shortly thereafter and at a record price per sq. ft. for Sandbanks ▪ Marketing remaining apartments for sale
Rembrandt House, Watford 	Acquired: January 2011 ▪ 3.4-acre site comprising offices and industrial uses including a four-storey office building ▪ Planning permission secured for a residential development of 107 units plus the refurbishment of the existing office building	▪ Demolition and site preparation works underway to prepare the site ready for sale
Lawley Village, Telford 	Acquired: June 2008 ▪ 4.5-acre urban development site comprising: – 40,000 sq. ft. Morrisons foodstore anchor (forward-funded to a client of LaSalle Investment Management) – 15,700 sq. ft. retail units – 39 residential units – nursery and extra care accommodation	▪ Practical completion of Morrisons foodstore, first phase retail units, 39 residential apartments and public house ▪ 70 per cent of retail units let ▪ 12 residential units sold or under offer ▪ Pre-sale turnkey secured for extra care accommodation, public house and nursery unit for a total of £12.5 million
Eastgate Quarter, Llanelli 	Acquired: April 2009 ▪ 100,000 sq. ft. edge of town leisure scheme comprising: – six-screen cinema – 22,000 sq. ft. of restaurants – 21,000 sq. ft. of offices – 53-bed budget hotel – 236 car parking spaces – 11,500 sq. ft. of retail accommodation – a new bus interchange	▪ Practical completion reached in January 2013 and scheme now 88 per cent let or under offer in terms of rental income (93 per cent in terms of floor area) ▪ Pre-lets secured in the year to Odeon, Carmarthenshire County Council, Travelodge, Greene King, Costa Coffee and Nandos ▪ Marketing for sale

Asset name/location	Overview	Progress in 2013
Airport House, Croydon 	Acquired: July 2010 ▪ Iconic commercial building in Croydon comprising 61,800 sq. ft. of serviced office accommodation, 3,500 sq. ft. of conference rooms plus ancillary space	▪ Occupancy rates increased by 4.2 per cent in the year to 72.2 per cent to enhance value ahead of ultimate disposal ▪ Further options being explored to convert redundant space into further office units
The Square, Hale Barns, Manchester 	Acquired: March 2010 ▪ Retail-led mixed-use redevelopment comprising a 30,000 sq. ft. foodstore anchor (pre-let to Booths), additional retail space and 24 residential units	▪ CPO confirmed to gain vacant possession of site ▪ Redevelopment to commence in Q4 2013 as well as off-plan marketing of residential units ▪ Demolition works underway to prepare site for redevelopment
Friarsgate Shopping Centre, Lichfield 	Acquired: July 2011 ▪ 395,000 sq. ft. retail-led mixed-use regeneration scheme in Lichfield city centre	▪ Discussions ongoing with national retailers to secure an anchor retail tenant and pre-lets for the additional retail and leisure units ▪ Scheme now fully owned by the Group
Luneside East, Lancaster 	▪ 17-acre site with outline planning for a residential-led mixed-use development comprising: – up to 350 residential units – 80,000 sq. ft. of business space – 25,000 sq. ft. hotel – 11,000 sq. ft. of ancillary space	▪ £4.0 million grant funding secured from the Local Enterprise Partnership which triggered the start of remediation works on site to prepare it for redevelopment ▪ Discussions underway with a housebuilder for the sale of the residential element of the scheme
Strategic Partnerships		
Barwood 	Acquired: January 2010 ▪ Joint venture operation with Barwood Group to secure land promotion and strategic land opportunities across the UK. Partnership focuses on promoting land through the planning process for primarily residential development. 19 sites currently under control	▪ Six sites secured in the year ▪ Three planning consents granted for residential-led development
Wind farms 	Acquired: August 2011 ▪ Joint venture arrangement with Njord Energy to secure and promote sites for medium-sized, onshore wind farms	▪ First two planning applications are being prepared for submission in June 2013 with further applications to follow in the year ▪ Five sites under contract

Major developments portfolio

Speculative office development is in a better place now than this time last year.

Two Kingdom Street,
PaddingtonCentral

From top: **Cambourne Business Park,** Cambridgeshire
Cambridge Science Park, Cambridge

At Two Kingdom Street, PaddingtonCentral, we were delighted to secure a letting of 30,000 sq. ft. net to events company i2i. This followed on from our successful letting of a further 26,000 sq. ft. of space to Statoil, an existing occupier at One Kingdom Street, on a 15-year lease in June 2012. Some 50,000 sq. ft. net remains to be let at Two Kingdom Street, and there is interest in the space. Our next phase will be Four Kingdom Street, a building of 140,000 sq. ft. net offices, and we are exploring occupier interest for this building which, with a part of its substructure already built, can be delivered rapidly for fitting out within 15 months.

10 Hammersmith Grove, forward-funded by Scottish Widows Investment Partnership Property Trust for £50.0 million, started in January 2012 and is proceeding towards completion in Q2 2013, on time and within budget. We are pleased with progress and encouraged by the emerging quality of the product. At the time of writing, there is good occupier interest in the majority of the space. In the West London market, from Paddington to Chiswick, there is no other new space of this quality on offer. Letting 10 Hammersmith Grove will of course clear the path for a start on the adjoining site at 12 Hammersmith Grove, where we have already obtained planning permission. Investor appetite for the product would of course be much improved by any letting success at number 10.

At Cambourne Business Park, Cambridgeshire, a 50-acre site where twelve acres remain to be developed, we have started to see some improvement in activity from prospective office occupiers. Whilst this is not at the level to justify speculative development, it is a

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hopeful sign for the future. In addition we have commenced discussions with South Cambridgeshire District Council to obtain residential planning consent for 250 units on part of the remaining undeveloped land.

We are acting as development managers on a scheme to bring forward the last three undeveloped sites at Cambridge Science Park totalling 145,000 sq. ft. of laboratory and research space which was launched in November 2012. We have seen considerable tenant interest. A new outline planning application has been submitted and, subject to pre-lets, we anticipate a start on site being made by December 2013.

At Brunel Place, Slough, we are now beginning to raise the profile of this project, comprising 350,000 sq. ft. net offices, for which we have detailed planning consent and which we acquired from Slough Borough Council in April 2010. The improvement works to the centre of Slough, including its handsome new bus station adjacent both to our site and to the railway station, are now complete. With Crossrail now less than five years away, investor and occupier interest is likely to grow. Slough is a location that is increasingly attractive to the cost aware occupier as West London's office rents go through a period of above average increase driven partly by the conversion of many sites in this market from office to residential.

Brunel Place,
Slough

Market conditions at St Bride Street in the City prevented our leasing the new building quickly enough to obtain any development profit share from our funding partner to whom we pre-sold the building before construction started. We did, however, earn project management fees of £0.4 million in prior years. Curzon Street, Birmingham, has also seen no improvement in outlook. Here we have planning consent for c.1.4 million sq. ft. of mixed-use development which remains blighted by its part designation as the future site of the new HS2 railway station.

In conclusion, we believe we are now seeing a market returning to some sort of equilibrium. Modest occupier demand fuelled by lease events rather than GDP growth will encourage a modicum of new office development, either pre-let or speculative, financed very largely by equity investors.

10 Hammersmith Grove,
London

Investment portfolio

New lettings and lease regears during the year reduced void rates to 9.7 per cent and grew rental income by £0.6 million. Nonetheless, our portfolio declined in value as prime and secondary yields diverged further.

Atlantic Village,
Bideford

The Furlong Shopping Centre,
Ringwood

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Overview and performance

Our investment portfolio comprises a range of assets, largely neighbourhood retail schemes anchored by a foodstore (44.9 per cent of our portfolio). Such assets provide opportunities to enhance value through income growth, asset management and selected refurbishment or redevelopment. We have targeted assets with high cash returns and which offer potential for value growth through proactive asset management.

During the year, our investment portfolio, including our share of joint venture investment assets, declined by £12.8 million, representing a fall of 4.7 per cent. The decline in our investment portfolio, with no representation in Central London, compares to the 4.2 per cent decline in the UK IPD 12-month Capital Index and compares favourably to the 6.0 per cent decline in the same IPD Index but excluding Central London.

With GDP outside of London declining gradually, it is perhaps not surprising that investment values are falling. The number of transactions is low and loan originations by banks are also constrained by liquidity and capital reserve issues within the financial sector. Consequently, weak holders are compelled to accept lower disposal values, thus providing weak comparable data for the valuers to fix upon.

The resultant valuations do not portray the value that might be generated were these assets to be brought by ourselves to market for sale. For example, in March 2013 we disposed of a leisure scheme in Burnley for £4.5 million generating profits of £0.5 million. This sales value was approximately ten per cent above the valuation to which the valuers were guiding us prior to the disposal.

It is quite possible that these conditions could create a continuing downward spiral until price clearing levels have been reached. In the medium- to long-term this can only be healthy for the market, if perhaps not for the banks.

It is apparent to all that parts of the retail landscape are undergoing a significant structural change. Although many shops are closing, retail capacity is in fact increasing as remote retailing takes an increasing share of sales. We anticipate that secondary high streets and non-destination town centres will continue to decline and, where appropriate, we will strengthen the trading profile of our retail assets as best we can against this trend. For example, at Atlantic Village, our retail outlet scheme in Bideford, North Devon, the planned extension of the Marks and Spencer unit has attracted several further high street brands. This scheme will benefit from a second phase, Atlantic Park, to be developed and which will comprise further leisure amenities to increase critical mass at this destination and in turn the extension to the centre where planning for 100,000 sq. ft. of trading space has been secured. At our local shopping centre in Thatcham, we acquired two units to consolidate our ownership of the centre allowing us to maintain greater control over the marketing of the entire scheme to national retailers and high street brands. We are now progressing plans to extend and upgrade the asset in order to further enhance tenant quality.

Outlook

We fully anticipate that values will eventually recover as GDP growth emerges to benefit investors with robust balance sheets. We believe that each of our investment portfolio assets has a well-conceived real estate strategy and that value will be recaptured to a substantial extent.

Top five occupiers as at 28th February 2013

	Annual rent £'m	% of contracted rent
Waitrose	1.8	11.8
Primark Stores	0.5	3.2
Sports World	0.5	3.1
Martin McColl	0.5	3.1
Brausch & Co	0.4	2.7

Investment property key statistics

Investment property – key statistics

	Portfolio value £m	Contracted rent £m	Number of assets held No.	New lettings in period £m/sq.ft.	Initial yield* in period %	Equivalent yield* %	Voids* %	Rate of rental collections within 30 days %
28th February 2013	**220.07**	**15.47**	**42**	**£0.43m/40,349 sq.ft.**	**7.50**	**7.89**	**9.70**	**96.25**
29th February 2012	237.90	14.89	42	£0.80m/67,100 sq.ft.	6.72	7.45	11.43	95.28

*Based on the core investment property assets only.

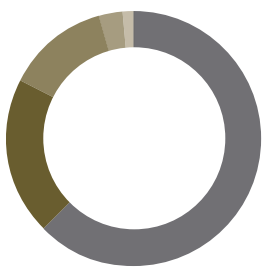
Income generating properties – Like-for-like rental income received

Year ended 28th February 2013

	Property owned throughout the period £'000	Acquisitions £'000	Disposals £'000	Total rental income £'000
Investment	**13,678**	**2,005**	**349**	**16,032**
Development and trading	**935**	**1,048**	**636**	**2,619**
Joint ventures	**1,728**	**1,381**	**–**	**3,109**
	16,341	**4,434**	**985**	**21,760**
			14-month period ended 29th February 2012	
Investment	15,716	957	255	16,928
Development and trading	837	1,081	2,158	4,076
Joint ventures	1,986	814	—	2,800
	18,539	2,852	2,413	23,804

Completed investment portfolio – 28th February 2013

Gross rental income – Tenant profile



PLC/Nationals	62.7%
Local Traders	20.0%
Regional Multiples	13.0%
Government	3.0%
FTSE 100	1.3%

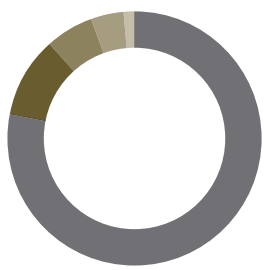
Gross rental income – Lease term profile

0 – < 5 years	35.1%
5 – < 10 years	37.6%
10 – < 15 years	11.2%
15 – < 20 years	7.1%
20 years +	9.0%

Capital value – Location profile

South East	46.9%
South West	17.5%
North	11.8%
London	10.8%
Wales	9.3%
Midlands	3.7%

Capital value – Sector analysis



Retail	78.2%
Industrial	10.3%
Mixed	6.1%
Office	4.1%
Residential	1.3%

Investment property portfolio

Property status key

Planning submitted | Planning secured | Acquisition | Under construction | Practical completion | Sales achieved | New lettings | Forward-funded

Asset name/location	Overview	Progress in 2013	Key Metric
Manchester Arena Complex, Manchester 	▪ Largest indoor venue in Europe and the second busiest venue in the world by ticket sales. Ownership includes office units and car park and the site is adjacent to Manchester Victoria train station ▪ Arena operated by SMG on a 25-year lease subject to fixed uplifts ▪ Joint venture scheme with Patron Capital	▪ Asset management initiatives included the retendering of external advertising space increasing advertising income substantially ▪ Consultants appointed to retender the naming rights to the arena	0.8 per cent positive revaluation, outperforming IPD Monthly Index by 4.8 per cent
Wick Lane Wharf, London 	▪ 112-bed residential block in Hackney Wick, East London acquired in April 2012 in joint venture with Realstar Group	▪ Planning consent secured for conversion from live/work to private residential units ▪ Full occupancy achieved in four months on the available rental units, 5.0 per cent ahead of ERV	100 per cent of available units let
Atlantic Village and Atlantic Park, Bideford 	▪ 110,000 sq. ft. outlet scheme in popular tourist town anchored by ASDA (not in our ownership) ▪ Key tenants: Nike, Marks and Spencer, Gap, Holland & Barrett	▪ Extension of Marks and Spencer in advanced progress ▪ Discussions ongoing with several national high street retailers interested in taking space ▪ At Atlantic Park, planning submitted for first phase of development including a hotel/pub and drive-through fast food restaurant. Conditional land sales agreed with McDonalds and Premier Inn	Base rent increased by £177,000
The Furlong Shopping Centre, Ringwood 	▪ 85,000 sq. ft. retail centre anchored by Waitrose in an affluent catchment area ▪ Key tenants: Jaeger, Hobbs, AGA, Phase Eight, Joules and Crew Clothing	▪ New tenants secured including Joules, Gerry Weber, a local childrenswear brand and an outdoor wear specialist ▪ Plans for extension of the scheme progressing with planning to be submitted this year	£255,000 of new income added in the year. Waitrose income uplift of 13 per cent

Asset name/location	Overview	Progress in 2013	Key Metric
Weeke local shopping centre, Winchester 	▪ Local centre anchored by a 33,000 sq. ft. Waitrose foodstore ▪ Key tenants: Costa Coffee and Boots	▪ Units reconfigured to extend Costa Coffee unit and increase income secured ▪ National and foodstore covenants improved from 90 per cent to 92 per cent of total income ▪ Weighted unexpired lease term improved to 13.4 years	Valuation increase of 1.4 per cent
Great West Trading Estate, Brentford	▪ 163,000 sq. ft. of West London multi-let industrial estate	▪ Estate now fully let except for one refurbished unit	New letting at 15 per cent ahead of ERV
Crown Glass Shopping Centre, Nailsea 	▪ Local shopping centre in a Bristol suburb anchored by Waitrose (not in ownership) and a mixture of national mutliple and local retailers ▪ Ownership also includes a large car park with development potential for additional retail floorspace ▪ Key tenants: WHSmith, JD Wetherspoon, Boots and HSBC	▪ Lease regears completed with key tenants including Iceland ▪ Former Peacocks store let to 99p Store ▪ Refurbishment of offices completed	Net operating income increased by £57,000
Bexleyheath, Kent 	▪ Prominent retail parade located on the pedestrianised high street in Bexleyheath, Kent ▪ Key tenants: Primark, Rymans and Halifax	▪ Lease renewal to Rymans	5.2 per cent valuation decline as high street shops continue to be devalued coupled with ERV loss in the town
89 – 107 Queen Street, Cardiff 	▪ Unbroken retail parade comprising eight shop units in central Cardiff	▪ Marketing one unit which is currently vacant following tenant administration	Valuation decline due to market-driven yield shift
Kingsland Shopping Centre, Thatcham 	▪ 42,000 sq. ft. local shopping centre anchored by Waitrose foodstore ▪ Key tenants: The Co-operative, Costa Coffee and Lloyds Pharmacy	▪ Two units acquired to complete scheme ownership and increase rental exposure to better quality, national retailers ▪ Extended lease agreed with Costa Coffee in a larger unit ▪ Plans progressing to extend and upgrade the centre	Four new lettings in the year

Our approach

We recognise the significant impact that our large-scale property developments can have on a diverse range of groups. Our stakeholders include our employees, shareholders and co-investors and also our suppliers, our tenants and their employees, their customers and the communities surrounding our properties.

A full summary of our CSR achievements in 2012/13 can be found on our website at www.developmentsecurities.com

Our approach

We work constructively within the strong framework of regulation that exists to balance the interests of all these groups. However, there are many situations in which exceeding minimum standards creates economic, social and environmental benefits, contributing to the sustainable success of your Company, and the maintenance of its reputation.

We continue to work to the same high standards that we have reached to date, and we will continue to prioritise those activities with which we believe we can make a positive impact for our stakeholders.

Our business strategy continues to evolve and with it the diversity of our portfolio. Each segment of our portfolio presents different challenges, and provides specific opportunities. We set out, below, our priorities in each segment.

Our governance system

At the start of each financial year the Executive Directors set objectives considering the material issues relating to each of our stakeholder groups, including our corporate social and environmental responsibilities.

Our Head of Delivery, Duncan Trench, sits on both the Investment Board and Project Board and is responsible for co-ordinating CSR activity and reporting consolidated performance information to Executive Director, Julian Barwick.

Performance is regularly assessed by the Executive Directors and new targets are set for the following year.

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Our overall objectives

In all our activities we strive to:

- Achieve and maintain good practice in all aspects of sustainable and responsible development.
- Improve the measurement of what we do and see continuous improvement in our performance.

Respect for people:

- Maintain a collegiate atmosphere and safe working environment for our employees and encourage and facilitate employee development.
- Engage our major suppliers in our sustainable development programmes, share our objectives with them and ensure compliance with health and safety best practice on all of our sites.
- Create diverse and balanced developments that reflect the socio-economic diversity of the local communities and contribute to their enrichment through support for youth programmes, skills development, arts and environmental projects.

Respect for the environment:

- Minimise energy and water consumption.
- Minimise waste from all our operations.
- Appoint suitably qualified consultants to advise on all aspects of environmental protection and sustainable development.

Respect for our industry:

- Contribute to the better working of our industry by participating in debate and publishing research.

KPIs 2013

- Financially supported eleven employees in their professional development
- Committed £76,000 to charitable activity
- Supported five local and national charities
- Directed 99 per cent of waste away from landfill at 10 Hammersmith Grove
- Published an industry-wide research piece ‘Prime Central London: in a class of its own?’
- Included in FTSE4Good Index Series

Report on progress and highlights of 2012/13

A constituent of the FTSE4Good Index Series

Our people

We actively encourage and support our employees with personal and career development. This year we have financially supported eleven employees in their continued professional development and four employees in their study of accountancy, corporate governance and real estate. One employee achieved their RICS qualification, funded by the Group.

Supporting charities

We are active supporters of charitable activity, and not just with money. Three of our Executive Directors act as trustees of charities and we have committed internal resource to assist with their initiatives.

We contribute to a wide range of charities and social enterprises. We particularly focus on those serving the needs of the communities in which we work. We continue to support the Ascension Eagles and St Andrew's Boys Club, our two main chosen charities, believing they benefit from our long-term commitment.

During the year we also directly supported five local and national charities, and several more through sponsorship of our employees' efforts in events such as the London Marathon, the Three Peaks Challenge and an abseil down the façade of Portland House, a Central London office block.

Further financial support has been given to St Andrew's Kitchen, Richard House, the Canal and River Trust and Hammersmith's Lyric Theatre. We also supported a number of fund-raising activities associated with Action for Children, Bayswater Family Centre, Children in Need, the Princes Trust Teaching List and others.

Our total spend on charitable activity in the year ended 28th February 2013 was £76,000.

Construction health and safety

We monitor all our projects for Construction and Design Management (CDM) regulation compliance, and we have established procedures for our joint venture partners to report to us on health and safety matters. All reportable incidents are reported to the Board of Directors. In 2012/13 there were no reportable incidents.

We contract independent CDM consultants for monitoring and management on all our sites. Our briefing documents are standardised and we expect our JV partners to use the same procedures.

This forms the basis of consistent reporting which will allow trend analysis from 2013/14.

Public consideration

All our contractors report on compliance with environmental legislation and 10 Hammersmith Grove is registered with the Considerate Contractors scheme.

Our approach to public consultation at Hayes has shown innovation and inclusivity, with a community run café and local employment opportunities for young people. Our financial commitment to the Lyric Theatre in Hammersmith, close to where we are constructing 10 Hammersmith Grove, has strengthened our relations with local stakeholder groups.

We are also among the founders of 'Proud to be Slough', a campaign aiming to improve perceptions of Slough to the benefit of the community.

Supporting our industry

We believe the property development industry must maintain the highest standards of professionalism and transparency. We contribute actively to industry-wide debate and learning.

In May 2012 we published 'Prime Central London: In a class of its own?', a major research report into the prime Central London residential market, in collaboration with Fathom consulting. We sponsored a research session with Rational House to explore solutions to the current housing scarcity in London.

We have chaired debates at conferences including the BCO in Manchester, a discussion event at MIPIM, and a 'question time' session in Central London.

We will publish further, industry-leading, research during 2013/14.

Protecting the environment

Our principal impacts on the wider environment are in the form of CO2 emissions from construction and use of our properties, and the management of waste from construction.

All our contractors are required to report on compliance with environmental legislation.

We continue to work with architects and contractors to realise best practice in design and construction. We are committed to delivering the most energy efficient and sustainable buildings possible within the constraints established by the brief.

During the year we were independently assessed according to the FTSE4Good Index Series – an equity index designed to facilitate investment in companies that meet globally recognised corporate responsibility standards – and were pleased to have satisifed the requirements to become a constituent.

Major developments

We manage the design and construction of these projects from planning application to delivery. At the outset, and throughout the life of each project, we consider the issues of sustainability, from carbon footprint to sustainable transport and community socio-economic development. By doing these things well we will continue to create premium products for responsible owners.

When planning and bidding for development and investment opportunities, the briefing material we give to our consultants outlines our CSR policies and detailed aspirations. Through early consideration in the design process, safety, sustainability, environmental and social considerations become embedded in the project.

Progress at 10 Hammersmith Grove confirms our ambition to deliver BREEAM 'Excellent' schemes.

In 2012 we commissioned the independent measurement of CO2 emissions and waste at 2 Kingdom Street. During 2013 we will also undertake a full assessment of CO2 emitted in construction at 10 Hammersmith Grove.

In the next year this information will be used in a project to assess the 'cradle to grave' CO2 emissions of our major developments and this will inform our future projects.

Working with our contractor, Wates, we are already achieving demanding targets for waste management during construction. To date, 99 per cent of waste has been diverted away from landfill.

We continue to hold post-completion reviews with local stakeholders at all our major developments to obtain feedback within a year of completion.

Investment portfolio

Our investment portfolio is a diverse range of properties with many types of end use.

During the year we completed a detailed study of selected properties in our current portfolio. This study, undertaken by leading environmental consultancy, Greengage, examined energy use, emissions, waste management, public transport facilities, the provision of public facilities, landscaping and 'public realm' and existing partnerships with local communities. It identified examples of best practice at certain properties and specific opportunities to improve performance at others. It also helped us to develop a set of general principles that, when adopted, will improve our longer-term property management throughout the portfolio.

In 2013/14 we will set targets arising from the findings of this report. Our priority will be on engaging site managers and tenants, monitoring energy use and reducing and recycling waste. We believe that we can apply the findings of this study to increase the attractiveness of our sites for our tenants and to reduce their costs.

As an early priority in 2013/14 we will establish EPC ratings across our investment portfolio and we intend to drive an improving trend in these from 2014.

Development and trading portfolio

The majority of these properties are owned and developed in conjunction with third party partners. Our focus is therefore to play an influential role by working with our partners to ensure good environmental, social and governance practice. This not only helps the spread of good practice across the industry but it also provides an important aspect of risk management for our Group.

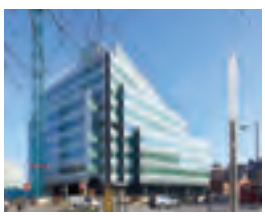
All of our joint venture partners are aware of our commitment to responsible development. We encourage our partners to align their reporting to ours. In 2013/14 we will finalise our preferred supplier list of CDM consultants and we will request that our partners appoint consultants from that list.

In this way we will be able to readily consolidate key information, and analyse trends, regarding, for example, CDM compliance and environmental issues.

Some of our partners are advanced in aspects of CSR and we aim to learn from them to improve our own performance.

Case Studies

Community engagement, The Lyric theatre's production of Cinderella, supported by 10 Hammersmith Grove



10 Hammersmith Grove

Intelligent design, in harmony with the environment.

10 Hammersmith Grove is a new Grade A 110,000 sq. ft. office building, together with restaurant units and significant public realm.

Creating a landmark office building in London does not just affect us, or our building's occupiers. When we began the project, the community, the local environment and the overall sustainability of the building were taken into account.

We engaged with the community extensively throughout the design and planning process, holding meetings with residents, local groups and Councillors, and a public exhibition was held on site. The comments received informed the detailed design, the building lines and the design of the public realm.

We want to deliver the most energy efficient and sustainable building possible within the constraints of the brief. We also want this building to be competitive in the market, as far into the future as possible. Efficient buildings are increasingly in demand from occupiers with their own sustainability agenda. Accordingly BREEAM 'Excellent' buildings are beginning to attract higher premiums in the investment market.

Working in close partnership with our contractors, Wates, and using efficient systems such as Building Information Modelling and the latest in building materials technology, we have achieved a sustainable and efficient build. Waste has been minimised and energy-saving materials were used allowing 99 per cent of waste material to be diverted away from landfill.

The building is clad with customised screen-printed triple glazing to achieve high energy performance whilst keeping the building cool.

Maximum use is made of natural light, and artificial light is introduced only as necessary by automatic dimming controls. Internal lighting is provided by energy-efficient LEDs – the first commercial office in London to use them throughout – providing up to 40 per cent reduction on current good practice building lighting consumption. Solar photovoltaic panels make further savings, providing up to a 10 per cent reduction on current good practice building electrical consumption.

The steel frame core has been refined to achieve a balance between fire protection and weight. This meant that only one coat of intumescent paint was required to meet fire safety requirements. Its light weight also means less transport and fewer foundations are required. The frame can, when necessary, be dismantled and the materials reused. All steelwork and metal decking were prefabricated so that they would fit together on site, minimising waste.

Community engagement

Of equal importance is the presence of the building within the local community. At ground level, public spaces will be planted, sculptured and inviting and there will be new restaurant units with substantial outdoor seating areas for tenants and local residents to enjoy.

Wates and ourselves have actively built relationships within the local community. Wates hold regular residents update meetings as a means to communicate the impact of the development on the local community and monitor feedback.

Wates has also hosted two school visits to the construction site, and one from a local recruitment charity, SPEAR. The purpose of these visits is to educate young people about the construction process and discuss career opportunities within the construction industry.

Through our partnership with the Lyric, a leading community-focused fringe theatre and 10 Hammersmith Grove's near neighbour, the Group and SWIPPT, our funding partner, supported the Christmas Pantomime providing family tickets at concessionary rates.

Over £4,300 raised for Cancer Research UK by Atlantic Village management and tenants

Atlantic Village

The Group has owned Atlantic Village since 2008 and we recognise both the responsibilities and the opportunities we have in the way we manage the site on behalf of all our stakeholders.

Close to Bideford in North Devon, Atlantic Village serves the shopping needs of the local population and of an important tourist industry. It is a major source of local employment and a hub of its community. Meanwhile our retail tenants, local and national brands, are becoming increasingly conscious of their own environmental and social performance.

Environment

Atlantic Village is ISO14001 accredited, providing assurance that environmental impact is being measured and continually improved.

Our focus areas are energy use, water use and waste management. In each area, under our leadership, our tenants have been able to improve their performance and reduce their costs, on a year-by-year basis.

Working with our site manager, each retail tenant has appointed an 'environmental champion'. Together they identify and implement improvements that, over time, can make a significant difference.

Energy, water and waste are centrally measured and the performance of each tenant is published internally. Together the site management and the tenants agree a target percentage reduction in energy, currently standing at two per cent per annum. Rainwater collection, for site cleaning, car washing and garden maintenance, has reduced overall consumption of potable water, by some 12,500 litres per annum.

Waste is centrally managed and closely monitored. In 2012 the site achieved a total recycling rate of over 96 per cent, up from 95 per cent in 2011, with a reduction in disposal costs.

People

Atlantic Village is a significant source of employment in the area and we want it to be a popular place to work. This benefits retail tenants, by improving access to a high quality work force and by maintaining the public perception of the Village as a valuable part of the community.

The site management team arranges for the local college to provide relevant NVQ training, on site, helping employers with access to more skills at low cost. As a further incentive, when an employee moves on to take a level four NVQ qualification, the Group pays their tuition fees. The quality of this work was recognised in 2012 by charity the Green Organisation, with a Gold Green Apple award for training and education.

Combined with good amenities for tenants' employees and opportunities for involvement in community activities, these measures result in low staff turnover rates compared to equivalent sites.

Community

The management team at Atlantic Village takes a proactive approach to community engagement. Many local organisations, from schools to local radio, hold public events at the centre, providing information, entertainment and raising money for charities.

Financial Review

Delivering results as expected from development and trading properties in a weak market.

Whilst the past year has seen less anxiety around European banks, nevertheless in the UK there has been little relaxation of the compression in lending to property companies. Net lending to commercial real estate has been negative in almost every quarter since April 2009, however the amount of loans outstanding to the sector remains stubbornly high, offering little prospect of any imminent increase in appetite from the banks. In addition current and prospective regulatory requirements around risk classification and capital allocation add to the general reluctance to consider anything other than well-let investment property, and inevitably this increases costs for the borrower. There has been significant publicity around the emergence of new entrants into the real estate debt market in the form of insurance based lenders (both domestic and overseas) and debt funds. However, these new sources of debt are still relatively small compared to the reduction in exposure sought by the historic real estate lenders in the UK market.

