1 March 2011

Development Securities PLC ("Development Securities" or "the Company")

Audited preliminary results for the year ended 31st December 2010

Development Securities PLC, the leading property development and investment company, today announces a profit before tax of £2.6 million for the year ended 31st December 2010 compared to a loss before tax of £11.4 million for the year ended 31st December 2009. Shareholder funds benefited from £100.2 million issue of new equity in July 2010 (the second equity raising in 12 months following a Firm Placing, Placing and Open Offer of £100.0 million in June 2009) increasing net assets for the 2010 year end to £333.1 million from £244.0 million at the end of the previous year.

The Group has made excellent progress in investing the proceeds from its two recent equity raisings, with acquisitions totalling £233.6 million since July 2009 into a range of investment properties and development opportunities.

Total returns from our investment property portfolio of 15.2 per cent equalled the IPD UK Quarterly Property Index for 2010, a strong performance given that our portfolio has no representation in Central London markets. The comparable return from the Index for property outside Central London was 10.1 per cent.

Development Securities maintained its conservative Balance Sheet management profile, with gearing at 27.7 per cent (2009: 23.9 per cent), and weighted average maturity of borrowings at 8.3 years (2009: 6.9 years) (both figures including share of joint ventures). The recovery in the banking sector is likely to be a long and drawn out process with a continued reluctance to lend to the real estate sector. Wider economic uncertainty and the pressure on the consumer offer little prospect for rental growth. Against this backdrop, we see continuing opportunity in regional and secondary markets, where capital availability will remain constrained even for the better schemes. We continue to target opportunities where redevelopment of secondary stock will create new institutional investment product.

We believe that the combination of our real estate expertise and available capital will enable Development Securities to secure attractive returns in the secondary market for some time to come.

Financial summary

Summarised audited results for the year ended 31st December 2010

	31st Dec 2010	31st Dec 2009
Profit/(loss) before tax	£2.6 million	£(11.4) million
Earnings/(loss) per share*	1.7p	(16.8)p
Net assets	£333.1 million	£244.0 million
Net assets per share	272p	297p
Dividend per share	4.8p	4.8p
Gearing	27.7%	23.9%

*Restated following Placing and Rights Issue.

Highlights

- Strong progress in investing proceeds of new equity, with £233.6 million of acquisitions since July 2009, representing equity of £109.6 million
- Net asset value at £333.1 million and 272 pence per share, compared with £244.0 million and 297 pence per share as at 31 December 2009. EPRA NAV at 276 pence per share (2009: 301 pence per share)
- Total annual return from investment property portfolio of 15.2 per cent, equal to the return from the IPD Quarterly Index, despite having no representation in Central London
- Manchester Evening News Arena, the largest indoor venue in Europe, acquired in June with year-end value increasing by 19.8 per cent
- Practical completion of Two Kingdom Street, PaddingtonCentral, with 75,000 sq. ft. let to Astra Zeneca, and planning permission achieved for Four and Five Kingdom Street

- Steady progress on major schemes at Hammersmith Grove and West Quay, Southampton.

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Chairman’s Statement

Adapting to current market conditions to improve returns

I am pleased to be able to report a further significant improvement in the fortunes of your Company in 2010.

We achieved a profit before tax of £2.6 million as compared to a loss before tax of £11.4 million for the previous year. No less significantly, shareholders’ funds benefited from the £100.2 million issue of new equity during the year, ending the year at £333.1 million, an increase of £89.1 million compared with the position at the end of 2009. Net assets per share ended the year at 272 pence, compared to 297 pence at the end of 2009 and 270 pence immediately following the share issue.

It is pleasing to be able to report, in a period of considerable economic uncertainty and with subdued forecasts for economic growth in both the near and medium-term, that Development Securities has been able to grow its business so substantially. This could not have been done without shareholder support and we remain grateful for the confidence you have shown in us. Strategically, we have maintained a consistent business model over the last 15 years or so, especially with regard to the management of our risk profile. It was this prudent strategy that enabled the business to survive the acute stresses of recent years. On the other hand, there have been recent tactical changes in our approach to the market which we believe will assist us in capturing improved returns.

Given our enhanced 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 6th July 2011 to shareholders on the register on 3rd June 2011. This brings the total dividend payment for the year to 4.8 pence per share, equivalent to that paid in respect of the previous year.

The first step change in the level of our business occurred when we raised equity of £100.0 million in July 2009, which subsequently proved to be the low point of the real estate markets. As we had intended, we have now deployed this capital into the market, together with appropriate leverage where applicable and none of it was utilised to pay down debt. Since July 2009, the Investment Property Databank Index (IPD) had shown a recovery in capital values of 8.8 per cent to December 2009. The increase of this Index in calendar 2010 was 8.3 per cent. Accordingly, by the end of the year, the markets which had fallen originally by some 44 per cent from their peak in 2007 had recovered 18.1 per cent from that low point.

The second recent step change occurred twelve months later with our next equity raise of £100.0 million in July 2010. The proposition this time was different; we had identified early in 2010 that the recovery in the banking sector was likely to be a long and drawn out process and that, until the banks’ balance sheets, capital ratios and reserves were properly reinstated, there would be a continuing reluctance of the banks to advance fresh capital to the real estate sector. Indeed, subsequent events have borne this out and it is noticeable that, probably for the first time, the amount of net new bank lending to the property sector has been negative for six consecutive quarters. Notwithstanding this withdrawal of capital, the proportion of commercial property loans to the total loan books of the banks is still uncomfortably high and we anticipate that the banks’ relative inability to provide fresh capital to the market will continue well into the medium-term. Accordingly, we believe that those property businesses such as ourselves with equity able to invest in the near-term into the markets should be able to transact at favourable levels of return.

There are still clouds on the horizon, however. The austerity programme now being introduced in the UK will have an impact which is not easy to predict. Increased levels of taxation, both direct and indirect, together