This difficult context, together with continuing wider economic uncertainty, underlines the importance of maintaining long-term relationships with a trusted group of principal lenders. Indeed, our conservative funding strategy, where we continue to prioritise security and term of funding over cost has enabled us to secure repeat funding from existing lenders and successfully conclude a number of loan renegotiations during the year.

During FY 2013 we drew new debt of £96.8 million, including £73.4 million within joint ventures. We also extended the £47.5 million facility secured on the Manchester Arena Complex by one year (taking maturity to June 2014) and restated the £15.6 million loan in respect of Curzon Street, Birmingham, settling an agreed repayment schedule over 36 months to May 2015 (see note 18(a)). As at 28th February 2013 our weighted average debt maturity was 8.3 years (7.1 years including share of joint ventures), compared with 9.4 years as at 29th February 2012 (8.4 years including share of joint ventures).

In addition to our banking partners, we also work with equity partners on our larger projects, extending our own equity capacity and leveraging our expertise. During FY 2013 we invested alongside some £35.6 million of partner capital, principally in respect of our acquisitions at Wick Lane Wharf and the Chrome portfolio.

As at 28th February 2013 net debt stood at £196.1 million, increased from £184.4 million at 29th February 2012. This represents gearing of 63.9 per cent, just above our normal target range of 50-60 per cent, which is as expected, given a number of asset realisations planned in the near future. As at 1st May 2013 net debt had fallen to £184.4 million, representing gearing of 60.1 per cent.

If joint ventures are excluded, the Group's gearing was 47.9 per cent as at 28th February 2013, compared with 48.8 per cent a year earlier. The Group's loan-to-value ratio, calculated as net debt divided by total property assets was 38.0 per cent (29th February 2012: 37.0 per cent).

Capital structure and liquidity management

The Group's strategy for capital structure and liquidity management is to maintain a conservative balance of equity and debt appropriate to the nature and profile of our asset portfolio, achieving both certainty and flexibility. This takes into consideration our operational strategy and our intention for each asset, together with our expectations for the availability and cost of alternative sources of finance.

Our cash and overall liquidity is managed at Group level, with each of our portfolios assessed and monitored according to their own specific risks. The importance of the development and trading portfolios to our business model has increased the inevitable uncertainty as to timings of cash flows. We keep our liquidity under continual review and maintain cash buffers sufficient to absorb delays in planned asset sales.

Within our debt portfolio we maintain a mix of fixed and variable rates, in general preferring the certainty of fixed rates for our larger and longer-term borrowings. In particular we have taken advantage of current low rates to fix a higher than usual proportion of the portfolio, taking the view that certainty at these levels outweighs the potential savings in floating rates (should current levels persist into the medium-term). For shorter-term facilities we also consider caps, though the high volatility of rate expectations has typically made these instruments expensive to purchase.

As described on page 6, the Group limits the risks inherent in the exposure to major development projects through the principle of forward sales. This is achieved in various ways, from the completed forward sale of the land and project assets, through to the contracted sale of the prospective development, with appropriate guarantees of completion. The Group's direct contribution to more modest development project finance is provided by way of equity and medium-term bank facilities which provide the necessary flexibility to draw down funds as required.

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

Responsibility for management of cash and liquidity risk rests with the Board. The executive team has systems in place for the monitoring and management of this key aspect of our business. Daily review is delegated to the Finance Director, who discusses this with the other members of the executive team at least on a weekly basis. The Board formally reviews the position at its meetings, which occur eight times a year.

The principal tools of assessment are: 15-month, risk-analysed cash flow forecast, which is updated in full on a quarterly basis and monthly for material changes; a schedule of agreed bank facilities and amounts drawn against them; a summary of net debt, including derivative instruments; a summary of current cash deposit balances; and a formal commentary on the position prepared by the Finance Director for each Board meeting.

For the longer-term, the Directors review the Group's capital structure, taking account of the real estate cycle, any changes in the nature and liquidity of the Group's asset portfolio, the likely forthcoming risks and opportunities for the Group, and the market for equity and debt finance. This is formally revisited at least twice a year, via the Group's Risk Committee, which reports to the Board, and at the Board's annual strategy review. In addition this is discussed as appropriate at each Board meeting.

Medium-term liquidity is provided through a mix of the Group's equity and its debt facilities. Our continuing strong relationships with several major lenders mean that the Group has not been restricted in raising new debt for both investment and development projects.

Reflecting the nature of the Group's business, short-term liquidity requirements are fairly predictable. Cash requirements are monitored on a monthly and weekly basis, and short-term cash balances are deposited accordingly.

Cash management

Cash may be invested across a range of instruments, including instant and term deposit accounts, money market funds and commercial paper. Our policy prioritises security and liquidity ahead of returns, and the Board has set limits for both minimum credit ratings and maximum concentrations with respect to counterparties. As at 28th February 2013 the Group had £59.2 million of cash held across nine banks.

Current bank facilities and borrowings

The Group's bank facilities are set out in the following table. As at 28th February 2013 the value of the Group's borrowings was £206.0 million (29th February 2012: £203.1 million). Cash balances were £59.2 million (29th February 2012: £50.2 million), including amounts of £11.5 million held as restricted deposits, giving net debt of £146.8 million and gearing of 47.9 per cent (29th February 2012: £152.9 million and 48.8 per cent).

The Group's share of net debt in joint ventures was £49.3 million (29th February 2012: £31.5 million); if this is aggregated with Group balances, net debt rises to £196.1 million and gearing to 63.9 per cent (29th February 2012: £184.4 million and 58.9 per cent).

During the year the Group, together with its joint ventures, has drawn new borrowings of £96.8 million, in addition to the extension of £63.1 million of loans in respect of Manchester Arena and Curzon Street. We have repaid a total of £54.3 million following successful project completions.

We drew a development loan of £6.2 million from Santander in respect of the Eastgate Quarter, Llanelli; this was repaid and refinanced in the year with an investment facility of £9.0 million, also from Santander.

In respect of projects held in joint venture, we borrowed £62.4 million from HSBC in respect of the £103.0 million loan portfolio acquisition, of which we repaid £30.8 million from asset sales, and £11.0 million from Royal Bank of Scotland, in respect of the acquisition of Wick Lane Wharf.

During the year the Group, together with its joint ventures, has drawn new borrowings of £96.8 million.

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Group's bank facilities

Facility type	Notes	Total facility £'000	Utilised as at 28th Feb 2013 £'000	Interest rate	Maturity	Principal financial covenants[1] Loan to value ratio	Interest cover ratio	Minimum net worth £'000
Loans financing longer-term assets								
Term loan	3	47,500	45,455	Hedged	30-Jun-14	65%	160%	–
Term loan		3,000	3,000	Variable	08-Jul-14	–	–	–
Term loan		9,000	9,000	Variable	02-Jun-14	65%	150%	–
Term loan		5,669	5,380	Hedged	24-Nov-14	60%	150%	–
Term loan		1,531	1,452	Hedged	24-Nov-14	60%	150%	–
Term loan		6,200	5,935	Variable	12-Jul-15	80%	–	–
Term loan		1,550	1,525	Hedged	09-Aug-15	70%	120%	–
Term loan		4,500	4,213	Hedged	06-Oct-15	60%	200%	100,000
Term loan		1,500	1,500	Hedged	06-Oct-15	80%	110%	100,000
Term loan	3	11,000	11,000	Hedged	04-Aug-16	55%	140%	100,000
Revolving credit		38,000	37,913	Hedged	16-Dec-16	70%	105%	–
Term loan		57,565	54,896	Fixed	12-Mar-25	80%	110%	–
Term loan		22,470	21,659	Fixed	12-Mar-25	80%	110%	–
Loan notes	2	32,844	32,844~	Hedged	25-Oct-27	–	–	100,000
Debenture		20,000	20,000	Fixed	06-Jan-16	66%	–	–
Loans financing development and trading assets								
Term loan	3,4	875	875	Variable	26-Sep-13	65%	150%	–
Term loan		15,296	–	Hedged	28-Oct-13	65%	160%	–
Revolving credit	3	2,500	2,500	Variable	30-Mar-14	50%	150%	–
Term loan	3	7,000	6,750	Hedged	30-Mar-14	50%	150%	–
Term loan	3	26,000	26,000	Hedged	23-Jun-14	60%	125%	100,000
Term loan		1,000	907	Variable	08-Feb-15	60%	–	–
Term loan	3	15,610	13,310	Variable	06-May-15	–	–	100,000
Term loan		2,500	982	Variable	10-Jul-15	60%	–	–
Term loan	3	62,400	31,555	Hedged	24-Aug-15	55%	175%	–
Term loan	3	4,550	4,441	Variable	18-Sep-26	65%	150%	–

1 Interest cover ratios are specific to the loan and the relevant property. Minimum net worth refers to the net asset value of the Group per its latest Balance Sheet (28th February or 31st August).
2 These unsecured, variable rate loan notes are denominated in Euros, with a nominal value of €47 million. The Group has entered into a cross-currency interest rate swap, such that interest rates are fixed and the Group will repay a fixed Sterling amount. The minimum net worth covenant applies to the hedge rather than the loan notes.
3 Loans relating to Joint Ventures represent the total loan facility and not the Group's share.
4 This facility has since been refinanced and is now repayable on 18th September 2026.
~ Represents the amount of the Group's liability in Sterling taking account of the hedging instrument.

Gross committed facilities as at 1st May 2013 total £208.9 million, with a weighted average term of 8.0 years, (falling to 6.8 years including the Group's share of joint ventures). The earliest maturities in the portfolio arise in June 2014. Unutilised facilities are £1.6 million.

The Directors keep bank covenants under review, and are content with the current position. We aim to agree our loan-to-value covenants at comfortably tolerable levels, leaving sensible headroom for foreseeable changes in the general market or the specific asset. We also incorporate cure mechanisms into the facility documentation, such that we have an appropriate opportunity to restore the required loan-to-value ratio by making cash deposits or prepayments, which we have done in a small number of cases.

Interest rate risk and hedging

As at 28th February 2013, the summary of the Group's interest rate exposure was as follows:

	Excluding share of joint ventures %	Including share of joint ventures %
Fixed rate	48.0	37.9
Floating rate, swapped into fixed	39.3	38.8
Floating rate with cap	2.8	11.5
Floating rate	9.9	11.8

The weighted average interest rate payable was 5.9 per cent, 5.5 per cent including joint ventures.

As noted in the table in note 18(c), interest rate caps and swaps are used to provide protection against exposure to interest rate fluctuations. The Directors have maintained a mix of fixed and variable rates, in order to provide an appropriate measure of certainty within the portfolio. In view of the low absolute levels of current interest rates, the Directors have been inclined to fix a higher proportion of the portfolio.

Facilities with variable rates of interest, in particular longer-term facilities, expose the Group to the risk of interest rate fluctuation, whilst fixed rate instruments reduce flexibility and incur break costs in the event of early settlement. The Directors keep these risks under continual review, and regularly consider the possibility and likely cost of extending our interest rate hedging.

Interest rate swaps also carry counterparty risk, in respect of the potential failure of the bank on the other side of the transaction. The Group mitigates this risk by dealing only with major banks and monitoring their continuing creditworthiness. There is no current indication that any of the Group's hedge counterparties may be unable to settle its obligations.

Interest rate swaps are marked to market in the Balance Sheet, giving rise to the risk of fair value movements in the derivative instrument, and a consequent impact on net asset value. The Group also holds a cross-currency interest rate swap, which is designated as a cash flow hedge. Movements in the foreign currency leg of this swap provide a hedge against movements in the fair value of the €47 million loan notes. Movements in the interest leg are taken to reserves. The effects of these fair value adjustments in the year ended 28th February 2013 are set out in note 18(c) on page 101.

Other financial instruments risk

Development and trading portfolio

The principal financial instrument risks in these assets are the credit risk of counterparties. Given the nature of these assets the amounts owed to the Group can be significant, and these arrangements are monitored very closely both before contracts are exchanged as part of our due diligence procedures and throughout the execution period.

As at 28th February 2013, the Group had no material, unsecured debtors in respect of the sales of development and trading assets. As the recycling of our development and trading portfolio gains further momentum in the coming months, the Directors will remain alert to counterparty risk, in particular where purchasers are reliant on uncertain bank debt to fulfil their commitments to the Group.

The Group is contracted to provide £5.0 million of development funding for each phase at PaddingtonCentral, in respect of which it earns interest and a profit share, both subject to the profitability of the phase. The Group's development partners, who are contracted to pay this interest and profit share at the completion of each phase, and to repay the capital at the end of the development, are large financial institutions.

This risk capital is held as a development participation within available-for-sale financial assets, and at the balance sheet date was valued at £5.0 million (29th February 2012: £5.0 million), as described in note 18(a) to the Group financial statements. The Directors are satisfied that the combination of the Group's risk-averse approach to development funding, its rigorous selection of development partners and its focused and active management of each project provide reasonable comfort over the risks of these financial exposures.

Investment portfolio

The principal financial instrument risk in the investment portfolio is the credit risk implicit in potential tenant failure which, in the current economic environment, is heightened in all sectors, and most notably amongst retail tenants. The Group maintains the portfolio under continual review. The portfolio is managed by local agents, with active involvement by the Group's investment team. The Board receives at each of its meetings, analyses of tenant profile (including the concentration of credit risk, both by sector and by entity), existing and anticipated voids, overdue rents, and future and outstanding rent reviews, as well as a formal commentary by the investment team. The current profile of the portfolio and comments on performance in the year are set out in the Operating Review on pages 12 to 33.

Projects in partnership

As described in the Operating Review, the Group conducts a number of projects in partnership with others, where the Group brings both development expertise and funding. These interests are carried in a number of balance sheet categories, and are summarised in note 27 to the Group financial statements.

The financial instrument risks in respect of projects in partnership are the credit risk implicit in the financial strength and integrity of the operating partner, the contractual risk in the partnership arrangements and the operating success of the venture. The Group manages these risks by securing appropriate rights in each case over the use of the Group's invested capital and by active participation in the joint strategic and operating control of the ventures.

Contingent liabilities

Contingent liabilities are described in note 24 to the Group financial statements. The Directors ensure that these risks are appropriately documented and monitored, and that the risk of actual liabilities arising is restricted so far as is possible.

Foreign currency risk

The Group's operations are conducted almost exclusively in the UK. The Group's principal exposure to foreign currency movements is in the €47 million Euro-denominated loan notes and the corresponding €6.9 million security deposit. The loan notes are fully hedged to provide an effective Sterling liability. The details of the Group's sensitivity to exchange rate movements are set out in note 18(d) to the Group financial statements.

Maximum credit risk exposure

The Directors consider that the maximum credit risk exposure in each class of financial asset is represented by the carrying value as at 28th February 2013.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out on pages 9 and 10, in the Chief Executive's Report on pages 4 and 5 and in the Operating Review on pages 12 to 33. The financial position of the Group, its cash flows, liquidity position, borrowing facilities and financial instrument risks are described in the Financial Review on pages 39 to 47, which also covers the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk. Note 18 to the financial statements gives further information about the Group's financial instruments and hedging activities.

The Group has considerable financial resources. The Directors maintain a risk-averse capital structure, with gearing typically in the range of 50-60 per cent and long average debt maturities, with borrowings spread across a number of lenders. The Group continues to enjoy access to bank finance, as demonstrated by loans arranged during the year. Banking covenants are regularly monitored and appropriate cure mechanisms are incorporated in facility documents.

The Directors are alert to potential liquidity risk in the Group's cash flow forecast which, in the current phase of operations, includes significant uncertain sales income. The Directors keep both short- and medium-term cash flows under continual review, and moderate outflows according to the level of this uncertainty. The model preserves a cash buffer of £20.0 million at all times, to protect against delays in asset realisations.

The Group's rental income is also subject to risk of delay or non-payment. This risk is mitigated by proactive asset management, which includes close monitoring of tenant resilience, and a strong focus on actual and potential voids.

As a consequence of the above, the Directors believe that the Group is well-placed to manage its business risks successfully, despite the continuing uncertain economic outlook. The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the financial statements.

Total comprehensive income for the year ended 28th February 2013 was a profit of £2.2 million (14-month period ended 29th February 2012: loss of £15.4 million).

Result for the year and movement in net asset value

Total comprehensive income for the year ended 28th February 2013 was a profit of £2.2 million (14-month period ended 29th February 2012: loss of £15.4 million). After dividend payments of £6.8 million, net asset value reduced by £6.5 million to £306.7 million (29th February 2012: £313.2 million) representing a fall of five pence per share to 251 pence per share (29th February 2012: 256 pence per share).

The movement in net asset value may be analysed as follows, excluding revaluation movements, profit before interest and taxation for the year ended 28th February 2013 was £23.8 million (14-month period ended 29th February 2012: £7.5 million, excluding exceptional provision of £2.8 million in respect of the serviced office business). Net interest costs (excluding interest rate swap movements) for the year were £9.3 million (14-month period ended 29th February 2012: £10.1 million) aggregating to a realised profit for the year of £14.5 million contrasting with the realised loss for the 14-month period to 29th February 2012 of £2.6 million.

Investment property revaluation write downs for the year, including our share of joint ventures, totalled £12.8 million (14-month period ended 29th February 2012: £4.1 million write down). This has been a reflection of the continued outward movement in secondary yields and is despite the increase in net rental income as detailed below and discussed in more detail in the Operating Review on Pages 12 to 33.

Net rental income

Gross rental income from the investment portfolio for the year ended 28th February 2013 was £16.0 million. After direct costs of £3.9 million, the net rental income for the year was £12.1 million, which is a 5.5 per cent increase when compared to the £13.2 million for the 14-month period ended 29th February 2012 on a like for like basis.

The Group also earned net rental income of £1.7 million from the development and trading portfolio which is consistent with the £1.9 million earned in the 14-month period ended 29th February 2012.

Development and trading profits

During the year under review, across its direct and joint venture holdings, the Group made development and trading profits of £28.1 million (14-month period ended 29th February 2012: £8.6 million). In addition, the Group made write downs of £2.2 million in respect of a small number of our legacy assets.

Further details of development and trading activities can be found in the Operating Review on pages 12 to 33.

Operating Costs

Operating costs of £13.0 million for the year were broadly in line with the equivalent figure of £14.8 million for the 14-month period ended 29th February 2012. Within this total, staff costs were £7.7 million, comparable with the prior period on a pro-rata basis.

Net finance costs

Finance costs for the year were £12.2 million, slightly higher compared to the £13.2 million for the previous 14-month period on a pro-rata basis. This reflects a full year's charge of facilities taken out during the previous period.

Investment portfolio

During the course of the year, the investment property portfolio has decreased to £220.1 million from £237.9 million at 29th February 2012.

Expenditure during the year included an extension of our ownership at Kingsland Shopping Centre and further capital enhancements to our existing portfolio. During the year the Group disposed of Hollywood Park, Burnley, realising a profit on disposal of £0.5 million.

At 28th February 2013 the valuation of the investment property portfolio has been written down by £12.8 million (29th February 2012: £4.1 million), including our investment properties held under joint venture.

Further details of acquisitions, disposals and valuation movements are set out in note 10 to the financial statements, and further analyses of the performance and management of the portfolio are given in the Operating Review on pages 12 to 33.

Inventory – development and trading properties

During the year the Group concluded the sale of the majority of the Rock portfolio and, in addition, completed the sale of the largest unit at the Sandbanks development. After allowing for continued investment in and development of the portfolio of some £34.0 million and writedowns of £2.2 million in legacy assets, the portfolio stood at £153.4 million at 28th February 2013 (29th February 2012: £155.2 million). Further details are contained within the Operating Review on pages 12 to 33.

Associates and joint ventures

Reflecting our strategy of working with partners and other equity sources, investments in associates and joint ventures has continued to increase during the year. The Group's interests in projects in partnerships are structured in a number of different accounting categorisations. Note 27 to the financial statements summarises the position.

The current carrying values of associates and joint ventures are analysed in note 14. Notable additions to joint ventures are the 50 per cent share in the Chrome loan portfolio and the 35 per cent holding in the Wick Lane Wharf residential asset.

Financial assets and financial liabilities

Financial assets and financial liabilities are analysed in note 18 to the Group's financial statements.

Derivative financial instruments

The Group's Euro-denominated loan notes and the related cross-currency hedge are carried as separate instruments in the Balance Sheet. During the year, Sterling weakened against the Euro, increasing the Sterling liability of the loan by £1.2 million to £40.5 million.

Other financial assets

Other financial assets include the Group's £5.0 million participation in the third phase of PaddingtonCentral (as in previous years) together with loans to a number of joint operations and associate companies reflect the way in which the Group invests in these activities.

The largest loan is to CTP which together with accrued interest at 28th February 2013 totals £15.9 million (29th February 2012: £21.5 million). During the year, repayments of loan and interest totalling £6.9 million were received and a further £1.3 million of funding was provided. During the year the loan to Orion Shepherds Bush Limited was increased by £0.5 million to £3.1 million. In respect of Cathedral Group the previous loan in respect of The MVMNT, Greenwich was repaid in the year and a further £3.1 million was lent in respect of Morden Wharf, Greenwich.

Cash and borrowings

Details of the Group's borrowings and cash management are set out in note 18(b) and (d) to the financial statements and in the Financial Review on pages 39 to 47.

Net debt and gearing		**28th February 2013**	29th February 2012
Gross debt	£m	**(206.0)**	(203.1)
Cash and cash equivalents	£m	**59.2**	50.2
Net debt	£m	**(146.8)**	(152.9)
Net assets	£m	**306.7**	313.2
Gearing	%	**47.9**	48.8
Share of net debt in joint ventures	£m	**(49.3)**	(31.5)
Gearing including joint ventures	%	**63.9**	58.9
Adjusted gearing	%	**38.2**	40.1

The gross debt figure includes the €47 million 2027 Unsecured Subordinated Loan Note facility, stated in Sterling at the current fair value of £40.5 million (29th February 2012: £39.3 million) and ignoring the hedging instrument. If these long-term loan notes are removed from borrowings, gearing falls to 38.2 per cent. This is calculated by deducting from net debt the current fair value of £40.5 million (29th February 2012: £39.3 million) and adding back relevant restricted cash balances of £10.0 million (29th February 2012: £11.0 million) and transaction costs of £0.9 million (29th February 2012: £1.0 million).

Loan to value gearing

Net debt expressed as a proportion of total property assets (including shares of properties and net debt in all projects in partnerships) was 38.0 per cent (29th February 2012: 37.0 per cent).

Taxation

The net current tax credit in the Statement of Comprehensive Income was £0.6 million, principally in respect of non-resident landlord income and prior year adjustments. The Group has significant potential deferred tax asset balances and the Directors previously restricted recognition to the amount of corresponding deferred tax liabilities, as uncertain market conditions did not offer sufficient probability of profits in the foreseeable future. This year however, the Group has recognised an additional deferred tax credit of £1.0 million on certain profits projected in future accounting periods which can be forecast with a high enough degree of certainty. The Group's deferred tax treatment falls within the criteria of IAS 12.

In conjunction with our overall business strategy, the Group pursues a tax strategy that is principled, transparent and sustainable in the long-term. The Group has established ethics regarding its tax policy which have been ratified by the Board; these include the following key points:

- A commitment to ensure full compliance with all statutory obligations including full disclosure to all relevant tax authorities
- Any tax planning strategy entered into is done after full consideration of the risks and those findings are recorded in any relevant structuring document
- The maintenance of good relations with tax authorities and the interaction between tax planning and the Group's wider corporate reputation
- Management of tax affairs in a manner that seeks to maximise shareholder value whilst operating within the parameters of existing tax legislation.

The Group has certain operations in jurisdictions that have been dictated to us by our majority joint venture partners, under most circumstances the Group does not enjoy any fiscal advantage of being in these jurisdictions. The Group has also recently undertaken a Transfer Pricing review to ensure that all cross border services provided are conducted at the appropriate arm's length market rate. The suitability of our tax strategy is kept under constant review to ensure compliance with the fiscal needs of the Group and constant evolution of tax legislation.

Dividends

The Board will recommend to shareholders at the Annual General Meeting on 28th August 2013 a final dividend of 2.4 pence per share (2012: 3.2 pence per share) to be paid on 25th October 2013 to shareholders on the register on 27th September 2013. This final dividend, amounting to £2.9 million, has not been included as a liability at 28th February 2013, in accordance with IFRS. The total dividend for the year will be 4.8 pence per share (14-month period ended 29th February 2012: 5.6 pence per share).

Earnings/(loss) per share

Basic and diluted earnings per share for the year represented a profit of 2.0 pence (14-month period ended 29th February 2012: loss of 10.3 pence). After removing the unrealised revaluation of the investment portfolio, the gain on the disposal of trading properties and impairment of development and trading properties, the EPRA adjusted profit per share was 10.5 pence (14-month period ended 29th February 2012: loss of 8.2 pence).

Performance measures

Key performance indicators are set out below:

		28th February 2013	29th February 2012
Net asset value movement	%	**(2.1)**	(6.0)
Gearing	%	**47.9**	48.8
Loan to value gearing	%	**38.0**	37.0
Development and trading gains	£m	**28.1**	8.6
Total shareholder return	%	**(4.0)**	(25.4)

Five year summary

		2013	2012†	2010	2009	2008
Revenue	£m	**99.7**	80.0	44.4	35.1	171.1
Profit/(loss) before taxation	£m	**0.8**	(10.2)	2.6	(11.4)	(65.6)
Net assets	£m	**306.7**	313.2	333.1	244.0	161.0
Earnings/(loss) per share	Pence	**2.0**	(10.3)	1.7	*(16.8)	*(134.6)
EPRA earnings/(loss) per share	Pence	**10.5**	(8.2)	(11.8)	*(20.3)	*32.1
Net assets per share	Pence	**251**	256	272	297	397
EPRA net assets per share	Pence	**260**	262	276	301	414

*Restated following Placing and Rights Issue.
†14-month period.

Board of Directors

David Jenkins (69)
Non-executive Chairman

Joined the Board in February 2007 and appointed Chairman on 15th May 2007. A Fellow of the Institute of Chartered Accountants in England and Wales. Previously a partner in Deloitte LLP, London, and was Managing Partner of their Real Estate Practice until his retirement in May 2004. Senior Independent Director of MITIE Group PLC and Non-executive Director of Renewable Energy Systems Holdings Limited. He is also advisor to several companies.

Michael Marx (65)
Chief Executive

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

Marcus Shepherd (47)
Finance Director

Appointed to the Board in February 2013. A member of the Institute of Chartered Accountants in England and Wales. Previously Finance Director (Global Real Estate) at Aviva Investors, Chief Financial Officer (Europe) for Valad Property Group from 2007 to 2009 and Group Finance Director of Teesland PLC.

Julian Barwick (59)
Executive Director

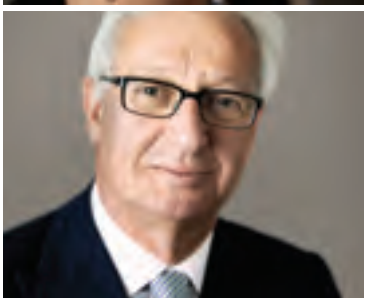
Appointed to the Board in May 1998. A Fellow of the Royal Institution of Chartered Surveyors. Formerly property advisor to the Bedford Estate from 1997 to 2003, Chairman of the Paddington Regeneration Partnership from 2000 to 2002 and Board Member of the British Council for Offices from 1996 to 2006. Appointed to the Board of London & Continental Railways Ltd in 2005.

Matthew Weiner (42)
Executive Director

Appointed to the Board in March 2004. A Member of the Royal Institution of Chartered Surveyors. Joined Development Securities PLC in November 2000 as Director of Investments. Trustee of the Manor House Trust.

Sarah Bates (54)
Non-executive Director

Appointed to the Board in January 2010. Currently a Non-executive Director of St James's Place PLC, the Association of Investment Companies and of four listed investment companies, an advisor to several pension and charitable funds and is Chairman of the Stena Line (UK) Pension Scheme. Former CEO of Invesco Asset Management's UK institutional business until 2003.



Nicholas Thomlinson (60)
Non-executive Director

Appointed to the Board in January 2012. A Member of the Royal Institution of Chartered Surveyors. Former Senior Partner and Chairman of the Knight Frank Group.

Directors' Report

The Directors present their report and the audited financial statements for the financial year ended 28th February 2013.

This report contains forward-looking statements. These statements are not guarantees of future performance, rather they are based on current views and assumptions and involve known and unknown risks, uncertainties and other factors that may cause actual results to differ from any future results or developments, expressed or implied from the forward-looking statements.

The Board considers the report as a whole to be fair, balanced and understandable and that it provides all information necessary for shareholders to assess the Company's strategy and performance.

Principal activities

The principal activity of the Company is that of a holding company. The principal activities of the Group during the year were property development, investment and trading.

Incorporation

Development Securities PLC is incorporated in Great Britain and registered in England and Wales, registration number 1528784.

Business review and future developments

A review of the Group's operations, the current state of the business and future prospects, including financial and non-financial key performance indicators and principal risks and uncertainties, is contained in the Chairman's Statement, Chief Executive's Statement, Operating Review and Financial Review, and should be read in conjunction with this report. Further details of the financial and non-financial key performance indicators of the business are disclosed on page 47. The principal risks of the Group are set out on page 11. The information which comprises the business review as required by Section 417(1) of the Companies Act 2006 may be found in the Operating Review on pages 12 to 33 and in the Corporate and Social Responsibility Report on pages 34 to 38.

Results and dividends

The profit for the financial year attributable to shareholders amounted to £2,421,000 (29th February 2012: £12,592,000 loss). An interim Ordinary dividend of £2,934,000 representing 2.4 pence per Ordinary share was paid on 30th November 2012 (27th October 2011: £2,937,000 representing 2.4 pence per Ordinary share). The Board recommends a final Ordinary dividend of 2.4 pence per Ordinary share amounting to £2,934,000 payable on 25th October 2013 to shareholders on the register at 27th September 2013 (26th October 2012: £3,911,000 representing 3.2 pence per Ordinary share). Subject to shareholder approval this makes a total dividend payment of 4.8 pence per Ordinary share for the financial year, equivalent to that of the previous period.

Group structure

Details of the Group's principal subsidiary undertakings are disclosed on page 94.

Share capital

The Company's issued share capital at 28th February 2013 consisted of 122,229,107 Ordinary shares of 50 pence each and 123,397 shares held in treasury which do not have a dividend or voting entitlement. During the year under review the Company purchased a total of 123,397 shares on the open market at a cost of £171,097.61 including stamp duty and expenses, to be held in treasury. The shares purchased equate to a total of 0.10 per cent of the issued share capital (excluding the shares held in treasury). The Company's share capital represents a single class of shares, with all shares ranking equally and fully paid. Details of the share capital are set out on pages 106 and 107.

The rights and obligations attaching to the shares are specified in the Company's Articles of Association, or alternatively may be governed by statute. There are no restrictions on the transfer of shares in the Company other than those specified by law or regulation. There are no restrictions on voting rights other than as specified by the Articles of Association.

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.

Change of control

The Company has entered into significant agreements with its commercial partners, which contain change of control clauses and which may give rise to termination or renegotiation in that event. If enforced, the Company may be deprived of potential future earning capacity from such schemes. The Company is party to a number of committed bank facilities, which upon a change of control, are terminable at the bank's discretion. In addition, under such circumstances, the Company's share option schemes would normally vest or become exercisable subject to the satisfaction of the performance conditions.

Corporate Governance

The Company's statement on corporate governance can be found in the Corporate Governance Report on pages 55 to 61 of the financial statements. The Corporate Governance Report forms part of this Report and is incorporated into it by cross-reference.

Share option schemes

There were no grants under the Save As You Earn Option Plan 2005. Further details of the share option schemes are contained on page 106 and in the Remuneration Report on pages 62 to 68.

Directors

The Directors serving during the year and up to the date of signing the Group financial statements were as follows:

D S Jenkins
M H Marx
M O Shepherd (Appointed 18th February 2013)
C J Barwick
M S Weiner
S C Bates
N H Thomlinson

V M Mitchell (Resigned 28th August 2012)
M S Soames (Resigned 28th August 2012)
G Prothero (Resigned 31st January 2013)

Brief biographical details are shown on page 48.

As required by the Company's Articles of Association, M O Shepherd will offer himself for election having been appointed to the Board since the last Annual General Meeting. All other Directors will be retiring at the 2013 Annual General Meeting and, being eligible, will offer themselves for re-election. The Directors are voluntarily offering themselves for re-election as a matter of best practice in accordance with the UK Corporate Governance Code. Following the performance evaluation of the Board, all Directors were judged to have made a significant contribution to the Board's deliberations, reflecting their commitment to the role. The rules that the Company has governing the appointment and replacement of Directors are contained in its Articles of Association.

Under the Companies Act 2006, a Director must avoid a situation where he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. No conflicts of this sort have arisen during the year under review.

Directors' service contracts and interests in the Company's shares

The details of Directors' service contracts and the interests in the shares of the Company of the Directors who were in office as at 28th February 2013 are disclosed in the Remuneration Report on pages 62 to 68.

None of the Directors had any material interest in any contract that was significant in relation to the Group's business at any time during the year, other than a service contract, and as disclosed in the Remuneration Report.

Directors' and officers' liability insurance

Article 153 of the Company's Articles of Association provides, among other things, that, insofar as permitted by law, every Director shall be indemnified by the Company against all costs, charges, expenses, losses or liabilities incurred in the execution and discharge of the Directors' duties, power or office. The Company maintains Directors' and officers' liability insurance at an adequate level which is reviewed annually.

This third party indemnity insurance was in force during the financial year and also at the date of approval of the financial statements.

Articles of Association

The Articles of Association may be amended by a special resolution of the shareholders.

Annual General Meeting

The Annual General Meeting will be held on 28th August 2013 at 12.00 noon on the 14th Floor, Portland House, Bressenden Place, London SW1E 5DS.

At the Annual General Meeting, the following resolutions will be proposed:

Ordinary Resolution 1 – Report and Accounts

The Directors will present the financial statements and Reports of the Directors and Auditors for the financial year ended 28th February 2013.

annualreport2013.
developmentsecurities.com/
governance/report-of-directors

Ordinary Resolution 2 – Directors' Remuneration Report

Shareholders are given the opportunity by law to vote on whether or not they approve the Remuneration Report and this vote will be in respect of the content of the Remuneration Report and not specific to any Director's level or terms of remuneration. You can find the Directors' Remuneration Report on pages 62 to 68 of the Directors' Report and financial statements.

Ordinary Resolutions 3 to 9 – Election and Re-election of directors

M O Shepherd has been appointed as Director since last year's Annual General Meeting. In accordance with the recommendations of the UK Corporate Governance Code, M O Shepherd will retire at this year's Annual General Meeting and Resolution 9 proposes his election.

The Directors seek to maintain the highest standards of corporate governance and in accordance with the recommendations of the UK Corporate Governance Code, each of the other Directors will voluntarily retire and those wishing to serve again shall submit themselves for re-election by the shareholders at the Annual General Meeting. The Chairman is satisfied that, following individual formal performance evaluations, the performance of the Directors standing for re-election continues to be effective and demonstrates commitment to the role. Biographical details of all the Directors appear on page 48 of the Directors' Report and financial statements.

Ordinary Resolution 10 – Declaration of a dividend

A final dividend can only be paid after the shareholders at a general meeting have approved it. A final dividend of 2.4 pence per Ordinary share is recommended by the Directors for payment to shareholders who are on the register at the close of business on 27th September 2013.

Ordinary Resolutions 11 and 12 – Re-appointment and remuneration of auditor

Resolutions 11 and 12 propose the re-appointment of PricewaterhouseCoopers LLP as Auditor of the Company and authorise the Directors to set their remuneration.

Special Resolution 13 – Authority to purchase own shares

The Company is seeking authority to purchase up to 10.0 per cent of the Company's issued ordinary share capital at, or between, the minimum and maximum prices specified in this resolution. This power would only be used after careful consideration by the Directors, having taken into account market conditions prevailing at that time, the investment needs of the Company, its opportunity for expansion and its overall financial position. The Directors have no present intention of making any market purchases of the Company's shares, but if they believed such action to be in the best interests of shareholders and would enhance net assets or earnings per share, they would consider exercising their authority. As at 30th April 2013 (being the latest practicable date prior to publication of the notice of Annual General Meeting), the Company has an unexpired authority to repurchase 12,235,250 Ordinary shares of which 12,111,853 Ordinary shares remains outstanding.

As at 30th April 2013 (being the latest practicable date prior to publication of the notice of the Annual General Meeting), the total number of options to subscribe for shares in the capital of the Company was 557,203 (approximately 0.46 per cent of the Company's issued share capital and approximately 0.51 per cent of the Company's issued share capital if the full authority proposed by Resolution 13 was used).

Under the Companies Act 2006, the Company is allowed to hold its own shares in treasury following a buyback, instead of cancelling them. Such shares may be resold for cash or used for the purpose of employee share schemes but all rights attaching to them, including voting rights and any right to receive dividends, are suspended whilst they are held in treasury. Accordingly, if the Directors exercise the authority conferred by Resolution 13, the Company will have the option of holding these shares in treasury, rather than cancelling them. The authority sought at the Annual General Meeting will expire at the conclusion of the next Annual General Meeting of the Company or on 1st September 2014 (being the latest date by which the Company must hold an Annual General Meeting in 2014). The Company currently holds 123,397 shares in treasury.

Ordinary Resolution 14 – Allotment of shares

The Directors may only allot Ordinary shares or grant rights over Ordinary shares if authorised to do so by shareholders. The authority granted to the Directors at the Company's previous Annual General Meeting in 2012 to allot shares or grant rights to subscribe for, or convert any securities into shares is due to expire at the conclusion of this year's Annual General Meeting. Accordingly, the Directors will be seeking new authority under Section 551 of the Companies Act 2006 to allot shares (including treasury shares) or grant rights to subscribe for, or to convert any security into shares which

will expire at the conclusion of the next Annual General Meeting of the Company or on 1st September 2014 (being the latest date by which the Company must hold an Annual General Meeting in 2014).

If passed, paragraph (a) of Resolution 14 would give the Directors authority to allot Ordinary shares or grant rights to subscribe for, or convert any security into, Ordinary shares up to an aggregate nominal amount of £20,371,517 representing approximately one third (33.33 per cent) of the Company's issued ordinary share capital (excluding shares held in treasury) and calculated as at 30th April 2013 (being the last practicable date prior to publication of the notice of the Annual General Meeting). In accordance with the latest institutional guidelines issued by the Association of British Insurers (ABI), paragraph (b) of Resolution 14, if passed, would give the Directors authority to allot further shares in connection with a fully pre-emptive offer by way of a rights issue to shareholders up to a further aggregate nominal amount of £20,371,517, representing approximately one third (33.33 per cent) of the Company's issued ordinary share capital (excluding shares held in treasury) and calculated as at 30th April 2013 (being the last practicable date prior to publication of the notice of the Annual General Meeting). As at 30th April 2013 (being the last practicable date prior to publication of the notice of the Annual General Meeting) the Company held 123,397 shares in treasury which represent approximately 0.10 per cent of the total ordinary share capital of the Company in issue (excluding shares held in treasury).

The Directors have no present intention of exercising this authority. However, the Directors consider it desirable to have the maximum flexibility permitted by corporate governance guidelines to respond to market developments and to enable allotments to take place to finance business opportunities as they arise. Accordingly, the Directors intend to renew this authority annually.

Special Resolution 15 – Disapplication of pre-emption rights

Under Section 561(1) of the Companies Act 2006, if the Directors wish to allot any shares and other relevant securities, grant rights over shares, or sell treasury shares for cash (other than in connection with an employee share scheme), they must in the first instance offer them to existing shareholders in proportion to their holdings. The Directors seek authority to renew the disapplication of shareholders' pre-emptive rights. The purpose of paragraph (i) of Resolution 15 is to authorise the Directors to allot any shares pursuant to the authority given by paragraph (a) of Resolution 14 for cash either (a) in connection with a pre-emptive offer or rights issue or (b) otherwise up to an aggregate nominal value of £3,058,812 (being equivalent to 5.0 per cent of the total issued ordinary share capital of the Company as at 30th April 2013 (being the latest practicable date prior to publication of the notice of the Annual General Meeting)) and which includes the sale on a non pre-emptive basis of any shares held in treasury, in each case without the shares first being offered to existing members in proportion to their existing holdings.

The purpose of paragraph (ii) of Resolution 15 is to authorise the Directors to allot any shares pursuant to the authority given by paragraph (b) of Resolution 14 for cash in connection with a rights issue without the shares first being offered to existing members in proportion to their existing holdings. This is in line with corporate governance guidelines issued by the Pre-emption Group. The Board considers the authority sought to be appropriate in order to allow the Company flexibility to finance business opportunities or to conduct a pre-emptive offer or rights issue without the need to comply with the strict requirements of the statutory pre-emption provisions. The Board intends to adhere to the provisions in the Pre-emption Group's Statement of Principles not to allot shares on a non pre-emptive basis (other than pursuant to a rights issue or pre-emptive offer) in excess of an amount equal to 7.5 per cent of the total issued ordinary share capital of the Company within a rolling three-year period without prior consultation with shareholders.

Special Resolution 16 – Notice period for general meetings

The Companies (Shareholders' Rights) Regulations 2009 increased the notice period for general meetings of a company to 21 clear days unless shareholders approve a shorter period, which cannot be less than 14 clear days.

At the Annual General Meeting of the Company held on 28th August 2012, shareholders authorised the calling of general meetings, other than an annual general meeting, on not less than 14 clear days' notice. Resolution 16 seeks the approval of shareholders to renew the authority to be able to call general meetings (other than an annual general meeting) on 14 clear days' notice.

The shorter notice period would not be used as a matter of routine for general meetings, but only where the flexibility is merited by the business of the meeting and is thought to be to the advantage of shareholders as a whole. If the proposals at a given meeting are not time sensitive, the Company will not normally use the shorter notice period. The approval will be effective until the

Company's next annual general meeting, when it is expected that a similar resolution will be proposed. It should also be noted that the changes to the Companies Act 2006 mean that, in order to be able to call a general meeting on less than 21 clear days' notice, the Company must make a means of electronic voting available to all shareholders for that meeting.

Ordinary Resolution 17 – Political donations

Part 14 of the Companies Act 2006, amongst other things, prohibits the Company and its subsidiaries from making political donations or from incurring political expenditure in respect of a political party or other political organisation or an independent election candidate unless authorised by the Company's shareholders. Aggregate donations made by the Group of £5,000 or less in any twelve-month period will not be caught.

Neither the Company nor any of its subsidiaries has any intention of making any political donation or incurring any political expenditure. However, the Companies Act 2006 defines 'political organisation', 'political party', 'political donation' and 'political expenditure' widely. Accordingly, the Company wishes to ensure that neither it nor its subsidiaries inadvertently commits any breaches of the Companies Act 2006 through the undertaking of routine activities, which would not normally be considered to result in the making of political donations and political expenditure being incurred.

The Resolution authorises the Company and its subsidiaries to:

- make political donations to political parties or independent election candidates, not exceeding £10,000 in total;
- make political donations to political organisations, other than political parties, not exceeding £10,000 in total; and
- incur political expenditure, not exceeding £10,000 in total,

provided that the aggregate amount of any such donations and expenditure shall not exceed £10,000 during the period beginning with the date of the passing of the Resolution and ending on the date of the Company's next Annual General Meeting.

Full details of all the resolutions can be found in the enclosed Notice of Annual General Meeting, which is also displayed on the Company's website at www.developmentsecurities.com

The Directors believe that all the proposals to be considered at the Annual General Meeting are in the best interests of both the Company and its shareholders. The Directors unanimously recommend that you vote in favour of the proposed resolutions as they intend to do in respect of their own holdings.

Financial risk management

Disclosures in respect of financial risk management objectives and exposures are set out in note 18d to the financial statements on pages 102 to 104.

Charitable and political donations

Charitable donations during the year were £76,075 (29th February 2012: £50,915). The Group supported a number of charities serving the community in which the Group operates. These included national and local charitable organisations and covered a wide range of causes including education, public services, community support schemes and events organised on behalf of major charities.

The Company sponsored a reception at the 2012 Conservative Conference at a cost of £9,500 which amount falls to be classified as a political donation.

Other substantial interests

At the date of this report, the Directors have been notified of the interests in 3.0 per cent or more of the Company's issued share capital shown in the following table. These interests were notified to the Company pursuant to Disclosure and Transparency Rule 5.

	Shares	%
BlackRock, Inc.	19,462,413	15.91
F&C Asset Management plc	7,145,046	5.84
Quantum Partners LP	7,000,000	5.72
FIL Limited	6,223,537	5.09
Ameriprise Financial, Inc.	6,174,376	5.05
Aberdeen Asset Management PLC	6,137,352	5.02
Legal & General Group plc	4,808,521	3.93

Employees

The Board acknowledges the importance of diversity in all forms and is committed to the principle of equal opportunity in employment. Current and potential employees are offered the same opportunities regardless of gender, race, colour, religion, nationality, ethnic origin, age, sexual orientation, marital status or disability. It is the Group's policy to apply best practice in the employment of the disabled, including, wherever possible, the retraining and retention of staff who become disabled during their employment.

As at 28th February 2013 gender diversity within the Company was as follows:

At Board level	Number	%
Women holding directorships	1	14.29
Women Chairs (Board & Committee)	1	33.33
Women executive Directors	0	0.00
Women non-executive Directors	1	33.33

Below Board level	Number	%
Women in senior executive positions	4	25.00
Women in the Group	47	59.49

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 28th February 2013 was 24.9 days (29th February 2012: 10.0 days).

Independent auditors

Our auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the forthcoming Annual General Meeting. The Board, on the advice of the Audit Committee, recommends their re-appointment.

Post balance sheet events

Details of events which have occurred since 28th February 2013 and up to the date of this report are disclosed in note 28 to the financial statements on page 111.

Disclosure of information to auditors

Each of the persons who is a Director at the date of approval of this report confirms that:

1. So far as he/she is aware, there is no relevant audit information of which the Group's auditors are unaware; and
2. He/She has taken all the steps that he/she ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Approved by the Board of Directors
Signed by order of the Board
H M Ratsey
Company Secretary
1st May 2013

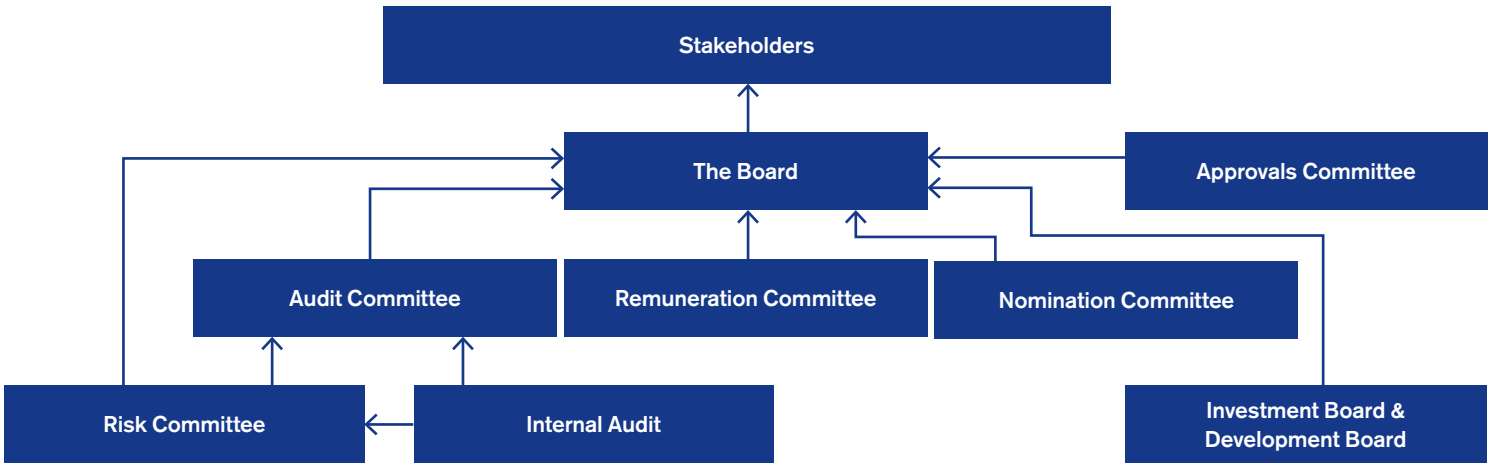
Corporate Governance Report

As Chairman, I am responsible for ensuring that the Board operates efficiently and effectively and that it continues to uphold the high standard of corporate governance that underpins the ethos of the Company. The Board is accountable to the shareholders for good governance and is committed to discharging its duties in their best interests. The principal corporate governance rules which applied to the Company in the year under review were the provisions of the UK Corporate Governance Code (the Code).

The Code contains a number of additional requirements applicable to FTSE 350 companies. At the date of this Report the Company is not a member of the FTSE 350 indices, however, to further demonstrate its support of the principles of good corporate governance the Board has implemented provision B.7.1 of the Code requiring all Directors to seek re-election by shareholders on an annual basis.

The Company has built on the 2012 report with the aim of providing clear and transparent information to our stakeholders. The Corporate Governance Report on pages 55 to 61 sets out in more detail how the Company has applied the main provisions of the Code.

David Jenkins
Chairman



Development Securities PLC Ordinary shares are listed on the Official List of the UK Listing Authority and, as such, the Company is required to state whether it has complied with the provisions for corporate governance contained within the UK Corporate Governance Code (the Code).

The Board confirms that in its view the Company has applied the main principles and has complied with all of the provisions set out in the Code during the financial year under review. The full Code can be found at www.frc.org.uk

The interaction between the Board, its Committees and the management of the Company is detailed in the chart above.

Stakeholders

Constructive dialogue has continued to be built up over the year between the Company and its stakeholders and has strengthened investor confidence. The Company's governance principles have been, and will continue to be, kept under review as the Directors believe that a sound corporate governance framework is key to achieving the Company's objectives and discharging its legal and regulatory responsibilities.

Relations with shareholders

Communication with shareholders is a high priority for the Board. The Executive Directors have regular dialogue with institutional shareholders, where a wide range of issues are discussed within the constraints of the information already known to the market. The Company's annual results are also presented to institutional shareholders and analysts. A copy of the presentation is available on the Company's website www.developmentsecurities.com

The Chairman, Senior Independent Director and Non-executive Directors are available at any time to meet with shareholders.

No shareholder sought a meeting with the Senior Independent Director during the year. The role of Senior Independent Director was performed by V M Mitchell, succeeded by S C Bates on 28th August 2012.

The Company's Annual General Meeting provides an opportunity to respond to shareholders' appropriate questions, and the information necessary for informed participation is made available with as much notice as possible. Directors are introduced to shareholders at the Annual General Meeting, including the identification of Non-executives and Committee Chairpersons. The Company's website is updated at the same time as the Regulated Information Service, to provide additional information dissemination for shareholders. Shareholders are also invited to free subscription of the Company's e-mail news alert service on the Company's website.

The Board

The Board is collectively responsible for the success of the Company and in this capacity has put in place a formal schedule of reserved matters which require its approval that include, but are not limited to:

- strategy;
- executive performance and retention;
- remuneration and succession;
- financial performance;
- the issue of any securities;
- significant borrowing facilities;
- development opportunities;
- dividend policy;
- authorisation of significant transactions over a certain threshold;
- investment portfolio acquisitions and disposals;
- corporate reputation and communication; and
- internal control and risk management and the Board's own effectiveness.

In carrying out its responsibilities, the Board takes into account the size and complexity of the Group, and internal control measures employed, to determine those formal matters reserved to the Board and those delegated to its various Committees or the Executive Directors.

The Board met formally nine times during the year. The Board also met on an ad hoc basis as required by the on-going business of the Company. The Chairman and the Non-executive Directors met on one occasion during the year with no Executive Directors in attendance.

Board composition

During the financial year under review, the Board consisted of four Executive Directors, a Non-executive Chairman and four Non-executive Directors, decreasing to two Non-executive Directors following the 2012 Annual General Meeting, where V M Mitchell and M S Soames stepped down after both completing nine years of service.

G Prothero resigned as the Finance Director with effect from 31st January 2013 and was succeeded by M O Shepherd who joined the Company on 18th February 2013. His appointment will be put to the shareholders for ratification at the 2013 Annual General Meeting. The independence of each Non-executive Director has been assessed during the year, in line with the independence criteria contained within provision B.1.1 of the Code. The Company considers all the Non-executive Directors to be independent. The Chairman was considered independent on appointment. The current ratio of Executive and independent Non-executive Directors is permissible for a smaller company under Code provision B.1.2.

V M Mitchell remained as Senior Independent Director for the period 1st March 2012 to 28th August 2012, when she stepped down at the 2012 Annual General Meeting. S C Bates took over the role for the remainder of the financial year from 28th August 2012 and is available as a point of contact for shareholders where normal channels of communication have failed, or are not appropriate.

The Non-executive Directors provide a valued role by challenging aspects of executive decisions to produce a considered and independent outcome to Board deliberations. There is a clear division of responsibilities between the Chairman, D S Jenkins, who is responsible for the running of the Board and ensuring its effectiveness and the Chief Executive, M H Marx, who is responsible for the running of the Company's business.

annualreport2013.
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governance/corporate-governance

The roles and remit of the Chairman and the Chief Executive are set out in writing and agreed by the Board. There were no significant changes to the Chairman's other commitments.

Biographical information for the Directors in office at the date of this Report is on page 48.

Board Effectiveness

As in previous years, the Board has undertaken a formal performance evaluation of the Board as a whole and its Committees, to ensure they continue to be effective, and that individual Directors demonstrate commitment to his or her respective role and has sufficient time to meet his or her commitment to the Company. S C Bates chaired a meeting of the Non-executive Directors without the Chairman or Executive Directors present, at which, inter alia, the performance of the Chairman was reviewed on behalf of the Board. The outcome, which was completely satisfactory, was then discussed between the Chairman and Senior Independent Director. The evaluation was conducted by means of a questionnaire which was co-ordinated and collated by the Company Secretary. The responses were considered by the Board and suggestions for improvements were discussed and where considered relevant, have been implemented.

All Directors have access to the services of the Company Secretary and may seek independent professional advice as necessary, at the Company's expense, and subject to the consent of the Chairman. Upon election, or re-election, Non-executives are invited to serve for three-year fixed terms, subject to annual re-election by shareholders. All Non-executive Directors have confirmed that they have sufficient time to dedicate to their role. Their terms of appointment are available from the Company Secretary and details of the Non-executive Directors' letters of appointment are detailed in section k of the Remuneration Report on page 66.

Directors undergo a formal induction process on joining the Company and receive appropriate training whilst in office.

Board Committees

The Board delegates responsibility for certain matters to Standing Committees, which report back to the Board. These Committees operate within defined terms of reference, as determined by the Board. Details are available upon request from the Company Secretary and are also published on the Company's website, www.developmentsecurities.com. The Company Secretary acts as secretary to each of the Committees.

Board Committee attendance

The table below sets out the attendance of the Directors at the meetings of the Board and the Audit, Nomination and Remuneration Committees held during the financial year under review.

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Number of meetings	9	3	2	4
D S Jenkins	9	3	2	4
M H Marx	9	–	2	–
M O Shepherd	1[1]	–	–	–
C J Barwick	9	–	–	–
M S Weiner	9	–	–	–
G Prothero	8[8]	–	–	–
S C Bates	8[9]	3	2	2[2]
N H Thomlinson	9	2[2]	–	4
V M Mitchell	5[5]	1[1]	0	1[2]
M S Soames	5[5]	–	–	2[2]

The numbers in brackets represent the maximum number of meetings that a Director could attend during the year 1st March 2012 to 28th February 2013.

Audit Committee

Audit Committee Composition

The Audit Committee comprises the following Directors:

Director	
S C Bates	Chair
D S Jenkins	
N H Thomlinson	(Member with effect from 28th August 2012)
V M Mitchell	(Resigned 28th August 2012)

The Committee consists of Non-executive Directors, all of whom are independent, with the exception of D S Jenkins who was considered independent on appointment. The Board has determined that D S Jenkins, as a qualified accountant with considerable experience, has significant 'recent and relevant financial experience' for the purposes of the Code. The Company's Chief Executive, Finance Director and Financial Controller, attend the Audit Committee meetings by invitation.

The Committee's principal role as set out in its Terms of Reference includes:

- monitoring the integrity of the Company's financial statements;
- reviewing the Company's internal financial controls;
- reviewing the internal control and risk management systems;

- assessing the performance and independence of the external auditors;
- selecting the external auditor and making appropriate recommendations through the Board to permit shareholder consideration at the Annual General Meeting;
- assessing the effectiveness of the external audit process;
- acting as a conduit between the Board and the external and internal auditors; and
- reporting to the Board on how it has discharged its responsibilities.

Annual Activities of the Audit Committee

The Committee met three times during the year. A meeting was held to agree the terms of engagement, proposed approach and the fees of the annual audit. As is standard each year, two of the meetings take place prior to the issue of the preliminary full-year and interim results in order to consider any significant issues arising from the audit and review processes.

The Committee also met without Executive Directors present and S C Bates, as Chairman of the Committee, met separately with the auditors, PricewaterhouseCoopers LLP and internal auditors, H W Fisher & Company.

The non-audit services policy as adopted by the Committee during the last financial year was adhered to throughout the year, providing added control measures around the instruction of the auditors to undertake non-audit work. The policy requires that all non-audit fee work be reported to the Audit Committee and that all non-audit fee work falling into certain categories and above certain thresholds be reported prior to the work being undertaken as detailed below:

- up to £25,000 approval required by the Finance Director, or Chief Executive in his absence;
- in excess of £25,000 and up to £100,000 approval required by the Finance Director and Chairman of the Audit Committee; and
- in excess of £100,000 approval required from the full Audit Committee.

In addition the policy prohibits the auditors from being considered for providing the following services: internal audit; bookkeeping services; and design and implementation of financial information systems.

An analysis of the non-audit fees can be found in note 4 to the financial statements. The Committee scrutinises these payments, but recognises that the nature of the business and complexity of deals dictates that shareholders' interests can often be furthered best by the existing knowledge of auditors in non-audit work. The total value paid during the year for tax advice, planning services and conducting the half-year review amounted to £224,000.

It is within the Committee's remit to recommend the appointment of the external auditors PricewaterhouseCoopers LLP. Additional scrutiny was placed on the independence and objectivity of PricewaterhouseCoopers LLP. The Audit Committee was satisfied as to their independence and accordingly recommended their re-appointment as auditors. This was subsequently ratified by the Board and accordingly the re-appointment of PricewaterhouseCoopers LLP as auditors will be proposed at the forthcoming Annual General Meeting. PricewaterhouseCoopers LLP has been the independent auditor of Development Securities PLC since 2008.

Internal control

The Directors acknowledge their responsibility for reviewing the effectiveness of the Group's system of internal control to safeguard shareholders' investments and protect the Company's assets. The Directors acknowledge that they are responsible for determining the nature and extent of the significant risks the Company is willing to take in achieving its strategic objectives. The operational, financial and compliance risk controls are 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.

Detailed below is a description of the Group's internal control and risk management used in the process of preparing the Consolidated financial statements. The key features of the system of internal control include:

- a comprehensive system of financial reporting and business planning with appropriate sensitivity analysis;
- a detailed authorisation process which ensures that no material commitments are entered into without competent and extensive approval;
- a defined schedule of matters reserved for the Board and clear defined roles of the Chairman and CEO;
- an organisational structure with clearly defined levels of authority;
- formal documentation procedures;
- the close involvement of the Executive Directors in all aspects of the day to day operations, including regular meetings with senior management to review all operational aspects of the business and risk management systems;

- a review of the Group strategy and progress on developments at each scheduled Board meeting;
- a comprehensive insurance programme; and
- a formal whistleblowing policy.

Internal auditors

HW Fisher & Company was appointed as the Company's internal auditors in 2010. The Committee reviews the internal auditors' plan for the year and makes amendments as required. In this capacity HW Fisher & Company report to the Audit Committee. They attend meetings of the Risk Committee, and from these meetings, and discussions with management, they identify areas of potential weakness or possible improvement in the Group's financial controls. They propose an agenda of work to the Audit Committee, at least annually, and devise and implement appropriate work programmes, independently of management.

The Board has conducted a review of the effectiveness of the system of internal control for the year ended 28th February 2013 and to the date of this report, and considers that there is a sound system of internal control which accords with the Turnbull Report, Internal Control: Guidance for Directors on the Combined Code. The Board is satisfied that there is an ongoing process for identifying, evaluating and managing the Group's significant risks including financial, operational and compliance controls and that it is regularly reviewed.

Going concern

The Company's going concern statement can be found in the Financial Review on pages 39 to 47 and is incorporated here by reference.

Risk Committee

Risk Committee composition

The regular process of identifying, evaluating and managing significant corporate risks has been delegated by the Board to a Risk Committee. The Committee comprises the following Directors and Senior Managers with at least one Non-executive Director in attendance:

M H Marx	Chair
M O Shepherd	(Member from 18th February 2013)
C J Barwick	
M S Weiner	
G Prothero	(Resigned 31st January 2013)
R C McCubbine	Senior Manager
D A K Trench	Senior Manager

During the year G Prothero resigned as member of the Committee with effect from 31st January 2013 and was succeeded by M O Shepherd from 18th February 2013.

Role of the Risk Committee

The Committee's principal role as set out in its Terms of Reference includes:

- advising the Board on the Company's risk appetite, tolerance and strategy, taking into account the current and prospective macroeconomic and financial environment;
- reviewing the Company's risk register, including identification of new risks, continuous assessment, and identification of early warning factors and mitigating actions and controls;
- reviewing the effectiveness of the Company's internal financial controls, internal controls and risk management systems; and
- reviewing the Company's procedures for detecting fraud and prevention of bribery.

Annual activities of the Risk Committee

The Committee meets quarterly during the year to ensure that the Group's risk management procedures are comprehensive and appropriate for the current economic climate, regulatory requirements and business operations.

The Committee's remit includes all of the Group's subsidiaries and those joint ventures and associates which are administered by the Company. Risks arising from externally managed joint ventures are managed at the boards of the joint venture companies. The minutes of the Committee's deliberations are reviewed by the Board. In addition to the activities of the Risk Committee, a risk evaluation on each significant prospective development, investment or joint venture opportunity is evaluated by the Board, and for development opportunities, the risks are evaluated by an internal independent Project Review Committee. The Executive Directors regularly evaluate the Group's risk-weighted development exposure, which is then considered by the Board. All necessary actions have been or are being taken to remedy any weaknesses acknowledged from the quarterly reviews. No significant failings were identified over the year.

Nomination Committee

Nomination Committee Composition

The Nomination Committee comprises the following directors:

Director	
D S Jenkins	Chair
M H Marx	
S C Bates	(Member from 28th August 2012)
V M Mitchell	(Resigned 28th August 2012)

The Nomination Committee has reviewed the size, structure and composition of the Board and concluded that it is appropriate.

Role of the Nomination Committee
The Committee's principal role as set out in its Terms of Reference which include:

- evaluating the structure, size and composition of the Board as a whole;
- succession planning for Executive Directors, Non-executive Directors and the roles of the Chairman and Chief Executive;
- considering the balance of skills, knowledge, experience, time commitment required and gender on the Board;
- recommending suitable candidates for the role of Senior Independent Director;
- devising descriptions of the role and capabilities required for a particular appointment; and
- providing recommendations on the composition of the Audit and Remuneration Committees, in consultation with the Chairman of those Committees.

The Committee devises and implements succession plans for appointments to the Board, which are fulfilled through an effective search, interview and evaluation process based upon objective criteria.

Annual Activities of the Nomination Committee
The Nomination Committee meets as necessary. In the financial year under review it met twice; a meeting was held to recommend to the Board the appointment of M O Shepherd, which followed a formal, rigorous and transparent procedure conducted via an external search consultant, Thomas Cole Kinder. The consultant has no other connections with the Company. In recommending M O Shepherd to the Board, the Committee had given due consideration to the balance of skills and experience on the Board with proper regard to diversity and independence, as dictated by current guidance.

The Committee also discussed the re-election of Directors and recommended to the Board that, following shareholders' approval at the 2011 Annual General Meeting to allow changes to the Company's Articles of Association to permit annual re-election of Directors, each Director, being eligible, should opt for annual election. The Board approved this recommendation and each Director, with the exception of M O Shepherd who will be seeking election, shall retire and seek re-election at the forthcoming Annual General Meeting in line with provision B.7.1 of the UK Corporate Governance Code. Biographical details of the Board seeking re-election, and of M O Shepherd seeking election are detailed on page 48.

The Company's policy on diversity is detailed in the Directors' Report on pages 53 and 54.

Remuneration Committee

The Remuneration Committee comprises the following Directors:

Director	
N H Thomlinson	(Chair from 28th August 2012)
M S Soames	(Chair resigned 28th August 2012)
D S Jenkins	
S C Bates	(Member from 28th August 2012)
V M Mitchell	(Resigned 28th August 2012)

The Committee also seeks advice from remuneration consultants Deloitte LLP, and legal support from Linklaters LLP. Representatives of Deloitte LLP attended two meetings of the Committee by invitation. More information on their appointment can be found on page 63 of the Remuneration Report.

Role of the Remuneration Committee & remuneration policy
The Committee is authorised to determine remuneration policy, details of which can be found in the Remuneration Report on pages 62 to 68, along with a detailed description of the work of the Remuneration Committee.

Approvals Committee

The Approvals Committee comprises any two Executive Directors and a minimum of two Non-executive Directors.

Its remit is to permit the approval of transactions between £2.0 million and £5.0 million, which are then reported to the Board. Transactions below £2.0 million are delegated to the relevant Executive Directors responsible and those above £5.0 million fall under the remit of the Board.

Investment and Development Boards

The Investment Board and Development Board comprise the Executive Directors and Senior Managers and are Chaired by M H Marx and C J Barwick respectively. The Boards meet on a regular basis during the year to discuss, review and approve property transactions. These include any proposed sale and purchase transactions and proposed capital expenditure. These decisions are then ratified by the Board if expenditure is above a defined limit.

Takeover Directive

Details of the required disclosure under the Takeover Directive can be found in the Directors' Report on pages 48 to 54 and the Remuneration Report on pages 62 to 68 and are incorporated herein by cross reference.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Parent company financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed on page 48 of the Directors' Report, confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Chairman's Statement, Chief Executive's Report, At a Glance, Operating Review, Corporate and Social Responsibility, Financial Review, Board of Directors, and Directors' Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board
H M Ratsey
Company Secretary
1st May 2013

Dear Shareholder

I am pleased to introduce the Remuneration Report for the financial year ended 28th February 2013.

This is my first letter as Chairman of the Remuneration Committee, a role I took over when Michael Soames stepped down from the Board at the 2012 Annual General Meeting. I would like to thank Michael for his contribution during his time as Chair of the Committee.

Review of incentives

During my first year as Chairman of the Committee we have undertaken a review of the remuneration arrangements to ensure that they continue to be appropriate in supporting the needs of the business. The review, which was supported by our advisors, took into account the strategy of the business, the current environment, and feedback from consultation with shareholders. The conclusion of that review was that, whilst the general remuneration framework continues to work well in supporting our business, some changes should be made to better align reward to our strategy and with shareholders' interests.

We have made two key changes:
Netting off – We are introducing a new principle under the Development Profit Plan of 'netting off' of profits and losses across a portfolio of projects. This reflects the Company's increased strategic focus on the development and trading portfolio. The introduction of the 'netting off' principle incentivises management to maximise project profits, mitigate any losses, and therefore consider the performance of their portfolio of projects as a whole. Taking into account this focus on the portfolio as a whole, we are also removing the threshold which applied when we operated the plan on a 'project by project' basis. Our view is that this change better aligns the plan to shareholder returns, whilst maintaining the key features of the profit plans which have worked well for the business over a number of years.

Simplification – As part of the review we have sought to simplify the incentive arrangements. To that end, we are discontinuing the Joint Venture Profit Plan. Going forward, the performance of all projects will be rewarded via the Development Profit Plan.

Remuneration out-turns

For 2013 we are making no increase to Executive Directors' base salaries.

The Committee determined that no awards will be made under the annual bonus scheme.

As detailed later in the report, the Development Profit Plan resulted in bonuses being paid to C J Barwick following the release of retention monies held in respect of the development at One Kingdom Street, PaddingtonCentral, and M S Weiner was paid a bonus in relation to the successful completion of the project at Littlehampton.

The Investment Growth Plan resulted in a nil vesting as performance conditions were not satisfied for the 2013 Initial Bonus. No awards vested in 2010 and, correspondingly no deferred element is now due.

An assessment of the performance condition for the award made under the Performance Share Plan on 23 April 2010 resulted in a nil vesting.

Appointment of new Group Finance Director

On 22 October 2012, the Board was delighted to announce the appointment of M O Shepherd as Group Finance Director. His remuneration arrangements are equivalent to his predecessor G Prothero, and there were no 'buy out' arrangements on his joining.

I hope you find the Remuneration Report presented below informative. In my new role as Chairman of the Committee I am keen to encourage an on-going dialogue on our policies and continue to welcome our shareholders' views. I hope to receive your support for this report at the forthcoming Annual General Meeting.

Nick Thomlinson
Chairman, Remuneration Committee
1st May 2013

The following is a summary of the elements of total remuneration:

Fixed pay	Variable pay	
	Short-term incentive	Medium and long-term incentive
Base salary Pensions Benefits in kind	Annual bonus	**All Executive Directors:** Performance Share Plan Strategic Profit Plan **Executive Directors focused activities:** Development Profit Plan Investment Growth Plan
Shareholding requirement		

Overview

The key objectives of the Company's Remuneration Policy are as follows:

- to ensure that Executive Directors and senior managers are rewarded in a way that attracts, retains, motivates and rewards management of the highest quality;
- to operate focused profit plans and share schemes designed to encourage Executive Directors and senior managers to align their long-term career aspirations with the long-term interests of the Company and shareholders' expectations;
- to promote the attainment of both individual and corporate achievements, measured against performance criteria required to deliver long-term growth and sustainability of the business; and
- to encourage sustained performance over the medium- and long-term.

The total pay framework is based on a mixture of fixed and variable elements considered on a meritocratic basis at individual and Group level, taking into account the remuneration awarded to employees in the Group.

The balance between fixed and variable pay is considered appropriate, given that the various incentive plans/schemes ensure a significant proportion of a key individual's remuneration package is performance related, thereby correlating with the strategic aims of the business and the performance of the Company.

Role and constitution of the Committee

The Committee's full terms of reference are set out on the Company's website www.developmentsecurities.com and are available on request from the Company Secretary. Its principal role is to determine the total remuneration of the Executive Directors and to ensure that senior management remuneration is consistent with corporate policy. In addition to the support of the Chief Executive, M H Marx and the Company Secretary, H M Ratsey, the Committee sought professional advice from external remuneration consultants Deloitte LLP, (who are members of the Remuneration Consultants Group and, as such, voluntarily operate under the code of conduct in relation to executive remuneration consulting) and legal support from Linklaters LLP. Representatives of Deloitte LLP attended two meetings of the Committee by invitation. Deloitte LLP currently undertakes the audit of the Development Securities Retirement Benefit Scheme of which the Company is Trustee, but otherwise undertakes no other work for the Company. Linklaters LLP are also the Group's principal legal advisor.

The Remuneration Committee as constituted by the Board

The Committee met four times in the year under review.

Committee members	Considered independent Non-executive Director	Meetings attended
M S Soames (Chair) resigned 28th August 2012	Yes	2 [2]
N H Thomlinson (Chairman) from 28th August 2012	Yes	4
V M Mitchell resigned 28th August 2012	Yes	1 [2]
D S Jenkins*	Yes	4
S C Bates appointed 28th August 2012	Yes	2 [2]

*Non-executive Chairman.
The numbers in brackets represent the maximum number of meetings that a Director could attend during the year 1st March 2012 to 28th February 2013.

Following the Board evaluation process the effectiveness of the Committee was reviewed and the Committee was considered to be operating effectively. No member has any personal financial interest in the matters to be decided.

Remuneration explained

a) Salary

Base salaries are normally reviewed on an annual basis. The audited base salaries and benefits are set out on page 67.

No Director received an increase in salary during the year.

Directors' base salary per annum	**28th February 2013 £'000**	29th February 2012 £'000	2012/2013 Increase %
M H Marx	**400**	400	0.0
M O Shepherd*	**325**	—	—
C J Barwick	**325**	325	0.0
M S Weiner	**340**	340	0.0
G Prothero**	**—**	325	—

* Appointed 18th February 2013
** Resigned 31st January 2013

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. With the exception of M H Marx, Executive Directors are set a target bonus of 37.5 per cent of salary and an above target maximum of 75.0 per cent. As M H Marx does not normally qualify for awards under the Development Profit Plan and Investment Growth Plan described below, his target bonus is 75.0 per cent of salary, with a maximum of 150.0 per cent. The Committee has always taken a somewhat different approach to the annual bonus compared to our competitors, in that the annual bonus has never been formulaically driven by the annual financial results but reflects a true measure of annual performance in the context of the length of the property cycle.

The annual bonus in respect of the Executive Directors is determined principally by the four 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, active management of the investment portfolio and the maintenance of the standards of excellence that are embedded within the Company's corporate culture.

In awarding annual bonuses and awards under the profit plans (the Development Profit Plan, Investment Growth Plan and Strategic Profit Plan), there is no 'double-counting'. The contribution of any team and individual performance, which leads to awards under the profit plans, is disregarded in assessing the annual bonus.

The Committee decided that no annual bonus will be awarded for the year ending 28th February 2013.

	28th February 2013 £'000	29th February 2012 £'000	**28th February 2013 % of maximum**	29th February 2012 % of maximum
M H Marx	**0.0**	150.0	**0.0**	21
M O Shepherd	**0.0**	–	**0.0**	–
C J Barwick	**0.0**	60.9	**0.0**	21
M S Weiner	**0.0**	60.9	**0.0**	21
G Prothero	**0.0**	60.9	**0.0**	21

100.0 per cent of any annual bonus awarded which is above Target will be paid in shares which the recipient must hold for at least two years.

c) Development Profit Plan

The Development Profit Plan seeks to reward and incentivise those Directors and managers that have brought successful development opportunities to the Company. The Chief Executive and Finance Director do not participate in the plan, only Executive Directors focused on development activities participate.

The Committee reviewed incentive arrangements during the year. For 2013 the Committee is introducing the principle of 'netting off' of profits and losses on projects. It means that our management team are incentivised to maximise project profits but also to mitigate any losses, and to consider the performance of their portfolio of projects as a whole.

As in previous years, awards are based on a percentage of the bonus pool which becomes payable only once the development has achieved realised profits. The maximum bonus pool available for distribution to executive directors and the wider team is 10.0 per cent of the realised profit for each development. This is calculated once a notional cost of equity of 12.5 per cent is deducted, so that the pool generated only relates to profits over and above a threshold return.

Introduced for 2013 is the principle of 'netting off'. This operates so that when profit is realised on a project, any realised and unrealised losses in respect of an executive directors' portfolio of projects in the financial year are netted off against the realised profit. 50.0 per cent of the award is paid at the time profits are realised, subject to netting off. The remaining 50.0 per cent of the award is deferred until year-end, again subject to netting off of any realised and unrealised losses for the financial year. To reflect the revised operation of the plan, the previous project-by-project threshold of £2.0 million no longer applies. The new operation will apply for awards from 2013 in respect of all projects from August 2009. Transitional arrangements will apply in respect of certain legacy projects which come to fruition during the next financial year.

The awards disclosed below are in relation to those projects where the profits are expected to meet the cost of capital threshold.

Project	M H Marx % award	C J Barwick % award	M S Weiner % award
Awards granted in previous years			
PaddingtonCentral Phase III (Two Kingdom Street)	—	7.00	—
399 Edgware Road, London	—	4.00	4.00
10 Hammersmith Grove, London	—	3.50	—
The Square, Hale Barns, Cheshire	—	—	6.50
Westminster Palace Gardens, London	—	—	5.50
Shepherds Bush Market, London	—	1.00	5.50
Wick Site, Littlehampton	—	—	5.25
The MVMNT, Greenwich	—	—	7.00
Manchester Arena Complex	—	—	6.00
Rock portfolio	—	—	5.00
328 Sandbanks Road, Dorset	—	—	6.00
The Old Vinyl Factory, Hayes	—	—	6.00
Cross Quarter, Abbey Wood	—	—	4.50
Kensington Church Street, London	—	—	6.00
Wick Lane Wharf, London	—	—	6.00
Chorlton Cross Shopping Centre, Manchester	—	—	6.00
Awards granted during the year and to date			
Loan Portfolio A	—	—	6.50
Loan Portfolio B	—	—	4.00

Following the release of retention monies in respect of the successful completion of One Kingdom Street, PaddingtonCentral, C J Barwick received £19,880 from maturity of his Development Profit Plan award. M S Weiner received £158,062 from the award related to the successful completion of the project at Littlehampton.

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

An amount of £804,000 has been provided for in these Financial statements in respect of bonus payments awarded to M S Weiner under the Development Profit Plan that will be paid during the following financial year. These awards relate to Westminster Palace Gardens, Rock portfolio and Loan Portfolio B.

d) Joint Venture Profit Plan

From 2013 the Joint Venture Profit Plan is being discontinued. Going forward the performance of all projects will be rewarded via the Development Profit Plan.

e) Investment Growth Plan

The Committee reserves the right to award bonuses under the Investment Growth Plan. The performance condition under the award is that the total investment portfolio return must exceed 120.0 per cent of the All-Fund Universe Index return as published by the Investment Property Databank, if the Index return is greater than zero, or at least 0.1 per cent, if the Index is less than or equal to zero and, in addition, represents at least one percentage point above the total return under the index. The total investment portfolio return represents the sum of income return, net of irrecoverable property expenses, together with capital growth.

The Initial Bonus represents a bonus pool of 5.0 per cent of the value determined by the excess of the total investment portfolio return over the benchmark index, up to a cap of £1.0 million, unless otherwise determined. The award is remitted following the end of the financial year when the award is determined, with an equivalent amount representing a Deferred Bonus assessed two years thereafter, provided that during the intervening period the total investment portfolio return exceeds a specified proportion of the Index.

The performance condition in respect of the financial year has not been satisfied, and therefore does not give rise to an Initial Bonus.

f) Strategic Profit Plan

The Strategic Profit Plan was approved by shareholders in 2010. The Plan is an incentive scheme designed to incentivise all Executive Directors and senior management in all the principal activities of the Group, namely development, and the investment portfolio. The Plan introduces a Group-wide collegiate aspect to rewarding success, and supporting co-operation as our executives deliver on the significant opportunities that exist in our portfolio and across our market.

The bonus pool available for distribution represents an additional 4.0 per cent of the profits achieved (as adjusted) which count towards the maximum amount under both the Development Profit Plan and 2.0 per cent of each of the Initial Bonus and Deferred Bonus pools achieved under the Investment Growth Plan. Where a pool is available, the Committee does not automatically make Awards. In the case where Awards are made, the Committee takes into account whether individuals are already eligible for awards under the Development Profit Plan and Investment Growth Plan. As a guideline, 75.0 per cent of the bonus pool would be allocated to the Executive Directors and 25.0 per cent to management.

Awards will be subject to a risk underpin such that the Committee must be satisfied that performance has not been achieved as a result of inappropriate financial risk (e.g. very high levels of gearing), and that the level of financial and business risk is in line with the Company's stated strategy. In making awards to individuals, the Committee will also take into account the overall performance of the Company.

No awards have been approved under the Strategic Profit Plan for the year ended 28th February 2013.

g) Performance Share Plan

Awards under the Performance Share Plan are made on the basis that shares will be acquired subject to the satisfaction of performance conditions over a three-year period, with no retesting. For awards made prior to 29th February 2012 performance is measured by comparing the Total Shareholder Return (TSR) achieved by the Company with the individual constituent members of the FTSE Real Estate Investment Trust Index and the FTSE Real Estate Investment Services Index. There is a sliding scale of vesting as follows:

(i) 25.0 per cent of the award will vest if the Company's TSR equals the median TSR of the comparator group;
(ii) 100.0 per cent of the award will vest if the Company's TSR equals or exceeds the 85th percentile TSR of the comparator group; and
(iii) pro-rata vesting will apply in between the above points.

In addition, the Committee must be satisfied that there has been a sustained improvement in the Company's underlying financial performance over the performance period (typically by considering the change in net asset value). For awards from 2010, a risk underpin (as previously described) will also apply.

Following feedback from shareholders the Committee determined that a wider range of performance measures should be used. The performance condition for awards made after 1st March 2012 will be as follows:

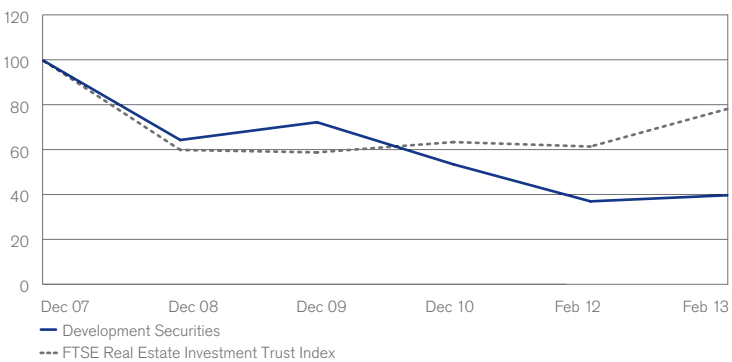
Performance measure	Proportion of the award (%)	Threshold vesting (25%)	Maximum vesting (100%)
Relative TSR against the constituents of the FTSE Real Estate Investment Trust Index and the FTSE Real Estate Investment Services Index	50%	Median	85th percentile
NAV per share growth	50%	RPI+3% per annum	RPI+10% per annum

Pro-rating vesting will apply between points. The underpins described above will also apply.

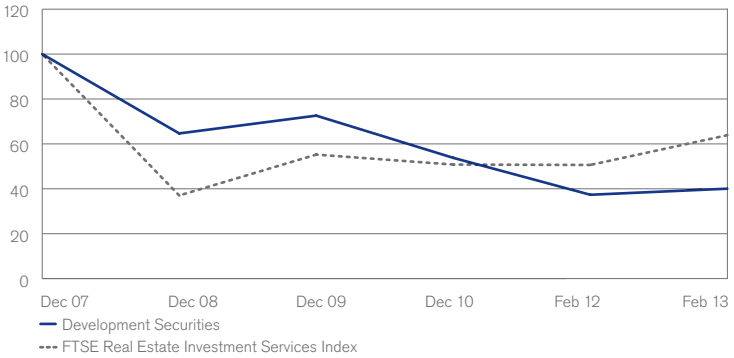
On 29th May 2012, awards were made under the Performance Share Plan to M H Marx of 227,273 shares in the Company, representing 75.0 per cent of salary, and to C J Barwick and G Prothero of 123,106 and to M S Weiner of 128,788 shares, each representing 50.0 per cent of salary. In total, 1,235,161 shares were, at the discretion of the Committee, awarded to 40 employees and the four Executive Directors. All outstanding awards to G Prothero lapsed following receipt of his notice of resignation.

The performance condition under the award made on 23rd April 2010 has now been assessed and the award did not vest.

Historical Total Shareholder Return Performance



Historical Total Shareholder Return Performance continued



The graphs above and on the previous page demonstrate the Company's TSR performance over five financial periods as represented by share price growth plus reinvested dividends, against both the FTSE Real Estate Investment Trust Index and the FTSE Real Estate Investment Services Index. The FTSE All Share Real Estate Index used in previous years has ceased to be published and, having reviewed the constituents of the previous index, it is considered that the constituents of these two indices are the most appropriate for comparison of the Company's business performance against that of its competitors. The Company is a constituent of the FTSE Real Estate Investment Services Index, but a number of constituents of the FTSE Real Estate Investment Trust Index are also considered as within the Company's peer group.

h) 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 period and none are currently outstanding.

i) 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 both schemes were granted on the basis that they may only be exercised if a performance condition is satisfied.

No share options were granted during the period.

The performance condition for those options outstanding 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 50.0 per cent if average net asset growth is at least equal to that of the Index, 100.0 per cent if in excess of the Index by 4.0 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 the intention of the Committee that no further grants be made to Executive Directors unless in exceptional circumstances, for example, a new appointment or an acute retention requirement. Grants to senior managers may continue in the future as appropriate.

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

j) Savings Related Option Scheme

The Save As You Earn Option Plan 2005 was approved by shareholders at the 2005 Annual General Meeting. The fourth grant under the plan was made on 24th October 2011. There were no grants for year ending 28th February 2013. The options may be exercised after three years at a price not less than 80.0 per cent of the market value of the shares at the time of invitation.

k) Directors' contracts

Executive Directors	Date of contract
M H Marx	24th June 1994
M O Shepherd	8th October 2012
C J Barwick	12th May 1998
M S Weiner	17th March 2004
G Prothero*	11th June 2008

* Resigned 31st January 2013

- The contracts do not specify an expiry date. All contracts, with the exception of M O Shepherd, may be terminated upon twelve months' notice by either party. For the initial period of 18 months M O Shepherd's notice period is 18 months, following the initial period this reduces to twelve months in line with the other Executive Directors and in accordance with Code provision D.1.5.
- 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. The Company's policy on termination payments is to consider the circumstances on a case-by-case basis, taking into account the relevant contractual provisions, the circumstances of termination and any applicable duty to mitigate. It is the Committee's policy not to reward poor performance.
- With the exception of M O Shepherd, who will be seeking election, all of the Directors will stand for annual re-election at the forthcoming Annual General Meeting.

Non-executive Directors	Notice period in letter of appointment, terminable by either party (months)
D S Jenkins (Chairman)	12
S C Bates	6
N H Thomlinson	6

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 remuneration.

- The fees of the Non-executive Directors were reviewed by the Board with effect from 1st October 2010 based on advice received from the Company's remuneration consultants, Deloitte LLP. There has been no change in the fees of the Non-executive Directors.
- Non-executive Directors do not participate in the Company's share option schemes, Performance Share Plan or pension scheme.

Non-executive Directors' fees per annum	28th February 2013 £'000	29th February 2012 £'000
Chairman	**90.0**	90.0
Basic Non-executive fee	**40.0**	40.0
Chairmanship of either Audit or Remuneration Committee	**7.5**	7.5
Membership of either Audit or Remuneration Committee	**2.5**	2.5
Senior Independent Director fee	**5.0**	5.0

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 £35,000 per annum from Nationwide Accident Repair Services PLC and C J Barwick, who received £45,000 per annum from London & Continental Railways Limited.

l) Retirement benefits

Pensions are a key feature of the Company's benefit package. During the year the Company as Trustee of the Development Securities Retirement Benefit Scheme decided to review the scheme. Following this review, the Company decided to close the existing money purchase pension scheme to future contributions and new joiners and implement a Group Personal Pension Plan for the benefit of employees. The contribution structure for Directors remains unchanged at 17.5 per cent of salary.

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. During the financial year under review M H Marx, G Prothero and M O Shepherd had separate personal pension arrangements, whilst M S Weiner remains a member of the Company scheme. The maximum contributions by the Company towards the approved Company scheme and any alternative arrangements may not exceed a total of 17.5 per cent of salary.

m) Executive Directors' shareholding requirement

Executive Directors are subject to a shareholding requirement of one half of basic salary within two-years of appointment, rising to an amount equivalent to one times basic salary after four-years. M H Marx, C J Barwick and M S Weiner have all met the amount equivalent to basic salary.

From 1st March 2012, the Company has operated an additional shareholding requirement, which will operate where significant success is achieved and rewarded via the Company's focused profit plans. Where payments under the Development Profit Plan, Investment Growth Plan and Strategic Profit Plan, in aggregate, exceed £1.0 million in one financial year, two thirds of the payment above £1.0 million will be made in shares.

This will apply if the Director's shareholdings are less than two times salary. The amount paid in shares will be subject to a two-year retention period.

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

Ordinary shares	28th February 2013 Number	29th February 2012 Number
D S Jenkins	**34,325**	34,325
M H Marx	**529,525**	529,525
M O Shepherd	**—**	—
C J Barwick	**272,399**	272,399
M S Weiner	**156,168**	145,473
S C Bates	**30,000**	30,000
N H Thomlinson	**20,000**	—
	1,042,417	1,011,722

Remuneration in detail – Directors' emoluments (audited)

The total Directors' remuneration was as follows:

	28th February 2013 £'000 (12 months)	29th February 2012 £'000 (14 months)
Emoluments	**1,860**	2,601
Company contributions to pension arrangements	**228**	268
	2,088	2,869

The remuneration of the individual Directors who held office for the year to 28th February 2013 is set out below:

	Salaries and fees £'000	Total bonus £'000	Benefits in kind* £'000	Total 28th February 2013 £'000	Total** 29th February 2012 £'000	Pension contributions*** 28th February 2013 £'000	Pension contributions*** 29th February 2012 £'000
Chairman							
D S Jenkins	90	—	—	**90**	105	**—**	—
Executive Directors							
M H Marx	400	—	26	**426**	644	**61**	70
M O Shepherd (appointed 18th February 2013)	9	—	—	**9**	—	**1**	—
C J Barwick	325	19	18	**362**	509	**56**	66
M S Weiner (highest paid Director)	340	158	17	**515**	710	**58**	66
G Prothero (resigned 31st January 2013)	297	—	16	**313**	459	**52**	66
Non-executive Directors							
S C Bates	51	—	—	**51**	55	**—**	—
N H Thomlinson	46	—	—	**46**	6	**—**	—
V M Mitchell (resigned 28th August 2012)	25	—	—	**25**	58	**—**	—
M S Soames (resigned 28th August 2012)	23	—	—	**23**	55	**—**	—

* Benefits in kind received during the year comprise motor vehicles, cash in lieu of a motor vehicle, fuel and medical insurance.
** As a result of the change in the Company's year end, amounts shown for 29th February 2012 are in respect of 14 months whereas amounts for 28th February 2013 are in respect of twelve months.
*** Pension contributions received during the year include contributions to Company's approved scheme, cash supplements or waived for additional holiday entitlement.

Directors' share schemes (audited)

Options

	1st March 2012 Number	Granted	Lapsed	Exercised	28th February 2013 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	5,921				5,921	152.00	—	—	01.12.14	31.05.15
M S Weiner										
Executive option scheme 1995	69,382				69,382	347.50	—	—	19.04.07	18.04.14
Executive option scheme 2005	41,435				41,435	430.25	—	—	27.10.08	26.10.15
Executive option scheme 2005	41,435				41,435	559.75	—	—	28.04.09	27.04.16
Savings related scheme	5,921				5,921	152.00	—	—	01.12.14	31.05.15
G Prothero*										
Savings related scheme	5,291		5,291		—	152.00	—	—	01.12.14	31.05.15

* Resigned 31st January 2013

Performance Share Plan

	Date of grant	Market price at date of grant Pence	1st March 2012 Number	Granted	Lapsed	Exercised	28th February 2013 Number	Final vesting date
M H Marx	23.04.10	264.00	112,676		112,676			31.12.12
	22.03.11	228.00	130,862				130,862	31.12.13
	29.05.12	130.50	—	227,273			227,273	31.12.14
C J Barwick	23.04.10	264.00	61,033		61,033			31.12.12
	22.03.11	228.00	70,883				70,883	31.12.13
	29.05.12	130.50	—	123,106			123,106	31.12.14
M S Weiner	23.04.10	264.00	61,033		61,033			31.12.12
	22.03.11	228.00	70,883				70,883	31.12.13
	29.05.12	130.50	—	128,788			128,788	31.12.14
G Prothero*	23.04.10	264.00	61,033		61,033		—	31.12.12
	22.03.11	228.00	70,883		70,883		—	31.12.13
	29.05.12	130.50	—	123,106	123,106		—	31.12.14

* Resigned 31st January 2013

- None of the Directors had a beneficial interest in the shares of any subsidiary company.
- The mid-market price of the shares at the close of business on 28th February 2013 was 163.50 pence and the range during the financial year was 121.75 pence to 176.00 pence.
- No options lapsed or were exercised during the year, except as disclosed above.
- There were no further transactions between 28th February 2013 and the date of this report.

Approved by the Board and signed on its behalf by:

N H Thomlinson
Chairman of the Remuneration Committee
1st May 2013

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 28th February 2013 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 61, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 28th February 2013 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements; and
- the information given in the Corporate Governance Report set out on pages 55 to 61 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Report has not been prepared by the Parent company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 44, in relation to going concern;
- the part of the Corporate Governance Report relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Other matter

We have reported separately on the Parent company financial statements of Development Securities PLC for the year ended 28th February 2013 and on the information in the Directors' Remuneration Report that is described as having been audited.

Andrew Paynter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
1st May 2013

Consolidated Statement of Comprehensive Income

For the year ended 28th February 2013

	Notes	Year ended 28th February 2013 £'000	14-month period ended 29th February 2012 £'000
Revenue	2	**99,668**	80,028
Direct costs	2	**(68,989)**	(59,653)
Gross profit	2	**30,679**	20,375
Operating costs	2	**(13,012)**	(14,791)
Gain on disposal of investment properties	2	**864**	211
Loss on revaluation of property portfolio	10/11	**(16,423)**	(4,772)
Operating profit	4	**2,108**	1,023
Other income		**615**	750
Exceptional impairment and provision for serviced office segment	2	**—**	(2,845)
Share of post-tax profits of joint ventures and associates	14(b)	**7,682**	1,577
Income from financial asset		**500**	—
Profit from sale of investment		**20**	—
Loss on sale of other plant and equipment		**(13)**	(28)
Profit before interest and income tax		**10,912**	477
Finance income	6(a)	**2,125**	2,571
Finance costs	6(b)	**(12,245)**	(13,215)
Profit/(loss) before income tax		**792**	(10,167)
Income tax	7	**1,554**	(1,879)
Profit/(loss) after income tax		**2,346**	(12,046)
Profit/(loss) attributable to:			
Owners of the Parent		**2,421**	(12,592)
Non-controlling interest		**(75)**	546
		2,346	(12,046)
Other comprehensive income			
Profit/(loss) for the year/period		**2,346**	(12,046)
Loss on revaluation of operating property		**—**	(127)
Loss on valuation of cross-currency interest rate swap	18(c)	**(1,024)**	(4,268)
Change in value of available-for-sale financial assets		**829**	—
Deferred income tax credit	7	**45**	1,067
Total comprehensive income/(loss) for the year/period		**2,196**	(15,374)
Attributable to:			
Owners of the Parent		**2,271**	(15,920)
Non-controlling interest		**(75)**	546
		2,196	(15,374)
Basic earnings/(loss) per share attributable to the Parent*	9	**2.0p**	(10.3)p
Diluted earnings/(loss) per share attributable to the Parent*	9	**2.0p**	(10.3)p

*Adjusted earnings per share from continuing activities is given in note 9.

All amounts in the Consolidated Statement of Comprehensive Income relate to continuing operations.

The notes on pages 74 to 111 are an integral part of these Consolidated financial statements.

Consolidated Balance Sheet

As at 28th February 2013

	Notes	28th February 2013 £'000	28th February 2013 £'000	29th February 2012 £'000	29th February 2012 £'000
Non-current assets					
Direct real estate interests					
Investment properties	10	**220,074**		237,899	
Operating property	11	**740**		900	
Trade and other receivables	16(a)	**5,100**		4,265	
			225,914		243,064
Indirect real estate interests					
Investments in associates	14(a)	**4,276**		4,276	
Investments in joint ventures	14(b)	**40,137**		26,568	
Intangible assets – goodwill	12	**238**		1,268	
Development participation rights	18(a)	**5,000**		5,000	
Development loans to joint operations	18(a)	**19,163**		20,921	
Loans to other real estate businesses	18(a)	**8,625**		8,614	
			77,439		66,647
Other non-current assets					
Other plant and equipment	13	**3,124**		3,446	
Deferred income tax assets	19	**1,757**		3,241	
			4,881		6,687
Total non-current assets			**308,234**		316,398
Current assets					
Inventory – development and trading properties	15	**153,416**		155,193	
Other financial assets	18(a)	**1,700**		1,700	
Trade and other receivables	16(b)	**21,643**		28,824	
Monies held in restricted accounts and deposits		**11,527**		14,595	
Cash and cash equivalents		**47,683**		35,585	
			235,969		235,897
Total assets			**544,203**		552,295
Current liabilities					
Trade and other payables	17(a)	**(24,350)**		(26,460)	
Current income tax liabilities		**(178)**		(1,143)	
Borrowings	18(b)	**(2,001)**		(9,879)	
Provisions for other liabilities and charges	17(b)	**(219)**		—	
			(26,748)		(37,482)
Non-current liabilities					
Borrowings	18(b)	**(203,980)**		(193,177)	
Derivative financial instruments	18(c)	**(3,221)**		(2,469)	
Deferred income tax liabilities	19	**(743)**		(3,241)	
Provisions for other liabilities and charges	17(b)	**(2,845)**		(2,684)	
			(210,789)		(201,571)
Total liabilities			**(237,537)**		(239,053)
Net assets			**306,666**		313,242
Equity					
Share capital	20	**61,176**		61,176	
Share premium	21	**103,961**		103,961	
Other reserves	21	**39,742**		40,063	
Retained earnings	21	**101,731**		106,134	
Equity attributable to the owners of the Parent			**306,610**		311,334
Non-controlling interest			**56**		1,908
Total equity			**306,666**		313,242
Basic/diluted net assets per share attributable to the owners of the Parent	9		**251p/251p**		254p/254p
Basic net assets per share based on total net assets	9		**251p**		256p

The notes on pages 74 to 111 are an integral part of these Consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 1st May 2013 and signed on its behalf by

M H Marx

Director

Consolidated Statement of Changes in Equity

For the year ended 28th February 2013

	Notes	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total £'000	Non-controlling interest £'000	Total £'000
At 1st January 2011		61,176	103,961	43,391	124,579	333,107	—	333,107
(Loss)/profit for the 14-month period ended 29th February 2012		—	—	—	(12,592)	(12,592)	546	(12,046)
Other comprehensive income:								
— Loss on revaluation of operating property		—	—	(127)	—	(127)	—	(127)
— Loss on valuation of cross-currency interest rate swap	18(c)	—	—	(5,227)	—	(5,227)	—	(5,227)
— Exchange gain on valuation of cross-currency interest rate swap	18(c)	—	—	959	—	959	—	959
— Deferred income tax credited directly to equity	19	—	—	1,067	—	1,067	—	1,067
Total comprehensive (loss)/income for the 14-month period ended 29th February 2012		—	—	(3,328)	(12,592)	(15,920)	546	(15,374)
Share based payments		—	—	—	21	21	—	21
Final dividend relating to 2010	8	—	—	—	(2,937)	(2,937)	—	(2,937)
Interim dividend relating to 2012	8	—	—	—	(2,937)	(2,937)	—	(2,937)
Total contributions by and distributions to owners of the Company		—	—	—	(5,853)	(5,853)	—	(5,853)
Transactions with non-controlling interest		—	—	—	—	—	1,362	1,362
Balance at 29th February 2012		61,176	103,961	40,063	106,134	311,334	1,908	313,242
Profit/(loss) for the year ended 28th February 2013		—	—	—	2,421	2,421	(75)	2,346
Other comprehensive income:								
— Change in value of available-for-sale financial assets		—	—	829	—	829	—	829
— Gain on valuation of cross-currency interest rate swap	18(c)	—	—	109	—	109	—	109
— Exchange loss on valuation of cross-currency interest rate swap	18(c)	—	—	(1,133)	—	(1,133)	—	(1,133)
— Deferred income tax credited directly to equity	19	—	—	45	—	45	—	45
Total comprehensive (loss)/income for the year ended 28th February 2013		—	—	(150)	2,421	2,271	(75)	2,196
Share based payments		—	—	—	21	21	—	21
Purchase of treasury shares	21	—	—	(171)	—	(171)	—	(171)
Final dividend relating to 2012	8	—	—	—	(3,911)	(3,911)	—	(3,911)
Interim dividend relating to 2013	8	—	—	—	(2,934)	(2,934)	—	(2,934)
Total contributions by and distributions to owners of the Company		—	—	(171)	(6,824)	(6,995)	—	(6,995)
Transactions with non-controlling interest		—	—	—	—	—	(1,777)	(1,777)
Balance at 28th February 2013		**61,176**	**103,961**	**39,742**	**101,731**	**306,610**	**56**	**306,666**

The notes on pages 74 to 111 are an integral part of these Consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 28th February 2013

	Notes	Year ended 28th February 2013 £'000	14-month period ended 29th February 2012 £'000
Cash generated from operations			
Cash flows from operating activities	22	**36,818**	(18,852)
Interest paid		**(12,344)**	(12,341)
Income tax paid		**(164)**	(329)
Net cash generated from/(used in) operating activities		**24,310**	(31,522)
Cash flows from investing activities			
Interest received		**1,007**	978
Proceeds on disposal of other plant and equipment		**40**	33
Proceeds on disposal of investment properties		**295**	262
Purchase of other plant and equipment		**(403)**	(1,177)
Purchase of investment properties		**(2,912)**	(22,244)
Cash outflow to joint ventures and associates		**(15,728)**	(16,855)
Cash inflow from joint ventures and associates		**7,988**	–
Investment in financial assets		**(10,988)**	(8,669)
Cash inflow from financial assets		**12,989**	2,278
Net cash used in investing activities		**(7,712)**	(45,394)
Cash flows from financing activities			
Dividends paid		**(6,845)**	(5,874)
Purchase of treasury shares		**(171)**	—
Repayments of borrowings		**(21,167)**	(18,658)
New bank loans raised (net of transaction costs)		**23,259**	46,273
Equity (repayment)/investment from non-controlling interest		**(1,572)**	1,000
Decrease in monies held in restricted accounts and deposits		**3,068**	12,401
Net cash (used in)/generated from financing activities		**(3,428)**	35,142
Net increase/(decrease) in cash and cash equivalents		**13,170**	(41,774)
Cash and cash equivalents at the beginning of the year/period		**34,401**	76,283
Exchange gains/(losses) on cash and cash equivalents		**112**	(108)
Cash and cash equivalents at the end of the year/period		**47,683**	34,401
Cash and cash equivalents comprise:			
Cash at bank and in hand		**47,683**	35,585
Bank overdrafts	18(b)	**–**	(1,184)
Cash and cash equivalents at the end of the year/period		**47,683**	34,401

		28th February 2013 £'000	29th February 2012 £'000
Net debt comprises:			
Monies held in restricted accounts and deposits		**11,527**	14,595
Cash and cash equivalents		**47,683**	35,585
Financial liabilities:			
— Current borrowings	18(b)	**(2,001)**	(9,879)
— Non-current borrowings	18(b)	**(203,980)**	(193,177)
Net debt		**(146,771)**	(152,876)

The notes on pages 74 to 111 are an integral part of these Consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 28th February 2013

1 Basis of preparation and accounting policies

a)

(i) General information

The Consolidated financial statements of the Group for the year ended 28th February 2013 comprise the results of the Company and its subsidiaries and were authorised by the Board for issue on 1st May 2013.

The Company is a public limited company which is listed on the London Stock Exchange and is incorporated and domiciled in the UK.

(ii) Going concern

The Group adopts the going concern basis in preparing its Consolidated financial statements as discussed in the Financial Review on pages 39 to 47.

b) Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the European Union as they apply to the financial statements of the Group for the year ended 28th February 2013 and applied in accordance with the Companies Act 2006 as applicable to companies reporting under IFRS. The accounting policies which follow set out those policies which were applied consistently in preparing the financial statements for the periods ended 28th February 2013 and 29th February 2012.

The Consolidated financial statements have been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of investment property, operating property, available-for-sale financial assets and derivative instruments at fair value.

c) Critical accounting judgements and estimates

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

Judgements other than estimates

1.1 Classification of directly owned property assets

The Group earns revenue from property development, trading and investment, and from operating serviced offices.

Property development includes the entire development process from identification of an opportunity through to construction, letting and sale of a completed scheme. This activity is undertaken both on the Group's own Balance Sheet and in partnership with institutional investors, usually via a pre-sale of the completed development.

Property trading refers to participation in the development process, where the Group acquires an interest in land and enhances the potential development, for instance by procuring or changing planning permission, before selling on to a third party to complete the development.

Property investment represents the acquisition of income-generating real estate which is held for the purposes of income and capital gain, through active asset management.

In most cases the property interest is held directly by the Group and is classified either as investment property (see note 10) or as inventory for development and trading properties (see note 15).

The varied nature of the Group's properties is such that a number exhibit characteristics consistent with more than one classification; also the Directors' strategy for an asset may change during its ownership. The Directors determine the status of each asset according to their intention on acquisition. A change in classification is made only in exceptional circumstances, where the strategy has demonstrably changed for a period of over one year. No reclassifications have arisen during the current year.

1.2 Classification of projects in partnership

In addition to its directly owned and managed activities, the Group participates in similar activities in partnership with others, typically to access expertise in different locations or market sectors. The Group's financial participation may be by way of equity investment or loan. In each case a judgement is required as to the status of the Group's interest, as an associate, a joint venture or a financial asset, typically focusing on the extent of control exercised by the Group.

The Group's share of control is governed and achieved by a mixture of rights set out in agreements and participation in the management of each business. The exercise of control in practice does not always follow the legal structure. The Directors have considered the position in respect of each venture, taking account of the operation in practice, and have determined the status of each accordingly.

These investments are reported under the relevant balance sheet headings, with a summary in note 27.

The IASB has recently issued IFRS 10 'Consolidated Financial Statements' and IFRS 11 'Joint Arrangements', which (when adopted by the European Union) will amend and clarify the guidance in this area, and is likely to result in some changes to the current classification. The Directors are conducting a detailed review of the new standards and their application to the Group's arrangements. Any changes in accounting policies or classifications will be adopted in accordance with the standard in the year commencing 1st March 2014.

1.3 Acquisition of subsidiaries

The Group sometimes acquires properties through the purchase of entities which own real estate. At the time of acquisition the Group considers whether the transaction represents the acquisition of a business. In cases where the entity is capable of being operated as a business, or an integrated set of activities is acquired in addition to the property, the Group accounts for the acquisition as a business combination. When the acquisition does not represent a business, it is accounted for as the purchase of a group of assets and liabilities. In making this distinction, the Group considers the number of items of land and buildings owned by the entity, the extent of ancillary services provided by the entity, and whether the entity has its own staff to manage the property (over and above the maintenance and security of the premises).

1.4 Accounting for pre-sold development assets

Where development is undertaken on the Group's Balance Sheet under a contract for a pre-sale, a judgement is required as to whether this represents a sale of property or a contract for construction as described in note 1(h)(vi).

The refurbishment of the residential units at Westminster Palace Gardens has been classified as a construction contract (under IAS 11), whereby revenue is reported in line with construction progress. The amounts concerned are set out in note 3.

Estimates

1.5 Valuation of property assets

The key source of estimation uncertainty rests in the values of property assets, which affects several categories of asset in the Balance Sheet.

The investment property portfolio (and the operating property) are stated at fair value, which requires a number of judgements and estimates in assessing the qualities of the Group's assets relative to market transactions. The approach to this valuation and the amounts affected are set out in notes 1(i), 1(j), 10 and 11. In determining fair value, the capitalisation of net income method and the discounted cash flow method have been used, which are based upon assumptions including future rental income, anticipated maintenance costs and appropriate discount rate, and make reference to market evidence of transaction prices for similar properties.

The same uncertainties affect the determination of fair value of certain available-for-sale financial instruments, described in note 18, with the further complexity that the value of these assets requires estimates of future construction costs, tenant demand and market yields.

The Group's development and trading properties are carried at the lower of cost and net realisable value. The determination of net realisable value relies upon similar estimates, with the added challenge, in some cases, of judgements about uncertain planning outcomes. These amounts are disclosed in note 15.

1.6 Impairment reviews

The Group's Curzon Park Limited joint venture owns a development site in Birmingham known as Curzon Street. The current proposal for the High Speed Train Link between London and Birmingham (HS2) indicates that the planned route of HS2 passes through the site, including provision for part of the prospective station. In view of this, the ultimate value of the site is uncertain. The early indications are that the impact of HS2 may restrict future development on the 10.5-acre site by approximately two thirds of its original potential. The Group has (jointly) guaranteed the liabilities of the joint venture to the bank, and hence should the value of the site (together with any compensation received) be insufficient to repay the amortising bank loan, the Group may incur further charges in respect of its obligations to the joint venture and the bank. The Directors believe that the site will recover at least its carrying value in the books of the joint venture, although the interim and ultimate uses of the site and timing of its development remain unclear. The site is discussed in the Operating Review on page 29 and in note 24.

In view of operating losses at Executive Communication Centres (ECC), the Group's serviced office subsidiary, the Group has conducted an impairment review of its investment in the business. The review required significant judgements and estimates concerning future customer demand and competitor behaviour, as well as discount rates. The review determined that no further impairment arose during the year.

The Group, through its subsidiaries and a joint venture, has participated in the acquisition of loan portfolios which are secured against underlying property investment or development assets. The loan portfolios are initially recognised at fair value and subsequently carried at the lower of amortised cost using the effective interest rate method and are reviewed for impairment at each reporting date. In assessing the effective interest rate applied and the recoverable amount the Group applies significant judgements in considering the realisable value of the underlying assets which secure those loans and timing of the loan repayment. This review determined that no provision for impairment is required.

1.7 Derivative instruments

The Group is party to a number of interest rate swap and foreign currency agreements which are accounted for as derivatives and measured at fair value. The estimation of this figure is based upon market assumptions about future movements in interest and exchange rates. The estimated fair values and the movements in the year are set out in note 18.

1.8 Income tax losses

The Group has significant carried forward income tax losses, arising mainly from valuation movements in the Group's investment and trading property portfolios. Recognition of these losses as a deferred income tax asset requires judgements and estimates about the amounts and timing of the Group's future taxable profits. The balances are disclosed in note 19.

d) New accounting standards

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1st March 2012 that would be expected to have a material impact on the Group.

A number of new standards, amendments and interpretations are effective for annual periods beginning after 1st March 2012 and have not been applied in preparing these Consolidated financial statements. None of these are expected to have a significant impact on Group's operations.

- IAS 1, 'Presentation of Financial Statements', effective for annual periods beginning on or after 1st July 2012. The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified.
- IFRS 9, 'Financial Instruments', effective for annual periods beginning on or after 1st January 2013. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition and will depend on characteristics of the instrument. The Group is yet to assess the full impact of IFRS 9.
- IFRS 10, 'Consolidated Financial Statements', builds on the existing principles by identifying the concept of control to determine whether an entity should be included within the Consolidated financial statements of the Group. IFRS 10 will provide guidance to assist management in determining which entities are controlled, and therefore are required to be consolidated by a parent. The Group has been assessing the impact on the Consolidated financial statements and will adopt the standard for the accounting period commencing 1st March 2014.

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2013

1 Basis of preparation and accounting policies continued

d) New accounting standards continued

- IFRS 12, 'Disclosure of Interests in Other Entities', includes the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, associates, special purpose vehicles and other off Balance Sheet vehicles. A number of new disclosures are also required. The Group has been assessing the impact on the Consolidated financial statements and will adopt the standard for the accounting period commencing 1st March 2014.
- IFRS 13, 'Fair Value Measurement', effective for annual periods beginning on or after 1st January 2013. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance of how to measure fair value under IFRS when fair value is required or permitted.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Summary of significant accounting policies

e) Basis of consolidation

The Consolidated financial statements of the Group include the financial statements of Development Securities PLC ('Company') and its subsidiaries.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying the shareholding of more than half of the voting rights. The Group deems control where it does not have more than 50 per cent of the voting power but is able to govern the financial and operating policies by virtue of de-facto control, taking account of how the entity operates in practice.

The results of subsidiaries acquired during the year are included from the effective date of acquisition, being the date on which the Group obtains control. They are deconsolidated on the date that control ceases.

Where property is acquired, via corporate acquisition or otherwise, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents the acquisition of a business. The basis of the judgement is set out in note 1(c), 1.3.

Where such acquisitions are not judged to be an acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred taxation arises. Otherwise, acquisitions are accounted for as business combinations.

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 identifiable assets and liabilities acquired is recognised as goodwill. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. This fair value includes any contingent consideration. Acquisition-related costs are expensed as incurred.

The Group recognises any non-controlling interest on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the identifiable net assets acquired.

Intra-group balances and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the Consolidated financial statements. Where necessary, adjustments have been made to the financial statements of subsidiaries, associates and joint ventures to bring the accounting policies used and accounting periods into line with those of the Group.

f) Associates and joint ventures

An associated company is defined as an undertaking other than a subsidiary or joint venture over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 and 50 per cent of the voting rights. Investments in associates are accounted using the equity method of accounting.

A joint venture is defined as an undertaking other than a subsidiary or associated undertaking where the Group has joint control with two or more venturers under a contractual arrangement. Joint ventures are accounted for using the equity method.

Under the equity method, the interest in associates or joint ventures is carried in the Consolidated Balance Sheet at cost plus post-acquisition changes in the Group's share of its net assets, less distributions received and less any impairment in value of individual investments. The Statement of Comprehensive Income reflects the Group's share of the associate's or joint venture's result after tax only after its share of the profits equals the share of losses not recognised. The Group does not recognise net losses unless it has incurred constructive or legal obligations or made payments on behalf of the associate or joint venture.

g) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in Intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. The allocation is made to those CGUs that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

(ii) Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the

asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets, other than goodwill, that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

h) Revenue recognition

(i) Rental income is recognised on a straight-line basis over the term of the lease. Incentives for lessees to enter into lease agreements are spread evenly over the lease term, even if payments are not made on such a basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at inception of the lease, the Directors are reasonably certain that the tenant will exercise that option. Lease incentives are usually in the form of rent-free periods or capital contributions. Assets held within both the investment and development and trading segments earn rental income.

(ii) Lease surrender payments from tenants are recognised in income when they are contractually agreed.

(iii) Sales of property classified as Inventory are recognised when the risks and rewards of ownership have been transferred to the purchaser which is normally on unconditional exchange of contracts. For conditional exchanges, sales are recognised only when all of the significant conditions are satisfied.

(iv) Licence fee income from serviced offices is recognised on a straight-line basis over the term of the licence. Other income from serviced offices is recognised when the service is provided. The income is classified within the operating segment.

(v) Project management fee income is recognised on a straight-line basis over the contract term for which project management services are provided.

(vi) Development revenue and profits are recognised in accordance with IAS 11, 'Construction contracts' or IAS 18, 'Revenue' depending on whether all development risks, apart from the construction risk, have passed to the purchaser under the terms of the development agreement. Where only the construction risk remains, the revenue and profit on the development is recognised under IAS 11, so as to match the proportion of development work completed on a percentage completion basis as determined by consultant monitoring surveyors or using a suitable method particular to the contract concerned. Profits are only recognised where the outcome can be determined with reasonable certainty. Full provision is made for losses as soon as such losses are foreseen. Where revenue and profit is recognised under IAS 18, disposals are recognised where the risks and rewards of ownership are considered to have been transferred to the purchaser. Profits are recognised within the development and trading segment.

(vii) Income from investment in property secured loans relates to gains from recovery of the loan in excess of its acquisition amount where under the terms of the loan agreement, the Group has the power to instruct the sale of the underlying property assets, retaining the disposal proceeds to repay the loan. The income is recognised as Other property income by reference to the loan principal outstanding using the effective interest method.

(viii) Finance income is recognised by reference to the principal outstanding using the effective interest method and is included in Finance Income in the Statement of Comprehensive Income.

(ix) Dividend income from investments is recognised when the Group's right to receive income has been established.

i) Investment properties

(i) Investment properties are those properties, including land holdings, that are held either to earn rental 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 if they qualify to be treated as such.

(ii) Investment properties are measured initially at cost, including directly attributable transaction costs, and thereafter are stated at fair value. Surpluses and deficits arising from changes in the fair value of investment properties are recognised in the Statement of Comprehensive Income in the year in which they arise.

(iii) Completed investment properties are valued, at each reporting date, by independent valuers on the basis of market value in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors. Fair value is assessed as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. A deduction is made to reflect purchaser's acquisition costs. In determining the fair value, the capitalisation of net income method and the discounting of future cash flows to their present value have been used, which are based upon assumptions including future rental income, anticipated maintenance costs and appropriate discount rate, and make reference to market evidence of transaction prices for similar properties.

(iv) Investment properties under construction are valued by the Directors, on the basis of the expected value of the property when complete, less deductions for the costs required to complete the project and appropriate adjustments for risk and finance costs. In preparing these valuations the Directors consult with agents and other advisors to derive appropriate assumptions specific to each asset.

(v) Gains or losses on disposal of investment properties are calculated by reference to carrying value and recognised when the risks and rewards of ownership are considered to have passed to the purchaser which is normally on unconditional exchange of contracts. For conditional exchanges, sales are recognised only when all of the significant conditions are satisfied. Gains and losses are recognised within Gains or losses on disposal of investment properties in the Statement of Comprehensive Income.

(vi) Investment properties held for sale are held at fair value and classified separately within current assets in the Balance Sheet.

j) Property, plant and equipment

(i) Operating properties – serviced offices

Operating properties are held for business purposes rather than for investment, generating revenue by way of licence fees and ancillary services. These properties are recognised initially at cost, which includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Thereafter the asset is carried at valuation less depreciation and impairment charged subsequent to the date of revaluation. A revaluation surplus is credited to Other comprehensive income and accumulated in equity under the heading of Property revaluation reserve, unless it reverses a revaluation decrease on the same asset previously recognised as an expense, where it is first credited to the Statement of Comprehensive Income to that extent.

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2013

1 Basis of preparation and accounting policies continued

j) Property, plant and equipment continued

(i) Operating properties – serviced offices continued

Operating properties are valued at each reporting date by independent, professional valuers on the basis of Existing Use Value. Surpluses and deficits in the period are included in the Property revaluation reserve within equity, except where carrying value is below depreciated cost, in which case surpluses and deficits are included in the Statement of Comprehensive Income. Depreciation is provided so as to write off the value of the properties, excluding land, over their expected useful lives, usually 25 years.

(ii) Other plant and equipment

Other plant and equipment is stated at cost less accumulated depreciation and any provision for impairment. Cost includes expenditure that is directly attributable to the acquisition of the assets. Depreciation is provided so as to write off the cost less estimated residual value of the assets over their expected useful lives on a straight-line method. The principal annual rates used for this purpose are as follows:

Fixtures and fittings and computer equipment	– 10% to 33%
Motor vehicles	– 20%

The assets' residual values and useful lives are reviewed and adjusted if appropriate at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the net proceeds with the carrying amount and are recognised within Other gains and losses in the Statement of Comprehensive Income.

k) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rents payable under operating leases are charged in the Statement of Comprehensive Income on a straight-line basis over the term of the lease.

l) Inventory – development and trading properties

Property and development interests acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and estimated net realisable value.

Cost includes directly attributable expenditure and interest. No element of overhead is included in cost, since it is not practical to identify overhead amounts in respect of particular assets. Where the Directors consider that the costs are not recoverable from the sale or development of the asset, the project or site is written down to its net realisable value, with the write-down taken to the Statement of Comprehensive Income.

Net realisable value is calculated as the estimated realisable value of the project or site, based upon the current plans, less all further costs to be incurred in making the sale.

m) Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in Other comprehensive income or directly in equity. In this case the tax is also recognised in Other comprehensive income or directly in equity, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date, together with any adjustment in respect of previous years, in the country where the Company and its subsidiaries operate and generate taxable income. Appropriate provisions are made based on the amounts expected to be paid to the tax authorities.

Deferred income tax is recognised using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date, with the following exceptions:

- Where the temporary differences arise from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, joint ventures and associates where the timing of the reversal of the temporary difference can be controlled by the parent, venture or investor respectively, and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised.

n) 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) Financial assets

The Group determines the classification of its financial assets at initial recognition. The classification depends on the purpose for which the financial assets were acquired as follows:

- Loans and other receivables with fixed or determinable payments that are not quoted on an active market. The Group's loans and receivables are included within Trade and other receivables, Cash or cash equivalents, Monies held in restricted accounts and deposits and Other financial assets in the Consolidated Balance Sheet.
- Financial assets at fair value through profit or loss. This represents interest and currency swaps which are categorised as held for trading unless they are designated as hedges.
- Available-for-sale financial assets are non-derivatives that are designated as such or are not classified in any other category. After initial recognition at cost, available-for-sale assets are measured at fair value, with gains or losses being recognised as a separate component of equity until the

investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the Statement of Comprehensive Income. Equity instrument financial assets are held at cost in the event that the fair value of the instruments is not reliably measurable.

Trade receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote. Subsequent recoveries of amounts previously written off are credited against the appropriate cost line in the Statement of Comprehensive Income.

Loans and receivables include bank loans acquired which are secured against underlying investment or development assets. The loans acquired are recognised and carried at the lower of cost or recoverable amount. Amounts receivable are reviewed for impairment and a provision is made where there is evidence that the Group will not be able to recover the loan in full. Any gains or losses are recognised in a separate component within the Statement of Comprehensive Income.

Amounts due from customers for contract work are included in Trade and other receivables and represent revenue recognised in excess of payments on account received.

Monies held in restricted accounts and deposits represent cash held by the Group in accounts with conditions that restrict the use of these monies by the Group and, as such, does not meet the definition of Cash and cash equivalents as defined in IAS 7, 'Statement of Cash Flows'.

Cash and cash equivalents comprise deposits held at call with banks and other short-term highly liquid investments with 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 financial liability. For the purposes of the Consolidated Cash Flow Statement, cash and cash equivalents are stated net of outstanding bank overdrafts.

Financial assets are included within current assets except for assets maturing after one year, which will be classified as non-current.

Financial assets are assessed for impairment at each reporting date. Assets are impaired where there is evidence that as a result of events that occurred after initial recognition, the estimated future cash flows from the assets have been adversely affected.

(ii) Financial liabilities

Loans and borrowings are initially recognised at fair value, net of directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest method. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance income and finance costs.

Other financial liabilities, including trade and other payables, are initially recognised at fair value and subsequently at amortised cost and are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Amounts due to customers for contract work is included within Trade and other payables and represents payments received in advance from customers.

(iii) Derivatives

The Group enters into derivative financial instruments, including interest rate swaps, caps and collars and cross-currency swaps, to manage its exposure to interest rate and foreign exchange rate risk.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated as an effective hedging instrument, in which case the fair value is taken through Other Comprehensive Income.

(iv) Hedging

The fair value of hedging derivatives is classified as a non-current asset or a non-current liability if the remaining maturity of the hedge relationship is more than twelve months and as a current asset or a current liability if the remaining maturity of the hedge relationship is less than twelve months.

At the inception of the hedge relationship the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instruments that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of hedged items.

The Group has designated derivatives as cash flow hedges, in which case the effective portion of changes in the fair value of the hedging instrument is recognised in Other comprehensive income. The gain or loss relating to an ineffective portion is recognised immediately in the Statement of Comprehensive Income. Amounts taken to equity are recycled to the Statement of Comprehensive Income in the periods when the hedged item is recognised in profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship or the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

o) Borrowing costs

Gross borrowing costs relating to direct expenditure on investment properties and inventories under development are capitalised. The interest capitalised is calculated using the rate of interest on the loan to fund the expenditure, or the Group's weighted average cost of borrowings where appropriate, over the period from commencement of the development work until substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. The capitalisation of finance costs is suspended if there are prolonged periods when development activity is interrupted.

Capitalised interest is written off to direct costs on disposal of inventory or to operating profit on disposal of investment properties.

Fees paid on establishment of loan facilities are capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates. All other borrowing costs are recognised in the Statement of Comprehensive Income in the period in which they are incurred.

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2013

1 Basis of preparation and accounting policies continued

p) Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Onerous lease provisions are created for properties that are unoccupied, sublet at below the rent payable on the head lease or for operating sites where the projected future trading revenue is insufficient to cover the value in use.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation. The amortisation in the discount is recognised as an interest expense.

q) Pension schemes

The Group operates a defined contribution scheme. The charge to the Statement of Comprehensive Income in the year 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.

r) Foreign currencies

The Consolidated financial statements of the Group are presented in UK Sterling, the Company's functional and presentation currency. Transactions denominated in foreign currencies are translated into Sterling at the rates of exchange 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 Statement of Comprehensive Income, with exchange differences on borrowings taken to finance income/costs, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

s) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board.

t) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new Ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where a Group company purchases its own share capital out of distributable reserves the shares can be held as Treasury shares. The shares are carried at the consideration paid including any directly attributable costs of acquiring the shares. The value of the shares is deducted from the equity attributable to the Company's equity holders until the shares are cancelled or reissued. If the shares are subsequently reissued, their value is reattributed to the Company's equity holders.

u) Share-based payments

The Group operates a number of share-based compensation plans, the majority of which are cash-settled, under which the entity receives services from employees as consideration for cash-settled instruments of the Group.

The fair value of the employee services received in exchange for the grant of the option is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted.

The Group has used a Black-Scholes option valuation model to determine the fair value of share options granted. An equal probability model has been used to determine the fair value of share awards under the Performance Share Plan. The cost of cash-settled transactions with employees and Directors is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of cash-settled share-based instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the Statement of Comprehensive Income, with a corresponding entry in accruals.

v) Dividend distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the year in which the dividends are approved by the Company's shareholders.

w) Definitions

- Operating profit: stated after gain on disposal of investment properties and the revaluation of the Investment property portfolio and before the results of associates, jointly controlled entities and finance income and costs.
- IPD Index and Total Portfolio Return: total return from the completed investment property portfolio, comprising net rental income or expenditure, capital gains or losses from disposals and revaluation surpluses or deficits, divided by the average capital employed during the financial year, as defined and measured by Investment Property Databank Limited, a company that produces independent benchmarks of property returns.
- Total Shareholder Return: movement in share price over the year plus dividends paid as a percentage of the opening share price.
- Gearing: expressed as a percentage, is measured as net debt divided by total shareholders' funds.
- Adjusted gearing: expressed as a percentage, is calculated by deducting from net debt the current fair value of the subordinated loan notes and adding back relevant restricted cash balances and transaction costs.
- Loan to value gearing: expressed as a percentage of net debt as a proportion of total property assets, including shares of properties and net debt in all projects in partnership.
- Net debt: total debt less cash and short-term deposits, including cash held in restricted accounts.

2 Segmental analysis

The segmental information presented consistently follows the information provided to the Chief Operating Decision-Maker (CODM) and reflects the three sectors in which the Group operates. The CODM, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board. The three operating divisions are:

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

Unallocated assets and liabilities comprise amounts that cannot be specifically allocated to operating segments; an analysis is provided below.

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. In February 2012, assets of £89,000 were located in The Netherlands. All revenue arises from continuing operations.

				Year ended 28th February 2013
	Investment £'000	Development and trading £'000	Operating £'000	Total £'000
Segment revenue	16,080	79,711	3,877	99,668
Direct costs	(3,978)	(59,986)	(5,025)	(68,989)
Segment result	12,102	19,725	(1,148)	30,679
Operating costs	(4,005)	(9,007)	—	(13,012)
Gain on disposal on investment properties	864	—	—	864
Loss on revaluation of property portfolio	(16,328)	—	(95)	(16,423)
Operating (loss)/profit	(7,367)	10,718	(1,243)	2,108
Other income	465	150	—	615
Share of post-tax profits of joint ventures and associates	2,835	4,847	—	7,682
Income from financial asset	—	500	—	500
Profit on sale of investment	—	20	—	20
Unallocated loss on sale of other plant and equipment				(13)
Profit before interest and income tax				10,912
Finance income	1,023	1,102	—	2,125
Finance costs	(8,889)	(3,356)	—	(12,245)
Profit before income tax				792
Income tax				1,554
Profit after income tax				2,346
Assets and liabilities				
Segment assets	268,903	237,604	4,476	510,983
Unallocated assets				33,220
Total assets				544,203
Segment liabilities	(152,365)	(73,895)	(3,526)	(229,786)
Unallocated liabilities				(7,751)
Total liabilities				(237,537)

A summary of unallocated assets and liabilities is shown on page 83.

In February 2012, as a result of continuing losses arising within the Group's serviced office business, the Directors conducted an impairment review. The review determined that the fixed assets of five of the seven centres were fully impaired, requiring a provision of £1,575,000. In addition, four of those centres were not expected to cover their committed rental costs in full, and a further provision of £1,270,000 was made in this regard, aggregating to an exceptional provision of £2,845,000. A further review was undertaken at 28th February 2013. The Directors do not consider it necessary to make a further provision.

The net book amount of the remaining fixed assets associated with the operating business segment is £1,996,000 (29th February 2012: £2,149,000). No reasonable change in underlying assumptions would give rise to a material impairment.

Notes to the Company Financial Statements continued

For the year ended 28th February 2013

2 Segmental analysis continued

				Year ended 28th February 2013
	Investment £'000	Development and trading £'000	Operating £'000	Total £'000
Other segment information				
Capital expenditure	**2,409**	**191**	**156**	**2,756**
Unallocated capital expenditure				**56**
Impairment of assets	**—**	**(2,246)**	**—**	**(2,246)**
Depreciation	**—**	**(123)**	**(365)**	**(488)**
Unallocated depreciation				**(249)**
Revenue				
Rental income	**16,032**	**2,619**	**—**	**18,651**
Serviced office income	**—**	**—**	**3,877**	**3,877**
Project management fees	**—**	**823**	**—**	**823**
Trading property sales	**—**	**24,389**	**—**	**24,389**
Other trading property income	**—**	**2,659**	**—**	**2,659**
Construction contract revenue	**—**	**7,960**	**—**	**7,960**
Development proceeds	**—**	**27,562**	**—**	**27,562**
Other property income	**—**	**13,699**	**—**	**13,699**
Other	**48**	**—**	**—**	**48**
	16,080	**79,711**	**3,877**	**99,668**

In the year ended 28th February 2013, one transaction with turnover totalling £12,500,000 generated in excess of 10.0 per cent of total revenue and fell within the development and trading segment.

				14-month period ended 29th February 2012
	Investment £'000	Development and trading £'000	Operating £'000	Total £'000
Segment revenue	17,085	58,393	4,550	80,028
Direct costs	(3,710)	(49,941)	(6,002)	(59,653)
Segment result	13,375	8,452	(1,452)	20,375
Operating costs	(4,350)	(10,441)	—	(14,791)
Gain on disposal on investment properties	211	—	—	211
Loss on revaluation of property portfolio	(4,686)	—	(86)	(4,772)
Operating profit/(loss)	4,550	(1,989)	(1,538)	1,023
Other income	342	408	—	750
Exceptional impairment and provision for business segment	—	—	(2,845)	(2,845)
Share of post-tax profits of joint ventures and associates	1,454	123	—	1,577
Unallocated loss on sale of other plant and equipment				(28)
Profit before interest and income tax				477
Finance income	1,382	1,189	—	2,571
Finance costs	(8,639)	(4,576)	—	(13,215)
Loss before income tax				(10,167)
Income tax				(1,879)
Loss after income tax				(12,046)
Assets and liabilities				
Segment assets	278,108	237,380	4,881	520,369
Unallocated assets				31,926
Total assets				552,295
Segment liabilities	(150,579)	(75,673)	(3,774)	(230,026)
Unallocated liabilities				(9,027)
Total liabilities				(239,053)

A summary of unallocated assets and liabilities is shown on page 83.

	14-month period ended 29th February 2012			
	Investment £'000	Development and trading £'000	Operating £'000	Total £'000
Other segment information				
Capital expenditure	23,370	352	565	24,287
Unallocated capital expenditure				260
Impairment of assets	—	(1,776)	(1,575)	(3,351)
Depreciation	—	(61)	(642)	(703)
Unallocated depreciation				(300)
Revenue				
Rental income	16,928	4,076	—	21,004
Serviced office income	—	—	4,550	4,550
Project management fees	—	381	—	381
Trading property sales	—	17,207	—	17,207
Other trading property income	—	2,528	—	2,528
Construction contract revenue	—	16,498	—	16,498
Development proceeds	—	17,703	—	17,703
Other	157	—	—	157
	17,085	58,393	4,550	80,028

In the 14-month period ended 29th February 2012, one transaction with turnover totalling £12,427,000 generated in excess of 10.0 per cent of total revenue and fell within the development and trading segment.

	28th February 2013 £'000	29th February 2012 £'000
Unallocated assets can be analysed as follows:		
Other plant and equipment	**626**	863
Deferred income tax asset	**1,757**	3,241
Trade and other receivables	**4,506**	4,193
Cash and cash equivalents	**26,331**	23,629
	33,220	31,926
Unallocated liabilities can be analysed as follows:		
Current borrowings	**(17)**	(17)
Trade and other payables	**(3,770)**	(3,300)
Deferred income tax liability	**(743)**	(3,241)
Derivative financial instruments	**(3,221)**	(2,469)
	(7,751)	(9,027)

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2013

3 Construction contract revenue

Revenue related to construction contracts amounted to £7,960,000 (29th February 2012: £16,498,000) and is included within development and trading segment revenue (refer note 2) and represented 8.0 per cent (29th February 2012: 20.6 per cent) of Group revenues.

The amount shown in Trade and other receivables in the Balance Sheet represents the final amount due from the purchaser under the construction contract. The amount shown in Trade and other payables represents the outstanding sums payable to contractors.

	Year ended 28th February 2013 £'000	14-month period ended 29th February 2012 £'000
Construction contract assets	**200**	10,594
Construction contract liabilities	**(241)**	(117)
Construction contract net (liabilities)/assets	**(41)**	10,477
This amount corresponds to:		
Aggregate costs incurred	**16,168**	18,379
Recognised profits	**4,220**	4,683
	20,388	23,062
Progress billings	**(20,429)**	(12,585)
Construction contract net (liabilities)/assets	**(41)**	10,477

4 Operating profit

	Year ended 28th February 2013 £'000	14-month period ended 29th February 2012 £'000
Operating profit is stated after charging:		
Share-based payments expense	**21**	6
Cost of sales of development and trading properties recognised in direct costs	**22,343**	17,682
Goodwill realised on disposal of development asset	**1,030**	—
Write-down of development and trading properties to net realisable value	**2,246**	1,776
Depreciation: — Operating property	**65**	77
— Other plant and equipment	**672**	926
Impairment of trade receivables recognised in direct costs	**398**	107
Auditors' remuneration		
Fees payable to the Company's auditor for the audit of Company and Group financial statements	**212**	200
Fees payable for the audit of the Company's subsidiaries pursuant to legislation – 2013	**271**	—
Fees payable for the audit of the Company's subsidiaries pursuant to legislation – 2012	**—**	293
Fees payable for the audit of the Company's subsidiaries pursuant to legislation – 2010	**—**	143
	483	636
Fees payable to the Group's auditors and its associates for other services:		
— Half year review procedures	**43**	41
— Tax services	**162**	298
— All other services	**19**	—
	707	975

5 Staff costs

	Year ended 28th February 2013 £'000	14-month period ended 29th February 2012 £'000
Wages and salaries	**6,309**	7,247
Social security	**786**	902
Cost of employee share option schemes	**21**	6
Other pension costs	**589**	663
	7,705	8,818

Average monthly number of employees, including Directors, during the year/period:

	Year ended 28th February 2013 Number	14-month period ended 29th February 2012 Number
Property development and investment	**50**	49
Operating property activities	**28**	33
	78	82

The Directors are considered to be the only key management personnel. Their remuneration is shown in the Remuneration Report on pages 62 to 68.

6 Finance income and costs

a) Finance income	Year ended 28th February 2013 £'000	14-month period ended 29th February 2012 £'000
Interest receivable	**1,742**	2,222
Other finance income	**271**	349
Net foreign currency differences arising on retranslation of cash and cash equivalents	**112**	—
Total finance income	**2,125**	2,571

b) Finance costs	Year ended 28th February 2013 £'000	14-month period ended 29th February 2012 £'000
Interest on bank loans and other borrowings	**9,905**	10,078
Interest on debenture	**2,200**	2,567
Amortisation of transaction costs	**808**	577
Fair value loss on financial instruments – interest rate swaps, caps and collars	**860**	550
Net foreign currency differences arising on retranslation of cash and cash equivalents	**—**	108
	13,773	13,880
Capitalised interest on development and trading properties	**(1,528)**	(665)
Net finance cost	**12,245**	13,215

Interest was capitalised at an average rate of 6.03 per cent. Capitalised interest of £622,000 (29th February 2012: £nil) was written off in the year. The tax treatment of capitalised interest follows the accounting treatment.

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2013

7 Taxation

	Year ended 28th February 2013 £'000	14-month period ended 29th February 2012 £'000
Current tax	**121**	812
Adjustment in respect of prior years	**(706)**	—
Total current tax (credit)/charge	**(585)**	812
Deferred tax (credit)/charge	**(969)**	1,067
Total (credit)/charge in the Statement of Comprehensive Income	**(1,554)**	1,879

	Year ended 28th February 2013 £'000	14-month period ended 29th February 2012 £'000
Tax on items credited to equity:		
Deferred tax credit on other revaluations	**(45)**	(1,067)
Total credit in the Statement of Comprehensive Income	**(45)**	(1,067)

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

	Year ended 28th February 2013 £'000	14-month period ended 29th February 2012 £'000
Profit/(loss) before tax	**792**	(10,167)
Tax on profit/(loss) on ordinary activities at 24.2% (29th February 2012: 26.5%)	**191**	(2,694)
Amounts not deductible for tax purposes	**2,322**	1,841
Adjustment in respect of prior years	**(491)**	(742)
Indexation allowance	**(681)**	(839)
Impact on change in UK tax rate	**(54)**	(159)
Income tax at lower rates	**(20)**	—
(Brought forward losses utilised)/deferred tax credit not recognised	**(2,821)**	4,472
Total tax (credit)/charge reported in the Statement of Comprehensive Income	**(1,554)**	1,879

Deferred tax is calculated in full on the temporary differences under the liability method using the tax rate of 23.0 per cent.

8 Dividends

	Year ended 28th February 2013 £'000	14-month period ended 29th February 2012 £'000
Declared and paid during the year/period		
Equity dividends on Ordinary shares:		
Final dividend for 2012: 3.20 pence per share (2010: 2.40 pence per share)	**3,911**	2,937
Interim dividend for 2013: 2.40 pence per share (2012: 2.40 pence per share)	**2,934**	2,937
	6,845	5,874
Proposed for approval by shareholders at the Annual General Meeting		
Final dividend for 2013: 2.40 pence per share (2012: 3.20 pence per share)	**2,934**	3,915

Subject to approval by shareholders, the final dividend was approved by the Board on 30th April 2013 and has not been included as a liability or deducted from retained earnings as at 28th February 2013. The final dividend is payable on 25th October 2013 to ordinary shareholders on the register at the close of business on 27th September 2013 and will be recognised in the year ending 28th February 2014.

9 Earnings/(loss) per share and net assets per share

Basic earnings/(loss) per share amounts are calculated by dividing profit/(loss) for the year attributable to equity shareholders of the Parent by the weighted average number of Ordinary shares outstanding during the year.

Diluted earnings/(loss) per share amounts are calculated by dividing the profit/(loss) attributable to equity shareholders of the Parent by the weighted average number of Ordinary shares outstanding during the year plus the weighted average number of Ordinary shares that would be issued on the conversion of all the dilutive potential Ordinary shares into Ordinary shares.

Basic net assets per share amounts are calculated by dividing net assets by the number of Ordinary shares in issue at the balance sheet date.

Diluted net assets per share amounts are calculated by dividing net assets by the number of Ordinary shares in issue at the balance sheet date plus the number of Ordinary shares that would be issued on the conversion of all the dilutive potential Ordinary shares into Ordinary shares.

Management has chosen to disclose the European Public Real Estate (EPRA) adjusted net assets per share and earnings per share from continuing activities in order to provide an indication of the Group's underlying business performance and to assist comparison between European property companies.

EPRA earnings is the profit/(loss) after taxation excluding investment property revaluations (including valuations of joint venture investment properties), gains on disposals of investment and trading properties, impairment of development and trading properties and mark-to-market movements of derivative financial instruments (including those of joint ventures) and intangible asset movements and their related taxation.

EPRA net assets (EPRA NAV) are the Balance Sheet net assets excluding mark-to-market adjustment on effective cash flow hedges and related debt adjustments and deferred taxation on revaluations and diluting for the effect of those shares potentially issuable under employee share schemes.

EPRA NAV per share is EPRA NAV divided by the number of Ordinary shares in issue at the balance sheet date.

EPRA triple net assets is EPRA NAV adjusted to reflect the fair value of debt and derivatives and to include deferred taxation on revaluations.

The calculation of basic and diluted earnings/(loss) per share and EPRA profit/(loss) per share is based on the following data:

	Year ended 28th February 2013 £'000	14-month period ended 29th February 2012 £'000
Profit/(loss)		
Profit/(loss) for the purpose of basic and diluted earnings/(loss) per share	**2,421**	(12,592)
Revaluation deficit (including share of joint venture revaluation surplus)	**12,901**	4,226
Gain on disposal of investment properties	**(864)**	(211)
Gain on disposal of trading properties	**(4,569)**	(3,835)
Impairment of development and trading properties	**2,246**	1,776
Mark-to-market adjustment on interest rate swaps (including share of joint venture mark-to-market adjustment)	**724**	624
EPRA adjusted profit/(loss) from continuing activities attributable to owners of the Company	**12,859**	(10,012)

	Year ended 28th February 2013 '000	14-month period ended 29th February 2012 '000
Number of shares		
Weighted average number of Ordinary shares for the purpose of earnings/(loss) per share	**122,352**	122,352
Effect of dilutive potential Ordinary shares:		
Share options	**3**	42
Weighted average number of Ordinary shares for the purpose of diluted earnings/(loss) per share	**122,355**	122,394
Basic earnings/(loss) per share (pence)	**2.0p**	(10.3)p
Diluted earnings/(loss) per share (pence)	**2.0p**	(10.3)p
EPRA adjusted earnings/(loss) per share (pence)	**10.5p**	(8.2)p
EPRA adjusted diluted earnings/(loss) per share (pence)	**10.5p**	(8.2)p

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2013

9 Earnings/(loss) per share and net assets per share continued

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

	Year ended 28th February 2013			14-month period ended 29th February 2012		
	Net assets £'000	**No. of shares '000**	**Net assets per share pence**	Net assets £'000	No. of shares '000	Net assets per share pence
Basic net assets per share attributable to the owners	**306,610**	**122,352**	**251**	311,334	122,352	254
Cumulative mark-to-market adjustment on interest rate swaps	**10,942**			9,196		
EPRA adjusted net assets per share	**317,552**	**122,352**	**260**	320,530	122,352	262
Cumulative mark-to-market adjustment on interest rate swaps	**(10,942)**			(9,196)		
Fair value of debt	**(9,897)**			(11,587)		
EPRA adjusted triple net assets per share	**296,713**	**122,352**	**243**	299,747	122,352	245
Effect of dilutive potential Ordinary shares	**1,524**	**557**	**—**	1,535	572	—
Diluted net assets per share	**308,134**	**122,909**	**251**	312,869	122,924	254
EPRA diluted net assets per share	**319,076**	**122,909**	**260**	322,065	122,924	262
EPRA diluted triple net assets per share	**298,237**	**122,909**	**243**	301,282	122,924	245
Basic net assets per share based on total net assets	**306,666**	**122,352**	**251**	313,242	122,352	256

In calculating EPRA triple net assets per share the Directors have not included an estimate of the fair value of the development and trading portfolio given the uncertainty of the timing and amount related to future sales.

10 Investment properties

	Freehold £'000	Long leasehold £'000	Total £'000
At valuation 1st January 2011	197,782	1,455	199,237
Additions:			
— acquisitions	12,100	8,107	20,207
— capital expenditure	3,163	—	3,163
Transfer from development properties	20,029	—	20,029
Disposals	(51)	—	(51)
Deficit on revaluation	(4,139)	(547)	(4,686)
At valuation 29th February 2012	228,884	9,015	237,899
Additions:			
— acquisitions	680	—	680
— capital expenditure	1,161	568	1,729
Disposals	(3,906)	—	(3,906)
Deficit on revaluation	(14,972)	(1,356)	(16,328)
At valuation 28th February 2013	211,847	8,227	220,074

Direct costs of £3,978,000 (29th February 2012: £3,710,000) arose as a result of ownership of investment properties.

Reconciliation of market value of investment properties to the net book amount

The following table reconciles the market value of investment properties to their net book amount. The components of the reconciliation are included within their relevant balance sheet heading.

	28th February 2013 £'000	29th February 2012 £'000
Market value as assessed by the independent valuers or Directors	**225,766**	242,539
Amount included in prepayments and accrued income in respect of lease incentives	**(5,692)**	(4,640)
Net book amount of Investment property	**220,074**	237,899

The Group's Investment properties have been valued at 28th February 2013 and at 29th February 2012 by independent valuers and by the Directors on the basis of market value in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors. Completed Investment properties have been valued by DTZ Debenham Tie Leung, Chartered Surveyors, Savills Commercial Limited, Chartered Surveyors, GVA Grimley Limited, Commercial Property Advisers or Ryden LLP, Commercial Property Consultants at a value of £190,764,000 (29th February 2012: £208,509,000).

Land held as investment property has been valued by Colliers CRE, Chartered Surveyors at £14,625,000 (29th February 2012: £14,000,000).

The valuers have consented to the use of their names in the financial statements.

Also included within Investment properties are freehold land and buildings representing investment properties under development, amounting to £14,685,000 (29th February 2012: £15,390,000), which have been valued by the Directors. These properties comprise buildings and landholdings for current or future development as investment properties. This approach has been taken because the value of these properties is dependent on a detailed knowledge of the planning status, the competitive position of these assets and a range of complex project development appraisals.

Investment properties under development include £7,678,000 (29th February 2012: £7,590,000) of landholdings adjacent to retail properties within the Group's portfolio, acquired for the purpose of extending the existing shopping centres. The fair value of these properties rests in the planned extensions, and is difficult to estimate pending confirmation of designs and planning permission, and hence has been estimated by the Directors at cost as an approximation to fair value.

£198,170,000 (29th February 2012: £215,329,000) of Investment properties are charged as security against the Group's borrowings.

11 Operating properties – serviced offices

	Long leasehold £'000
Valuation	
At 1st January 2011	1,710
Deficit on revaluation	(213)
At 29th February 2012	1,497
Deficit on revaluation	(95)
At 28th February 2013	1,402
Accumulated depreciation	
At 1st January 2011	520
Charge for the period	77
At 29th February 2012	597
Charge for the year	65
At 28th February 2013	662
Net book amount 28th February 2013	740
Net book amount 29th February 2012	900
Net book amount 1st January 2011	1,190
Original cost of operating properties at 28th February 2013 and 29th February 2012	1,583

The operating property is charged as security against the Group's borrowings.

Depreciation expense of £65,000 (29th February 2012: £77,000) is included within operating costs.

The deficit on revaluation of long leasehold properties for the year ended 28th February 2013 is £95,000 (29th February 2012: £213,000 deficit) and has been charged to the Statement of Comprehensive Income. If the Operating properties were measured using the cost model, the carrying value would be £921,000 (29th February 2012: £986,000).

The Group's Operating property has been valued at market value as at 28th February 2013 by independent professional valuers DTZ Debenham Tie Leung, Chartered Surveyors, on the basis of Existing Use Value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors and without any special assumptions. The values disclosed above are as stated by the valuer in its valuation report to the Directors.

The valuer has consented to the use of its name in the financial statements.

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2013

12 Intangible assets

Goodwill	£'000
At 1st March 2012	1,268
Goodwill charged to profit and loss on disposal of development asset	(1,030)
At 28th February 2013	238

On 29th March 2010, the Group acquired 100.0 per cent of the issued shares in Henry Davidson Developments Limited (HDD), a property development company specialising in neighbourhood retail schemes. Goodwill of £1,268,000 arose as a result of HDD's expected future profits from two specific developments acquired. During the year, profit of £1,447,000 was recognised in respect of one of these developments. As a result, goodwill of £1,030,000 has been charged to profit and loss within the development and trading segment within direct costs.

The remaining balance of goodwill has been tested for impairment at the reporting date. The current project appraisals are reviewed at each reporting date, assessing the timing of the cash flows and expected future profit associated with the project.

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to the operating segment. The recoverable amount of all CGUs has been determined based on value-in-use calculations. The calculations use pre-tax cash flow projections based on financial budgets approved by management covering a period up to the completion of each project (or less than five years). The pre-tax discount rate used was 11.0 per cent. No provision for impairment was considered necessary. No reasonable change in any assumption would give rise to a material impairment.

13 Other plant and equipment

	Fixtures and fittings and computer equipment £'000	Motor vehicles £'000	Total £'000
Cost			
At 1st January 2011	8,374	403	8,777
Additions	1,106	71	1,177
Disposals	(107)	(109)	(216)
At 29th February 2012	9,373	365	9,738
Additions	392	11	403
Disposals	(28)	(63)	(91)
At 28th February 2013	9,737	313	10,050
Accumulated depreciation			
At 1st January 2011	3,712	227	3,939
Charge for the period	845	81	926
Disposals	(55)	(93)	(148)
Impairment of assets	1,575	—	1,575
At 29th February 2012	6,077	215	6,292
Charge for the year	617	55	672
Disposals	(10)	(28)	(38)
At 28th February 2013	6,684	242	6,926
Net book amount 28th February 2013	3,053	71	3,124
Net book amount 29th February 2012	3,296	150	3,446
Net book amount 1st January 2011	4,662	176	4,838

Depreciation expense of £249,000 (29th February 2012: £300,000) is included within operating costs and £423,000 (29th February 2012: £626,000) is included within direct costs.

During the period ended 29th February 2012, the Directors conducted an impairment review of the fixed assets associated with the operating segment. This review resulted in an impairment provision of £1,575,000 (refer note 2). A further review was carried out for the year ended 28th February 2013 indicating that no additional provision is required.

14 Investments

	Investments in associates £'000	Investments in joint ventures £'000
At 1st January 2011	1,944	9,718
Additions	2,500	16,747
Share of profit	—	1,105
Share of revaluation surplus	—	546
Share of mark-to-market adjustment on interest rate swaps	—	(74)
Share of results	—	1,577
Capital distributions	(168)	(1,474)
At 29th February 2012	4,276	26,568
Additions	—	15,728
Share of profit	—	4,024
Share of revaluation surplus	—	3,522
Share of mark-to-market adjustment on interest rate swaps	—	136
Share of results	—	7,682
Transfer to subsidiary	—	(2,467)
Capital distributions	—	(7,374)
At 28th February 2013	4,276	40,137

A summary of the Group's projects in partnership and the balance sheet classification of its interests is set out in note 27.

a) Investment in associates

The Group has the following interest in associates:

	% of holding	Country of incorporation	Principal activity	Reporting segment	Acquisition date	Note
Atlantic Park (Bideford) Limited	40	United Kingdom	Property development	Development and trading	September 2010	
Barwood Development Securities Limited	40	United Kingdom	Property development	Development and trading	January 2012	
Barwood Land and Estates Limited	25	United Kingdom	Property development	Development and trading	November 2009	
CTP Securities Limited	25	United Kingdom	Property development	Development and trading	November 2007	i
Wessex Property Fund	47	Jersey	Investment property	Investment	September 2007	i

i) The investment in the associate has been fully provided against.

The Group disposed of its 29.0 per cent holding in Continental Estates Corporation BV during the year.

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2013

14 Investments continued

a) Investment in associates continued

						28th February 2013
	Atlantic Park (Bideford) Limited £'000	Barwood Development Securities Limited £'000	Barwood Land and Estates Limited £'000	CTP Securities Limited £'000	Wessex Property Fund £'000	Total £'000
Summarised balance sheets:						
Non-current assets	—	71	190	1,205	5,071	6,537
Current assets	338	980	95	3,859	235	5,507
Current liabilities	(179)	(58)	(6)	(657)	(323)	(1,223)
Non-current liabilities	—	—	—	(5,064)	(9,233)	(14,297)
Share of net assets/(liabilities)	159	993	279	(657)	(4,250)	(3,476)
Share of net liabilities not recognised	—	—	—	657	4.250	4,907
Goodwill	117	1,507	1,221	—	—	2,845
Group's share of net assets	276	2,500	1,500	—	—	4,276
Summarised income statements:						
Share of revenue	—	155	210	5,109	274	5,748
Share of post-tax (losses)/profits of associates	(59)	(34)	35	348	11	301
Share of losses/(profits) not recognised	59	34	(35)	(348)	(11)	(301)
Share of (losses)/profits recognised	—	—	—	—	—	—

						29th February 2012
	Atlantic Park (Bideford) Limited £'000	Barwood Development Securities Limited £'000	Barwood Land and Estates Limited £'000	Continental Estates Corp. BV £'000	CTP Securities Limited £'000	Wessex Property Fund £'000	Total £'000
Summarised balance sheets:							
Non-current assets	—	34	177	329	1,205	5,071	6,816
Current assets	247	1,195	97	10	4,861	282	6,692
Current liabilities	(116)	(188)	(35)	(141)	(954)	(345)	(1,779)
Non-current liabilities	—	—	—	(757)	(6,489)	(9,268)	(16,514)
Share of net assets/(liabilities)	131	1,041	239	(559)	(1,377)	(4,260)	(4,785)
Share of net liabilities not recognised	—	—	—	559	1,377	4,260	6,196
Goodwill	145	1,459	1,261	—	—	—	2,865
Group's share of net assets	276	2,500	1,500	—	—	—	4,276
Summarised income statements:							
Share of revenue	—	20	33	—	63	575	691
Share of post-tax (losses)/profits of associates	(15)	(27)	5	(50)	(62)	(2,210)	(2,359)
Share of losses/(profits) not recognised	15	27	(5)	50	62	2,210	2,359
Share of (losses)/profits recognised	—	—	—	—	—	—	—

Any contingent liabilities in relation to our associate investment partners are disclosed in note 24.

b) Investment in joint ventures

As at 28th February 2013, the Group has the following interests in joint ventures:

	% of holding	Country of incorporation	Principal activity	Reporting segment	Acquisition date	Accounting reference date
Accrue Student Housing GP Limited	50	United Kingdom	Property development	Development and trading	September 2011	31st August
Curzon Park Limited	50	United Kingdom	Property development	Development and trading	November 2006	28th February
Development Equity Partners Limited	50	Jersey	Property development	Development and trading	December 2011	28th February
DS Renewables LLP	50	United Kingdom	Property development	Development and trading	May 2012	28th February
The Esplanade Partnership Limited	50	Jersey	Property trading	Development and trading	August 2012	28th February
Manchester Arena Complex LP	30	United Kingdom	Investment property	Investment	June 2010	28th February
Notting Hill (Guernsey Holdco) Limited	24	Guernsey	Investment property	Development and trading	June 2011	31st December
Purplexed LLP	50	United Kingdom	Property development	Development and trading	April 2011	31st March
Winnebago Holdings Sarl	35	Luxembourg	Investment property	Investment	April 2012	31st December

On 11th February 2013, the Group acquired the remaining 50.0 per cent share capital in S Harrison Developments Lichfield Limited previously held by S Harrison Developments Limited. The company is now accounted for as a wholly owned subsidiary. The Group subsequently changed the name of the company to Development Securities (Lichfield) Limited.

On 12th May 2012, the Group acquired a 50 per cent holding in DS Renewables LLP. The company is dormant and therefore no balance sheet or income statement is presented.

The Group's share of the assets, liabilities, income and expenses of its joint ventures, which includes amounts receivable from those joint ventures, is as follows:

									28th February 2013
	Accrue Student Housing GP Limited £'000	Curzon Park Limited £'000	Development Equity Partners Limited £'000	The Esplanade Partnership Limited £'000	Manchester Arena Complex LP £'000	Notting Hill (Guernsey Holdco) Limited £'000	Purplexed LLP £'000	Winnebago Holdings Sarl £'000	Total £'000
Summarised balance sheets:									
Non-current assets	—	—	—	25,007	23,299	—	—	10,399	58,705
Current assets	4,237	20,906	281	3,282	2,905	13,093	12,409	468	57,581
Current liabilities	(129)	(35)	(1)	(4,757)	(2,873)	(285)	(349)	(764)	(9,193)
Non-current liabilities	(2,634)	(11,655)	—	(15,526)	(13,499)	(6,155)	(4,508)	(3,763)	(57,740)
Share of net assets	1,474	9,216	280	8,006	9,832	6,653	7,552	6,340	49,353
Share of net assets not recognised	—	(9,216)	—	—	—	—	—	—	(9,216)
Share of net assets recognised	1,474	—	280	8,006	9,832	6,653	7,552	6,340	40,137
Summarised income statements:									
Revenue	291	62	—	8,676	1,731	415	841	591	12,607
Direct costs	(165)	(1,167)	(14)	(2,329)	(954)	(67)	(562)	(1,230)	(6,488)
Finance income	—	—	—	1	120	39	606	1	767
Finance costs	(90)	(311)	—	(742)	(711)	(440)	(197)	(235)	(2,726)
Gain on revaluation	—	—	—	—	239	—	—	3,283	3,522
Share of profit/(loss) before and after tax	36	(1,416)	(14)	5,606	425	(53)	688	2,410	7,682

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2013

14 Investments continued

b) Investment in joint ventures continued

									29th February 2012
	Accrue Student Housing GP Limited £'000	Curzon Park Limited £'000	Development Equity Partners Limited £'000	Manchester Arena Complex LP £'000	Notting Hill (Guernsey Holdco) Limited £'000	Purplexed LLP £'000	S Harrison Developments Lichfield Limited £'000	Wimbledon Phoenix Limited £'000	Total £'000
Summarised balance sheets:									
Non-current assets	—	—	—	23,101	—	—	2,567	—	25,668
Current assets	3,842	19,363	135	2,871	12,855	12,148	54	—	51,268
Current liabilities	(161)	(19)	(1)	(2,468)	(649)	(729)	(198)	—	(4,225)
Non-current liabilities	(2,243)	(12,805)	—	(13,877)	(6,124)	(4,555)	—	—	(39,604)
Share of net assets	1,438	6,539	134	9,627	6,082	6,864	2,423	—	33,107
Share of net assets not recognised	—	(6,539)	—	—	—	—	—	—	(6,539)
Share of net assets recognised	1,438	—	134	9,627	6,082	6,864	2,423	—	26,568
Summarised income statements:									
Revenue	154	77	—	2,040	267	1,068	—	—	3,606
Direct costs	(178)	(102)	(5)	(465)	(20)	(123)	(92)	(71)	(1,056)
Finance income	—	—	—	—	—	1	—	—	1
Finance costs	(38)	(396)	—	(778)	(337)	(82)	—	—	(1,631)
Gain on revaluation	—	—	—	546	—	—	—	—	546
Share of (loss)/profit before tax	(62)	(421)	(5)	1,343	(90)	864	(92)	(71)	1,466
Taxation	—	—	—	111	—	—	—	—	111
Share of (loss)/profit recognised after tax	(62)	(421)	(5)	1,454	(90)	864	(92)	(71)	1,577

Any contingent liabilities in relation to our joint ventures are disclosed in note 24.

c) Principal subsidiaries

The Group has taken advantage of the exemption under s410 of the Companies Act 2006 and presents below only those undertakings with net assets in excess of 5.0 per cent of Group net assets.

The following were principal subsidiaries at 28th February 2013:

	% holding in Ordinary shares	Country of incorporation	Principal activity
Development Securities Estates PLC	100	United Kingdom	Management and Investment Company
Development Securities (Investments) PLC	100	United Kingdom	Property Investment
DS Jersey (No. 1) Limited	100	Jersey	Investment
Kirkby Centre (No. 2) Limited*	100	United Kingdom	Investment

*Indirectly held.

A full list of subsidiaries is available on request.

15 Inventory

Development and trading properties	Development properties £'000	Trading properties £'000	Total £'000
At 1st January 2011	84,178	73,505	157,683
Additions:			
— acquisitions	10,906	18,204	29,110
— development expenditure	18,338	1,858	20,196
Disposals	(19,824)	(10,167)	(29,991)
Transfer to investment properties	(20,029)	—	(20,029)
Write down of development and trading properties to net realisable value	(1,657)	(119)	(1,776)
At 29th February 2012	71,912	83,281	155,193
Additions:			
— acquisitions	1,807	1,450	3,257
— development expenditure	26,171	2,326	28,497
— transfer from investment in joint venture	2,724	—	2,724
Disposals	(16,359)	(17,650)	(34,009)
Write down of trading properties to net realisable value	—	(2,246)	(2,246)
At 28th February 2013	86,255	67,161	153,416

Included in the above amounts are projects stated at net realisable value of £42,921,000 (29th February 2012: £48,959,000).

Net realisable value has been estimated by the Directors, taking account of the plans for each project, the planning status and competitive position of each asset, and the anticipated market for the scheme. For material developments, the Directors have consulted with third party chartered surveyors in setting their market assumptions.

Interest of £1,528,000 (29th February 2012: £665,000) was capitalised on development and trading properties during the year. Capitalised interest included within the carrying value of such properties on the Balance Sheet is £1,665,000 (29th February 2012: £759,000).

On 11th February 2013, the Group acquired the remaining 50.0 per cent share capital in S Harrison Developments Lichfield Limited, a company previously held as a joint venture. The cost of the inventory acquired was £2,724,000.

16 Trade and other receivables

a) Non-current	28th February 2013 £'000	29th February 2012 £'000
Prepayments and accrued income	**5,100**	4,265

b) Current	28th February 2013 £'000	29th February 2012 £'000
Trade receivables	**2,066**	4,046
Amounts due from customers for contract work	**200**	10,594
Other receivables	**16,838**	10,042
Other tax and social security	**649**	566
Prepayments and accrued income	**1,890**	3,576
	21,643	28,824

The Group has provided £332,000 (29th February 2012: £35,000) for outstanding balances where recovery is considered doubtful. Apart from the receivables that have been provided for at the year-end, there are no other material receivables, past due but not impaired. The maximum exposure to credit risk at the reporting date is the carrying value of the receivable.

Transactions and balances with related parties are disclosed in note 26.

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2013

17 Trade and other payables

a) Current	28th February 2013 £'000	29th February 2012 £'000
Trade payables	**1,390**	2,240
Amounts due to suppliers for contract work	**241**	117
Other payables	**5,579**	8,118
Other tax and social security	**1,115**	2,122
Accruals and deferred income	**16,025**	13,863
	24,350	26,460

b) Provisions	Onerous leases £'000	Residual development liabilities £'000	Total £'000
At 1st March 2012	2,676	8	2,684
Charged to the Statement of Comprehensive Income	572	177	749
Utilised during the year	(334)	(147)	(481)
Amortisation of discount	112	—	112
At 28th February 2013	3,026	38	3,064

Analysis of total provisions

	28th February 2013 £'000	29th February 2012 £'000
Non-current	**2,845**	2,684
Current	**219**	—
	3,064	2,684

Provisions of £38,000 (29th February 2012: £8,000) relate to properties and £3,026,000 (29th February 2012: £2,676,000) to onerous leases.

Following a review of our serviced office operation in February 2012 it was identified that the future revenue of four of the seven centres was not sufficient to cover future rental commitments. £1,270,000 (29th February 2012: £1,270,000) has been provided to cover the onerous liability associated with these leases (refer note 2).

Two further provisions of £1,003,000 (29th February 2012: £1,051,000) and £181,000 (29th February 2012: £355,000) relate to onerous lease obligations entered into in 2009 and 1989 respectively.

During the year the Group was called upon as guarantor to take over three leases in respect of Stead and Simpson Limited. £572,000 has been provided to cover obligations in respect of those leases.

18 Financial assets and financial liabilities

The following table is a summary of the financial assets and financial liabilities included in the Consolidated Balance Sheet:

	28th February 2013 £'000	29th February 2012 £'000
Non-current assets		
Loan notes at amortised cost less impairment	**8,625**	8,614
Available-for-sale financial assets	**24,163**	25,921
	32,788	34,535
Current assets		
Loans and receivables	**1,700**	1,700
Trade and other receivables at amortised cost less impairment	**19,104**	24,682
Monies held in restricted accounts and deposits	**11,527**	14,595
Cash and cash equivalents	**47,683**	35,585
	80,014	76,562
Total financial assets	**112,802**	111,097
Current liabilities		
Trade and other payables at amortised cost	**19,928**	21,026
Borrowings at amortised cost	**2,001**	9,879
	21,929	30,905
Non-current liabilities		
Borrowings at amortised cost	**203,980**	193,177
Derivative financial instruments used for hedging at fair value	**1,817**	1,925
Derivative financial instruments not used for hedging at fair value through profit or loss	**1,404**	544
	207,201	195,646
Total financial liabilities	**229,130**	226,551

a) Other financial assets

Non-current	28th February 2013 £'000	29th February 2012 £'000
Available-for-sale financial assets	**24,163**	25,921
Loan notes at amortised cost less impairment	**8,625**	8,614
	32,788	34,535

Available-for-sale financial assets	28th February 2013 £'000	29th February 2012 £'000
Development participation rights	**5,000**	5,000
Development loans to joint operations	**19,163**	20,921
	24,163	25,921

Development participation represents the Group's risk capital invested alongside our partners in one of our development schemes at PaddingtonCentral. The fair value of the participation is assessed by reference to the stage of completion of the project and progress on construction and lettings.

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2013

18 Financial assets and financial liabilities continued

a) Other financial assets continued

Development loans to joint operations include a number of working capital and project-specific loans of £7,121,000 (29th February 2012: £11,191,000) to CTP Securities Limited. The loans attract fixed coupon rates of between 5.0 and 13.0 per cent. Included in the above amount is an interest-free loan of £208,000 (29th February 2012: £208,000).

In 2010, the Group provided a £5,000,000 loan to the Curzon Park Limited joint venture in order to repay a share of its bank debt. The joint venture partner provided the equivalent amount. In October 2012, the Group, along with our joint venture partner, agreed a three-year repayment schedule in respect of the loan facility secured against the 10.5 acre site in Birmingham. A total of £2,300,000 capital has been repaid at the balance sheet date of which the Group's share is 50.0 per cent. A corresponding provision has been made in respect of this amount within the results of the joint venture.

The Group has three funding agreements totalling £7,042,000 (29th February 2012: two agreements totalling £4,730,000), in respect of projects in partnership. The loans attract fixed coupon rates of between 3.0 and 8.5 per cent.

Loan notes with a carrying value of £89,000 held in Continental Estates Corporation BV were repaid during the year. Loan notes with a carrying value of £8,425,000 were issued in November 2007 by CTP Securities Limited, with a fixed term of ten years and a fixed coupon rate of 4.25 per cent. A further £200,000 loan notes were acquired in £100,000 tranches in January and October 2012.

Current	28th February 2013 £'000	29th February 2012 £'000
Loans and receivables:		
CTP Securities Limited	**200**	200
Property Alliance Group	**1,500**	1,500
	1,700	1,700

The Group has provided a short-term, non-interest-bearing facility of £200,000 to CTP Securities Limited and £1,500,000 to Property Alliance Group as a contribution to a prospective future project. This amount is repayable on demand.

b) Borrowings

Current	28th February 2013 £'000	28th February 2013 £'000	29th February 2012 £'000	29th February 2012 £'000
Bank overdrafts		**—**		1,184
Current instalments due on bank loans	**2,541**		2,219	
Current loans maturing	**—**		7,221	
Unamortised transaction costs	**(540)**		(745)	
		2,001		8,695
		2,001		9,879

Non-current	28th February 2013 £'000	29th February 2012 £'000
First mortgage debenture 11% due 2016	**20,000**	20,000
Bank loans and loan notes	**186,310**	176,004
Unamortised transaction costs	**(2,330)**	(2,827)
	203,980	193,177

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

Non-current borrowings	28th February 2013 £'000	29th February 2012 £'000
£20,000,000 first mortgage debenture 2016	**20,000**	20,000
£6,565,000 variable rate loan 2012	**—**	4,682
£5,355,000 variable rate loan 2013	**—**	2,539
£15,296,000 variable rate loan 2013	**—**	353
£9,000,000 variable rate loan 2014	**9,000**	—
£3,000,000 variable rate loan 2014	**3,000**	3,000
£5,669,000 variable rate loan 2014	**5,380**	5,638
£1,531,000 variable rate loan 2014	**1,452**	1,522
£1,000,000 variable rate loan 2015	**907**	—
£2,500,000 variable rate loan 2015	**982**	—
£6,200,000 variable rate loan 2015	**5,935**	6,200
£1,550,000 variable rate loan 2015	**1,525**	—
£4,500,000 variable rate loan 2015	**4,213**	4,437
£1,500,000 variable rate loan 2015	**1,500**	1,500
£38,000,000 variable rate loan 2016	**37,913**	37,913
£57,565,000 fixed rate loan 2025	**54,896**	56,128
£22,470,000 fixed rate loan 2025	**21,659**	22,176
€47,000,000 variable rate loan notes 2027	**40,472**	39,339
£16,500 variable rate loan notes 1999	**17**	17
	208,851	205,444
Less: current instalments due on bank loans	**(2,541)**	(2,219)
Current loans maturing	**—**	(7,221)
	206,310	196,004

£20,000,000 first mortgage fixed rate debenture
This secured debenture is repayable in one instalment on 6th January 2016.

£6,565,000 variable rate loan
This secured loan was repaid during the year on sale of the asset.

£5,355,000 variable rate loan
This secured loan matured on 4th February 2013. £3,497,000 was repaid on sale of part of the asset on 20th December 2012, with the balance repaid on maturity.

£15,296,000 variable rate loan
This secured loan was repaid on 8th March 2012.

£9,000,000 variable rate loan
This secured loan is repayable in one instalment on 2nd June 2014.

£3,000,000 variable rate loan
This secured loan is repayable in one instalment on 8th July 2014.

£5,669,000 variable rate loan
£770,000 loan capital amortises over the term of the loan. The remaining £4,899,000 is repayable in one instalment on 24th November 2014. The current balance outstanding on the facility is £5,380,000.

£1,531,000 variable rate loan
£208,000 loan capital amortises over the term of the loan. The remaining £1,323,000 is repayable in one instalment on 24th November 2014. The current balance outstanding on the facility is £1,452,000.

£1,000,000 variable rate loan
This secured loan is repayable in one instalment on 8th February 2015. This is a development facility where the loan is drawn down over the progress of the development. The current balance outstanding on the facility is £907,000.

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2013

18 Financial assets and financial liabilities continued

b) Borrowings continued

£2,500,000 variable rate loan
This secured loan is repayable in one instalment on 10th July 2015. This is a development facility where the loan is drawn down over the progress of the development. The current balance outstanding on the facility is £982,000.

£6,200,000 variable rate loan
£1,600,000 loan capital amortises with effect from the second anniversary of the drawdown of the loan. The remaining £4,600,000 is repayable in one instalment on 12th July 2015. The current balance outstanding on the facility is £5,935,000.

£1,550,000 variable rate loan
£150,000 loan capital amortises over the term of the loan. The remaining £1,400,000 is repayable in one instalment on 9th August 2015. The current balance outstanding on the facility is £1,525,000.

£4,500,000 variable rate loan
£500,000 loan capital amortises over the term of the loan. The remaining £4,000,000 is repayable in one instalment on 6th October 2015. The current balance outstanding on the facility is £4,213,000.

£1,500,000 variable rate loan
This secured loan is repayable in one instalment on 6th October 2015.

£38,000,000 variable rate loan
£2,700,000 loan capital amortises with effect from the second anniversary of the drawdown of the loan. The remaining £35,213,000 is repayable in one instalment on 16th December 2016. The current balance outstanding on the facility is £37,913,000.

£57,565,000 fixed rate loan
£25,665,000 loan capital amortises over the term of the loan. The remaining £31,900,000 is repayable in one instalment on 12th March 2025. The current balance outstanding on the facility is £54,896,000.

£22,470,000 fixed rate loan
£9,980,000 loan capital amortises over the term of the loan. The remaining £12,490,000 is repayable in one instalment on 12th March 2025. The current balance outstanding on the facility is £21,659,000.

€47,000,000 variable EURIBOR loan notes
These unsecured loan notes were issued on 20th September 2007 and are denominated in Euros. They are repayable on 25th October 2027.

£16,500 loan notes
These unsecured loan notes were repayable in 1999. The balance of £16,500 represents the residual amount of unredeemed loan notes.

A full explanation of the Group's borrowings and any changes since the balance sheet date can be found in the Financial Review on pages 39 to 47.

c) Derivative financial instruments

	28th February 2013 £'000	29th February 2012 £'000
Cash flow hedge: cross-currency interest rate swap	**(1,817)**	(1,925)
Derivative financial instruments at fair value through profit or loss		
Interest rate swaps, caps and collars	**(1,404)**	(544)
Derivative financial instruments	**(3,221)**	(2,469)

At 28th February 2013, the Group held one cross-currency interest rate swap designated as a hedge of expected future cash flows arising from €47,000,000 variable rate loan notes issued in September 2007. The cross-currency swap is used to hedge the EURIBOR interest rate exposure to a fixed rate of 7.97 per cent and Euro currency exposure from the loan notes fixed at a rate of €1.43:£1. The terms of the derivative have been negotiated to match the terms of the loan notes.

The cash flow hedge of the expected future loan note cash flows was assessed to be 100.0 per cent effective. The mark-to-market movement in the foreign currency leg of the swap of £1,133,000 loss (29th February 2012: £959,000 gain) has been recycled through profit or loss to offset the re-translation of the €47,000,000 loan. The mark-to-market movement on the interest leg of this swap of £1,024,000 loss (29th February 2012: £4,268,000 loss) is included within the net unrealised gain/(loss) reserve in equity.

At 28th February 2013, the Group held interest rate swaps, caps and collars designated as economic hedges and not qualifying as effective hedges under IAS 39. The derivatives are used to mitigate the Group's interest rate exposure to variable rate loans of £51,983,000 (29th February 2012: £56,045,000). The fair value of the derivatives amounting to £1,404,000 is recorded as a financial liability at 28th February 2013 (29th February 2012: £544,000 liability) with the fair value loss taken to finance costs.

Fair value estimation

From 1st January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the Balance Sheet at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
(ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
(iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3). Discounted cash flows are used to determine fair values of these instruments.

The following table presents the Group's assets and liabilities that are measured at fair value:

	28th February 2013				29th February 2012			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets								
Available-for-sale financial assets	**—**	**—**	**24,163**	**24,163**	—	—	25,921	25,921
Total assets	**—**	**—**	**24,163**	**24,163**	—	—	25,921	25,921
Liabilities								
Derivative financial instruments:								
Cross-currency interest rate swap	**—**	**(1,817)**	**—**	**(1,817)**	—	(1,925)	—	(1,925)
Derivative financial instruments at fair value through profit or loss	**—**	**(1,404)**	**—**	**(1,404)**	—	(544)	—	(544)
Total liabilities	**—**	**(3,221)**	**—**	**(3,221)**	—	(2,469)	—	(2,469)

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2013

18 Financial assets and financial liabilities continued

d) Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including cash flow interest rate risk and foreign currency risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The nature and extent of the Group's financial risks, and the Directors' approach to managing those risks, are described in the Financial Review on pages 39 to 47 and below. This note provides further detailed information on these risks.

The Group defines capital as total equity and monitors this on the basis of gearing.

Interest rate maturity profile of financial liabilities

The following table sets out the carrying amount by maturity of the Group's financial instruments that are exposed to interest rate risk:

						28th February 2013 maturity	
	Within one year £'000	One to two years £'000	Two to three years £'000	Three to four years £'000	Four to five years £'000	More than five years £'000	Total £'000
Fixed rate borrowings	—	—	20,000	—	—	76,555	96,555
Variable rate borrowings	17	12,907	6,917	—	—	—	19,841
Variable rate borrowings with interest rate caps or swaps	—	6,832	7,238	37,913	—	40,472	92,455
	17	19,739	34,155	37,913	—	117,027	208,851

						29th February 2012 maturity	
	Within one year £'000	One to two years £'000	Two to three years £'000	Three to four years £'000	Four to five years £'000	More than five years £'000	Total £'000
Fixed rate borrowings	—	—	—	20,000	—	78,304	98,304
Variable rate borrowings	3,740	—	3,000	6,200	—	—	12,940
Variable rate borrowings with interest rate caps or swaps	4,682	353	7,160	5,937	37,913	39,339	95,384
	8,422	353	10,160	32,137	37,913	117,643	206,628

Interest on financial instruments classified as variable rate is re-priced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial assets and financial liabilities of the Group that are not included above are non-interest bearing and are therefore not subject to interest rate risk.

Foreign currency risk

The Group does not undertake significant trade overseas and does not hold any assets (29th February 2012: £89,000) denominated in foreign currencies.

The Group is exposed to foreign currency risk from €47,000,000 (29th February 2012: €47,000,000) loan notes issued during 2007 that are denominated in Euros. A cash collateral deposit of €6,939,000 (29th February 2012: €6,939,000) is held as security against the loan notes.

The Group has entered into a currency and interest rate swap with a banking institution to minimise these potential risks. The swap is cash collateralised and qualifies to be accounted for as a cash flow hedge as detailed below. The fair value of this instrument at 28th February 2013 was a liability of £1,817,000 (29th February 2012: £1,925,000 liability).

The Group maintains a security deposit of £4,000,000 (29th February 2012: £4,000,000) throughout the loan note term. The security deposit is required to cash collateralise the risk for the swap counterparty. The Group is further required to increase this security if the Group's potential liability under the instrument increases to within £250,000 of the security deposit.

During the year to 28th February 2013, the movement of Sterling against the Euro was approximately 11.0 per cent. Management, however, consider 8.0 per cent to be a prudent measure of sensitivity on this basis.

The following table demonstrates the possible effect of changes in Sterling and Euro exchange rates with all other variables held constant:

	Increase/ decrease in rate	Effect on cash collateral £'000
28th February 2013		
Sterling against Euro	+8%	(444)
	–8%	518
29th February 2012		
Sterling against Euro	+8%	(430)
	–8%	505

The Group does not undertake significant foreign exchange trading activity; consequently, a detailed foreign exchange sensitivity analysis is not presented.

Interest rate sensitivity

The following table demonstrates the sensitivity in respect of variable rate debt obligations to a change in interest rates, with other variables held constant, of the Group's profit/(loss) before income tax.

The sensitivity analysis excludes all non-derivative fixed-rate financial instruments carried at amortised cost as well as variable rate financial instruments.

Fair value interest rate hedging instruments that are part of a hedging relationship have been excluded. Variable rate non-derivative financial instruments where the associated interest has been capitalised have also been excluded.

As at 28th February 2013, a movement of 50 basis points higher or lower, with all other variables held constant, would have the following effect on profit/(loss) before tax. Management consider a movement of 50 basis points to be a reasonable guide to sensitivity in the current interest rate environment.

	Increase/ decrease in basis points	Effect on profit before tax £'000
28th February 2013		
Sterling borrowings	+50	(106)
	–50	106
29th February 2012		
Sterling borrowings	+50	(129)
	–50	129

Price risk

The Group is not exposed to commodity or security price risk.

Liquidity risk

A review of the Group's liquidity risk is set out in the Financial Review on pages 39 and 40.

The table below summarises the maturity profile of the Group's financial liabilities at 28th February 2013 and 29th February 2012 on a contractual undiscounted payments basis:

						28th February 2013
Maturity profile of financial liabilities	**On demand £'000**	**Less than three months £'000**	**Three to twelve months £'000**	**One to five years £'000**	**More than five years £'000**	**Total £'000**
Interest-bearing loans and borrowings	**17**	**2,084**	**8,981**	**111,923**	**158,533**	**281,538**
Trade and other payables	**—**	**14,338**	**5,590**	**—**	**—**	**19,928**
Derivative financial instruments	**—**	**218**	**655**	**3,496**	**8,622**	**12,991**
	17	**16,640**	**15,226**	**115,419**	**167,155**	**314,457**

						29th February 2012
Maturity profile of financial liabilities	On demand £'000	Less than three months £'000	Three to twelve months £'000	One to five years £'000	More than five years £'000	Total £'000
Interest-bearing loans and borrowings	1,201	7,326	9,476	122,292	170,840	311,135
Trade and other payables	—	10,120	10,906	—	—	21,026
Derivative financial instruments	—	129	419	2,236	6,120	8,904
	1,201	17,575	20,801	124,528	176,960	341,065

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2013

18 Financial assets and financial liabilities continued

d) Financial risk management continued

Market risk

A summary of market risk and its effect on the Group is set out in Business Risks on page 11 and further discussed in the Chief Executive's Report on pages 4 and 5 and in the Operating Review on pages 12 to 33.

Fair values of financial assets and financial liabilities

Except as detailed below, in respect of fixed rate debenture and loan facilities, the Directors consider the carrying amount to be either fair value or a reasonable approximation of fair value apart from equity instruments classified as available-for-sale assets under IAS 39, where fair value cannot be reliably measured.

Fixed rate debt

A valuation was carried out as at 28th February 2013 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. 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 28th February 2013, and may be subject to daily fluctuations in line with money market movements.

J C Rathbone Associates Limited have consented to the use of their name in the financial statements.

The fair value compared to the carrying amounts of the Group's fixed rate financial liabilities as at 28th February 2013 and 29th February 2012 is analysed below:

	Book value 28th February 2013 £'000	**Fair value 28th February 2013 £'000**
First mortgage debenture 11% due 2016	**20,000**	**24,588**
Fixed rate term loan due 2025	**54,896**	**65,148**
Fixed rate term loan due 2025	**21,659**	**24,344**
Total fixed rate financial liabilities	**96,555**	**114,080**

	Book value 29th February 2012 £'000	Fair value 29th February 2012 £'000
First mortgage debenture 11% due 2016	20,000	25,857
Fixed rate term loan due 2025	56,128	65,935
Fixed rate term loan due 2025	22,176	24,594
Total fixed rate financial liabilities	98,304	116,386

The fair value difference of £17,525,000 at 28th February 2013 (29th February 2012: £18,082,000) represents approximately 18.2 per cent of gross, fixed rate borrowings (29th February 2012: 18.3 per cent). The effect on net assets per share after tax of this adjustment would be a decrease of 10.9 pence after tax (29th February 2012: 10.9 pence decrease).

19 Deferred income tax

The following are the deferred income tax liabilities and assets and movements thereon recognised by the Group during the current and previous financial period. The UK corporation tax rate decreased on 1st April 2012 from 26.0 per cent to 24.0 per cent. Deferred income tax is calculated on the temporary differences under the liability method using a tax rate of 23.0 per cent (29th February 2012: 25.0 per cent).

At 1st March 2012/1st January 2011	28th February 2013 £'000	29th February 2012 £'000
(Credit)/charge for the year/period in the Statement of Comprehensive Income (note 7)	**(969)**	1,067
Credited directly to equity	**(45)**	(1,067)
	(1,014)	—

Deferred income tax liabilities recognised:	28th February 2013 £'000	29th February 2012 £'000
Revaluation of property		
At 1st March 2012/1st January 2011	**3,241**	5,507
Charged to the Statement of Comprehensive Income	**(2,498)**	(2,266)
	743	3,241

Deferred income tax assets recognised:	Decelerated capital allowances £'000	Provisions £'000	Tax losses £'000	Other £'000	Total £'000
At 1st January 2011	(414)	(358)	(4,778)	43	(5,507)
(Credited)/charged to the Statement of Comprehensive Income	(288)	(22)	3,686	(43)	3,333
Credited directly to equity	—	—	(1,067)	—	(1,067)
At 29th February 2012	(702)	(380)	(2,159)	—	(3,241)
Charged/(credited) to the Statement of Comprehensive Income	437	(69)	1,161	—	1,529
Credited directly to equity	—	—	(45)	—	(45)
At 28th February 2013	(265)	(449)	(1,043)	—	(1,757)

Net deferred income tax asset:	£'000
At 28th February 2013	**1,014**

Deferred income 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 income tax assets arising from the Group's trading and capital losses are recognised on the basis that there will be sufficient profits in the foreseeable future to utilise such losses. The Group has not recognised deferred income tax assets of £5,968,000 (29th February 2012: £12,105,000) in respect of losses amounting to £25,950,000 (29th February 2012: £48,422,000) that can be carried forward against future taxable income. The proposed reductions of the main rate of corporation tax to 20.0 per cent by 1st April 2015 are expected to be enacted separately each year. The overall effect of the further changes from 24.0 per cent to 20.0 per cent, when applied to the deferred tax balance at 28th February 2013, would be to reduce the net deferred income tax asset by £132,000.

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

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2013

20 Share capital

	28th February 2013 £'000	29th February 2012 £'000
Issued, called up and fully paid		
122,352,504 Ordinary shares of 50 pence (29th February 2012: 122,352,504 Ordinary shares of 50 pence)	**61,176**	61,176

	Number of shares
Shares in issue at the date of this report	122,352,504

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

The Company acquired 123,397 of its own shares through purchases on the London Stock Exchange between 20th and 29th June 2012. The total amount paid to acquire the shares, net of income tax, was £171,000 and has been deducted from shareholder equity. The shares are held as 'Treasury shares'. The Company has the right to re-issue these shares at a later date. All shares were fully paid.

The movement in share capital is set out in note 21.

Share option schemes

As at 28th February 2013, and at the date of this report, the options outstanding under the Company's share option schemes were exercisable as set out below (price stated in pence per share). The share options are more fully described in the Remuneration Report on pages 62 to 68.

Executive share option scheme 1995:

Date of grant	Number 28.02.13	Number 01.05.13	Exercise dates	Price
19th April 2004	69,382	69,382	19th April 2007 to 18th April 2014	347.50
	69,382	69,382		

Executive share option plan 2005:

Date of grant	Number 28.02.13	Number 01.05.13	Exercise dates	Price
27th October 2005	41,435	41,435	27th October 2008 to 26th October 2015	430.25
28th April 2006	41,435	41,435	28th April 2009 to 27th April 2016	559.75
8th May 2009	103,587	103,587	8th May 2012 to 7th May 2019	275.00
31st August 2010	120,000	120,000	31st August 2013 to 30th August 2020	248.00
	306,457	306,457		

Save as you earn option plan 2005:

Date of grant	Number 28.02.13	Number 01.05.13	Exercise dates	Price
24th October 2011	181,364	175,443	1st December 2014 to 31st May 2015	152.00
	181,364	175,443		

Share-based payments

The following table illustrates the number and weighted average exercise prices of, and movements in, share options during the year/period:

	28th February 2013 Number	28th February 2013 Weighted average exercise price (pence)	29th February 2012 Number	29th February 2012 Weighted average exercise price (pence)
At 1st March 2012/1st January 2011	**571,361**	**268.7**	528,647	325.3
Options granted	**—**	**—**	193,205	152.0
Options lapsed	**(3,501)**	**274.2**	(76,914)	361.1
Options cancelled	**(10,657)**	**152.0**	(73,577)	272.2
	557,203	**270.9**	571,361	268.7

There were no options granted during the year. The average share price during the year was 154.4 pence (29th February 2012: 194.1 pence). Of the 557,203 (29th February 2012: 571,361) outstanding options at 28th February 2013, 255,839 were exercisable (29th February 2012: 155,753).

The options outstanding at 28th February 2013 were exercisable between 152.0 pence and 559.8 pence per share and have a weighted average remaining contractual life of 3.7 years (29th February 2012: 5.3 years).

The fair value of grants is measured at the grant date using a Black-Scholes pricing model, taking into account the terms and conditions upon which the instruments were granted. The services received and a liability to pay for those services are recognised over the expected vesting period. The main assumptions of the Black-Scholes pricing model are as follows:

Grant date	24.10.11	31.08.10	08.05.09	28.04.06	27.10.05	19.04.04
Exercise price (pence)	152.0	248.0	275.0	559.75	430.25	347.5
Term (years)	3	7	7	7	7	7
Expected volatility	41%	23%	79%	22%	20%	10%
Expected dividend yield p.a.	3.2%	1.9%	2.0%	1.5%	1.5%	1.5%
Risk-free rate	0.9%	2.9%	1.5%	4.5%	4.5%	4.5%
Expected forfeiture p.a.	Nil	Nil	Nil	Nil	Nil	Nil

Expected volatility was determined by calculating the historical volatility of the Development Securities PLC share price over multiple time periods. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur.

Conditional awards under the Performance Share Plan

The terms of the Performance Share Plan are set out in the Remuneration Report on pages 62 to 68.

Ordinary shares conditionally awarded under the Performance Share Plan are valued at their fair value on the date of the award, using an Equal Probability Model, which takes into account the probability of the Ordinary shares vesting based on an equal probability of achieving appropriate total shareholder return ranking as determined under the performance condition.

The principal assumptions for calculating the fair value of the Ordinary shares conditionally awarded are:

	28th February 2013	29th February 2012
Ordinary shares conditionally awarded (no. of shares)	**1,235,161**	624,508
Date of award	**29th May**	22nd March
Share price (pence)	**132.0**	229.3
Percentage probability applied for fair value	**52.00%**	52.00%
Vesting period (months)	**32**	32

The expense recognised for equity-settled share-based payments in respect of employee services received during the year is £21,000 (29th February 2012: £21,000).

The charge recognised for cash-settled share-based payments during the year is £nil (29th February 2012: credit of £15,000).

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2013

21 Reserves and movements in equity

	Share capital £'000	Share premium £'000	Property revaluation reserve £'000	Net unrealised gain/(loss) reserve £'000	Capital redemption reserve £'000	Capital reserve £'000	Treasury shares £'000
At 1st January 2011	61,176	103,961	127	(2,555)	1,631	44,188	—
Fair value of cross-currency interest rate swap	—	—	—	(4,268)	—	—	—
Deferred income tax credited directly to equity	—	—	—	1,067	—	—	—
Deficit on revaluation of operating properties	—	—	(127)	—	—	—	—
At 29th February 2012	61,176	103,961	—	(5,756)	1,631	44,188	—
Change in value of available-for-sale financial assets	—	—	—	829	—	—	—
Fair value of cross-currency interest rate swap	—	—	—	(1,024)	—	—	—
Deferred income tax credited directly to equity	—	—	—	45	—	—	—
Purchase of treasury shares	—	—	—	—	—	—	(171)
At 28th February 2013	61,176	103,961	—	(5,906)	1,631	44,188	(171)

The Capital redemption reserve arose from business combinations in prior financial periods. This reserve is not distributable.

Retained earnings

	£'000
At 1st January 2011	124,579
Loss for the period	(12,592)
Share based payments	21
Final dividend 2010	(2,937)
Interim dividend 2012	(2,937)
At 29th February 2012	106,134
Profit for the year	2,421
Share based payments	21
Final dividend 2012	(3,911)
Interim dividend 2013	(2,934)
At 28th February 2013	101,731

22 Note to the cash flow statement

Reconciliation of operating profit to net cash outflow from operating activities:

	28th February 2013 £'000	29th February 2012 £'000
Profit/(loss) before income tax	**792**	(10,167)
Adjustments for:		
Gain on disposal of investment properties	**(864)**	(211)
Net loss on revaluation of property portfolio	**16,423**	4,772
Other income	**(615)**	(750)
Share of post-tax profits of joint ventures and associates	**(7,682)**	(1,577)
Income from financial asset	**(500)**	—
Profit from sale of investment	**(20)**	—
Loss on sale of other fixed assets	**13**	28
Impairment of assets	**—**	1,575
Finance income	**(2,125)**	(2,571)
Finance cost	**12,245**	13,215
Depreciation of property, plant and equipment	**737**	1,003
Amortisation of goodwill	**1,030**	—
Operating cash flows before movements in working capital	**19,434**	5,317
Decrease/(increase) in development and trading properties	**7,566**	(18,374)
Decrease/(increase) in receivables	**10,141**	(2,661)
(Decrease)/increase in payables	**(703)**	233
Increase/(decrease) in provisions	**380**	(3,367)
Cash flows from operating activities	**36,818**	(18,852)

23 Financial commitments and operating lease arrangements

Capital commitments

At 28th February 2013, the Group had contracted capital expenditure of £490,000 (29th February 2012: £782,000). In addition, the Group has commitments for loans to its associates amounting to £1,032,000 (29th February 2012: £4,976,000).

Operating lease arrangements:

Operating lease arrangements in respect of land and buildings where the Group is lessee:

	28th February 2013 £'000	29th February 2012 £'000
Minimum lease payments under operating leases recognised for the year/period	**3,689**	3,726

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:

	28th February 2013 £'000	29th February 2012 £'000
Within one year	**3,679**	3,689
In the second to fifth years inclusive	**11,399**	12,809
After five years	**10,783**	13,053
	25,861	29,551

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases were negotiated for an average term of 15.2 years (29th February 2012: 15.2 years).

In respect of operating lease arrangements where the Group is lessor, at the balance sheet date, the Group had contracted with tenants for the following future minimum payments:

	28th February 2013 £'000	29th February 2012 £'000
Within one year	**16,344**	16,767
In the second to fifth years inclusive	**48,866**	42,112
After five years	**74,785**	76,812
	139,995	135,691

Property investment income earned during the year/period was £16,080,000 (29th February 2012: £17,085,000).

24 Contingent liabilities

In the normal course of its development activity the Group is required to guarantee performance bonds provided by banks in respect of certain obligations of Group companies. At 28th February 2013, such guarantees amounted to £4,708,000 (29th February 2012: £34,000).

The Group has provided guarantees for rent liabilities in respect of properties previously occupied by Group companies. In the event that the current tenants ceased to pay rent, the Group would be liable to cover any shortfall until the building could be re-let. The Group has made provision against crystallised liabilities in this regard. In respect of potential liabilities where no provision has been made, the annual rent-roll of the buildings benefiting from such guarantees is £279,000 (29th February 2012: £503,000) with an average unexpired lease period of 5.1 years (29th February 2012: 4.1 years).

The Group has guaranteed its 50.0 per cent share of the capital and interest payable by Curzon Park Limited, a joint venture, in respect of the company's borrowings of £13,310,000.

The Group has guaranteed its share of interest up to a maximum of £575,000 in respect of the £26,000,000 loan in Notting Hill (Guernsey Propco) Limited.

Notes to the Consolidated Financial Statements continued

For the year ended 28th February 2013

25 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 Statement of Comprehensive Income during the year are set out in note 5.

26 Related parties

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

Transactions entered into and balances outstanding at 28th February 2013 and 29th February 2012 with related parties are set out below. Only Directors are considered to be key management personnel. There were no transactions with Directors other than remuneration set out in the Remuneration Report on pages 62 to 68.

	Finance income from related parties £'000	Amounts owed by related parties (before provision) £'000
Joint ventures		
28th February 2013	2,312	27,082
29th February 2012	—	23,193
Associates		
28th February 2013	1,219	16,294
29th February 2012	1,322	20,323

27 Projects in partnership

The following is a summary of the Group's projects in partnership and the Balance Sheet classification of its financial interests:

Project/partner	Project activity	Accounting classification	**28th February 2013 £'000**	29th February 2012 £'000
Atlantic Park (Bideford) Limited	Strategic land investment	Investment in associates	**276**	276
Barwood Development Securities Limited	Strategic land investment	Investment in associates	**2,500**	2,500
Barwood Land and Estates Limited	Strategic land investment	Investment in associates	**1,500**	1,500
Wessex Property Fund	Property investment	Investment in associates	**—**	—
Beyond Green Developments	Property development	Development properties	**6,005**	5,112
Wessex Investors	Property development	Development properties	**3,480**	3,360
Grantham Associates	Hotel operator	Trading property	**4,267**	4,267
Cathedral (Greenwich Beach) Limited	Property development	Financial assets	**3,146**	—
Cathedral (Movement, Greenwich) LLP	Property development	Financial assets	**829**	2,185
Continental Estates Corporation BV	Holding of investments	Financial assets	**—**	89
CTP Securities Limited	Property development	Financial assets	**15,946**	19,916
Curzon Park Limited	Property development	Investment in joint ventures	**—**	—
Curzon Park Limited	Property development	Financial assets	**5,000**	5,000
Orion Shepherds Bush Limited	Property development	Financial assets	**3,067**	2,545
Property Alliance Group	Property development	Financial assets	**1,500**	1,500
Accrue Student Housing GP Limited	Student accommodation	Investment in joint ventures	**1,474**	1,438
Development Equity Partners Limited	Property development	Investment in joint ventures	**280**	134
DS Renewables LLP	Property development	Investment in joint ventures	**—**	—
The Esplanade Partnership Limited	Property trading	Investment in joint ventures	**8,006**	—
Manchester Arena Complex LP	Investment property	Investment in joint ventures	**9,832**	9,627
Notting Hill (Guernsey Holdco) Limited	Property development	Investment in joint ventures	**6,653**	6,082
Purplexed LLP	Property development	Investment in joint ventures	**7,552**	6,864
S Harrison Developments Lichfield Limited*	Property development	Investment in joint ventures	**—**	2,423
Winnebago Holdings Sarl	Investment property	Investment in joint ventures	**6,340**	—
			87,653	74,818

*The Group acquired the remaining 50.0 per cent share capital in S Harrison Developments Lichfield Limited and subsequently changed the name of the company to Development Securities (Lichfield) Limited.

The aggregate amounts included within each relevant Balance Sheet account are as follows:

	28th February 2013 £'000	29th February 2012 £'000
Investment in associates	**4,276**	4,276
Investment in joint ventures	**40,137**	26,568
Financial assets – current	**1,700**	1,700
Financial assets – non-current	**27,788**	29,535
Development properties	**9,485**	8,472
Trading properties	**4,267**	4,267
	87,653	74,818

28 Post balance sheet events

In April 2013, the Group exchanged contracts for sale in respect of the 19-acre land holding at Broughton, near Chester.

At 28th February 2013, the Group had exchanged contracts for sale and purchase for a number of assets. All transactions have since successfully completed.

Company Independent Auditors' Report

Independent auditors' report to the members of Development Securities PLC

We have audited the Parent company financial statements of Development Securities PLC for the year ended 28th February 2013 which comprise the Parent Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 61, the Directors are responsible for the preparation of the Parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 28th February 2013;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial period for which the Parent company financial statements are prepared is consistent with the Parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Development Securities PLC for the year ended 28th February 2013.

Andrew Paynter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
1st May 2013

Company Balance Sheet

As at 28th February 2013

	Notes		28th February 2013 £'000		29th February 2012 £'000
Fixed assets					
Tangible assets	32	**625**		862	
Debtors	35	**10,188**		13,735	
Investments	33	**93,510**		96,299	
			104,323		110,896
Current assets					
Debtors – loans and receivables	35	**1,700**		1,700	
Debtors	34	**511,139**		530,541	
Cash in hand and at bank		**26,329**		23,626	
		539,168		555,867	
Creditors					
Amounts falling due within one year	36(a)	**(261,658)**		(265,925)	
Net current assets			**277,510**		289,942
Total assets less current liabilities			**381,833**		400,838
Creditors					
Amounts falling due after more than one year:					
Bank loans	36(b)	**(73,837)**		(75,615)	
Provisions for liabilities	36(c)	**(1,575)**		(1,051)	
			(75,412)		(76,666)
Net assets			**306,421**		324,172
Capital and reserves					
Called up share capital	37		**61,176**		61,176
Share premium	38		**103,961**		103,961
Other reserves	38		**1,460**		1,631
Profit and loss account	38		**139,824**		157,404
Total equity shareholders' funds			**306,421**		324,172

The notes on pages 114 to 120 are an integral part of these financial statements.

Approved by the Board of Directors on 1st May 2013 and signed on its behalf by

M H Marx
Director

Notes to the Company Financial Statements

For the year ended 28th February 2013

29 Accounting policies

a) Basis of accounting

The Company's financial statements have been prepared in accordance with applicable laws and United Kingdom accounting standards and on a going concern basis and under the historical cost convention. The accounting policies adopted are consistent with the previous period and are set out below.

The Company has not presented its own Profit and Loss account, as permitted by s408 of the Companies Act 2006. The loss after tax for the year was £10,756,000 (29th February 2012: £24,705,000 profit).

The Company has taken advantage of the exemption from preparing a Cash flow statement under the terms of FRS 1.

The Company has also taken advantage of the exemption in paragraph 2D of FRS 29, 'Financial Instruments: Disclosures' and has not disclosed information required by that standard, as the Group's Consolidated financial statements, in which the Company is included, provide equivalent disclosures for the Group under IFRS 7, 'Financial Instruments: Disclosures'.

The financial statements were approved by the Directors for issue on 1st May 2013.

b) Investments

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

Loans and receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

c) Operating leases

Rental payments under operating leases are charged on a straight-line basis to the profit and loss account over the lease term even if the payments are not made on such a basis.

d) Tangible assets

Tangible assets are held at cost less accumulated depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided so as to write off the cost less estimated residual value of such assets over their expected useful lives on a straight-line basis. The principal annual rates used for this purpose are as follows:

Fixtures and fittings and computer equipment	– 10% to 33%
Motor vehicles	– 20%

e) Provisions

A provision is recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation. The accretion in the discount is recognised as an interest expense.

f) Taxation

Current tax is the expected tax payable on the taxable income for the year, using tax rates applicable at the balance sheet date, together with any adjustment in respect of previous periods.

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 or unutilised tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Income tax relating to items recognised directly in equity is recognised in equity and not in the profit and loss account. Deferred tax is measured on a non-discounted basis.

g) Pension schemes

The Company operates a defined contribution scheme on behalf of the Development Securities PLC Group. The charge to the profit and loss in the year 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.

h) Foreign currencies

Transactions denominated in foreign currencies are translated into UK 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.

i) Share-based payments

The Company operates a number of share-based compensation plans, the majority of which are cash-settled, under which the entity receives services from employees as consideration for cash-settled instruments of the Company. The fair value of the employee services received in exchange for the grant of the option is recognised as an expense.

The Company has used a Black-Scholes option valuation model to determine the fair value of share options granted. An equal probability model has been used to determine the fair value of share awards under the Performance Share Plan. The cost of cash-settled transactions with employees and Directors is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. In valuing cash-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of cash-settled share-based instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the Profit and Loss account, with a corresponding entry in accruals.

30 Auditors' remuneration

Auditors' remuneration in respect of the audit for the Company was £15,000 (29th February 2012: £15,000).

31 Operating lease arrangements

	28th February 2013 £'000	29th February 2012 £'000
The Company as lessee:		
Minimum lease payments under operating leases recognised for the year/period	**1,168**	1,168

Annual commitments under non-cancellable operating leases are as follows:

	28th February 2013 £'000	29th February 2012 £'000
Operating leases which expire:		
Within one year	**—**	—
In the second to fifth years inclusive	**1,168**	1,168
After five years	**763**	763
	1,931	1,931

Operating lease payments represent rentals payable by the Company for its office property. The lease payments were negotiated for an average term of 11.5 years (29th February 2012: 11.5 years).

32 Tangible assets

	Fixtures and fittings and computer equipment £'000	Motor vehicles £'000	Total £'000
Cost			
At 1st March 2012	1,112	316	1,428
Additions	56	—	56
Disposals	(16)	(63)	(79)
At 28th February 2013	1,152	253	1,405
Accumulated depreciation			
At 1st March 2012	396	170	566
Charge for the year	202	48	250
Disposals	(8)	(28)	(36)
At 28th February 2013	590	190	780
Net book amount 28th February 2013	562	63	625
Net book amount 29th February 2012	716	146	862

Notes to the Company Financial Statements continued

For the year ended 28th February 2013

33 Investments

	Shares in subsidiary undertakings £'000	Interest in associated undertakings £'000	Interest in loan notes £'000	Total £'000
Cost:				
At 1st March 2012	133,415	997	9,114	143,526
Additions	—	—	100	100
Disposals	—	—	(589)	(589)
At 28th February 2013	133,415	997	8,625	143,037
Amounts provided:				
At 1st March 2012	(45,730)	(997)	(500)	(47,227)
Charged to Profit and Loss	(2,800)	—	—	(2,800)
Disposals	—	—	500	500
At 28th February 2013	(48,530)	(997)	—	(49,527)
Net book amount 28th February 2013	84,885	—	8,625	93,510
Net book amount 29th February 2012	87,685	—	8,614	96,299

Loan notes of £89,000 (29th February 2012: £89,000) were repaid by Continental Estates Corporation BV, a company incorporated and registered in The Netherlands whose principal activity is as an investment holding company. The Company disposed of its equity investment in Continental Estates Corporation BV during the year.

The Company holds £8,625,000 (29th February 2012: £8,525,000) of loan notes in CTP Securities Limited, a company incorporated and registered in the United Kingdom. The loan notes earn interest at a fixed rate of 4.25 per cent per annum.

The principal subsidiaries of the Company are set out in note 14(c) of the Group financial statements.

34 Debtors

	28th February 2013 £'000	29th February 2012 £'000
Trade debtors	**24**	1
Amounts owed by subsidiary undertakings	**505,791**	525,746
Amounts owed by associated undertakings	**347**	105
Other debtors	**4,249**	2,556
Other taxation recoverable	**436**	210
Prepayments	**292**	1,923
	511,139	530,541

Amounts owed by subsidiary undertakings are unsecured, interest free and repayable on demand.

35 Debtors – loans receivable

Fixed assets	**28th February 2013 £'000**	29th February 2012 £'000
Loans to joint operations	**10,188**	13,735

Current assets	**28th February 2013 £'000**	29th February 2012 £'000
Loans and receivables (refer note 18(a))	**1,700**	1,700

Development loans to joint ventures include a number of working capital and project specific loans of £7,121,000 (29th February 2012: £11,191,000) to CTP Securities Limited. The loans attract fixed coupon rates of between 5.0 and 13.0 per cent. In addition an interest free loan of £208,000 is included in the above amount. The Company also provided a short-term, non-interest bearing loan of £200,000 to CTP Securities Limited.

The Company has provided funding to Orion Shepherds Bush Limited. As at 28th February 2013, £3,067,000 (29th February 2012: £2,544,000) had been advanced, attracting a fixed coupon rate of 3.0 per cent.

The Company has provided £1,500,000 to Property Alliance Group as a contribution to a prospective future project. This amount is repayable on demand.

36 Creditors

a) Amounts falling due within one year	28th February 2013 £'000	29th February 2012 £'000
Bank loans and overdrafts – unsecured	**17**	17
Bank loans – secured	**1,778**	1,671
Trade creditors	**500**	144
Amounts owed to subsidiary undertakings	**250,088**	257,435
Amounts owed to associated undertakings	**1,932**	1,932
Other creditors	**1,907**	1,765
Taxation and social security	**184**	671
Accruals	**5,252**	2,290
	261,658	265,925

Amounts owed to subsidiary undertakings are unsecured, interest free and repayable on demand.

b) Amounts falling due after more than one year	28th February 2013 £'000	29th February 2012 £'000
Bank loans	**73,837**	75,615

c) Amounts falling due after more than one year	28th February 2013 £'000	29th February 2012 £'000
Provisions for liabilities	**1,575**	1,051

A provision of £1,003,000 (29th February 2012: £1,051,000) relates to an onerous lease obligation entered into in 2009. During the year, Development Securities PLC was called upon as guarantor to take over three leases in respect of Stead and Simpson Limited. £572,000 has been provided to cover obligations in respect of those leases.

37 Called up share capital

Issued, called up and fully paid	28th February 2013 £'000	29th February 2012 £'000
Issued, called up and fully paid		
122,352,504 Ordinary shares of 50 pence (29th February 2012: 122,352,504 Ordinary shares of 50 pence)	**61,176**	61,176

	Number of shares
Shares in issue at the date of this report	122,352,504

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

The Company acquired 123,397 of its own shares through purchases on the London Stock Exchange between 20th and 29th June 2012. The total amount paid to acquire the shares, net of income tax, was £171,000 and has been deducted from shareholder equity. The shares are held as 'Treasury shares'. The Company has the right to re-issue these shares at a later date. All shares were fully paid.

The movement in share capital is set out in note 38.

Notes to the Company Financial Statements continued

For the year ended 28th February 2013

37 Called up share capital continued

Share option schemes

As at 28th February 2013 and at the date of this report, the options outstanding under the Company's share option schemes were exercisable as set out below (price stated in pence per share). The share options are more fully described in the Remuneration Report on pages 62 to 68.

Executive share option scheme 1995:

Date of grant	Number 28.02.13	Number 01.05.13	Exercise dates	Price
19th April 2004	69,382	69,382	19th April 2007 to 18th April 2014	347.50
	69,382	69,382		

Executive share option plan 2005:

Date of grant	Number 28.02.13	Number 01.05.13	Exercise dates	Price
27th October 2005	41,435	41,435	27th October 2008 to 26th October 2015	430.25
28th April 2006	41,435	41,435	28th April 2009 to 27th April 2016	559.75
8th May 2009	103,587	103,587	8th May 2012 to 7th May 2019	275.00
31st August 2010	120,000	120,000	31st August 2013 to 30th August 2020	248.00
	306,457	306,457		

Save as you earn option plan 2005:

Date of grant	Number 28.02.13	Number 01.05.13	Exercise dates	Price
24th October 2011	181,364	175,443	1st December 2014 to 31st May 2015	152.00
	181,364	175,443		

Share-based payments

The following table illustrates the number and weighted average exercise prices of, and movements in, share options during the year/period:

	Number	**28th February 2013 Weighted average exercise price (pence)**	Number	29th February 2012 Weighted average exercise price (pence)
At 1st March 2012/1st January 2011	**571,361**	**268.7**	528,647	325.3
Options granted	**—**	**—**	193,205	152.0
Options lapsed	**(3,501)**	**274.2**	(76,914)	361.1
Options cancelled	**(10,657)**	**152.0**	(73,577)	272.2
	557,203	**270.9**	571,361	268.7

There were no options granted during the year. The average share price during the year was 154.4 pence (29th February 2012: 194.1 pence). Of the 557,203 (29th February 2012: 571,361) outstanding options at 28th February 2013, 255,839 were exercisable (29th February 2012: 155,753).

The options outstanding at 28th February 2013 were exercisable between 152.0 pence and 559.8 pence per share and have a weighted average remaining contractual life of 3.7 years (29th February 2012: 5.3 years).

The fair value of grants is measured at the grant date using a Black-Scholes pricing model, taking into account the terms and conditions upon which the instruments were granted. The services received and a liability to pay for those services are recognised over the expected vesting period. The main assumptions of the Black-Scholes pricing model are as follows:

Grant date	24.10.11	31.08.10	08.05.09	28.04.06	27.10.05	19.04.04
Exercise price (pence)	152.0	248.0	275.0	559.75	430.25	347.5
Term (years)	3	7	7	7	7	7
Expected volatility	41%	23%	79%	22%	20%	10%
Expected dividend yield p.a.	3.2%	1.9%	2.0%	1.5%	1.5%	1.5%
Risk-free rate	0.9%	2.9%	1.5%	4.5%	4.5%	4.5%
Expected forfeiture p.a.	Nil	Nil	Nil	Nil	Nil	Nil

Expected volatility was determined by calculating the historical volatility of the Development Securities PLC share price over multiple time periods. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur.

Conditional awards under the Performance Share Plan

The terms of the Performance Share Plan are set out in the Remuneration Report on pages 62 to 68.

Ordinary shares conditionally awarded under the Performance Share Plan are valued at their fair value on the date of the award, using an Equal Probability Model, which takes into account the probability of the Ordinary shares vesting based on an equal probability of achieving appropriate total shareholder return ranking as determined under the performance condition.

The principal assumptions for calculating the fair value of the Ordinary shares conditionally awarded are:

	28th February 2013	29th February 2012
Ordinary shares conditionally awarded (no. of shares)	**1,235,161**	624,508
Date of award	**29th May**	22nd March
Share price (pence)	**132.0**	229.3
Percentage probability applied for fair value	**52.00%**	52.00%
Vesting period (months)	**32**	32

The expense recognised for equity-settled share-based payments in respect of employee services received during the year is £21,000 (29th February 2012: £21,000).

The charge recognised for cash-settled share-based payments during the year is £nil (29th February 2012: credit of £15,000).

38 Reconciliation of movements in shareholders' funds

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Treasury shares £'000
At 1st March 2012	61,176	103,961	1,631	—
Purchase of treasury shares	—	—	—	(171)
At 28th February 2013	61,176	103,961	1,631	(171)
At 29th February 2012	61,176	103,961	1,631	—

Notes to the Company Financial Statements continued

For the year ended 28th February 2013

38 Reconciliation of movements in shareholders' funds continued

Profit and loss account	£'000
At 1st January 2011	138,552
Profit for the period	24,705
Share-based payments	21
Final dividend 2010	(2,937)
Interim dividend 2012	(2,937)
At 29th February 2012	157,404
Loss for the year	(10,756)
Share-based payments	21
Final dividend 2012	(3,911)
Interim dividend 2013	(2,934)
At 28th February 2013	139,824

The loss after tax of the Company was £10,756,000 (29th February 2012: £24,705,000 profit).

39 Contingent liabilities

The contingent liabilities of the Group are set out in note 24. The Company has provided guarantees in respect of loans and overdrafts of its subsidiary entities totalling £132,279,000 (29th February 2012: £149,299,000). In addition, the Company has guaranteed the performance of subsidiary entities under a range of operating obligations, none of which is expected to give rise to a liability in the Company.

40 Related parties

Related party transactions are the same for the Company as for the Group. Details can be found in note 26 of the Group financial statements.

The Company has taken advantage of the exemption within FRS 8, not to disclose transactions with wholly owned subsidiaries.

Financial Calendar

Annual General Meeting	28th August 2013
Payment of Ordinary dividend	25th October 2013
Announcement of Interim Results to 31st August 2013	October 2013

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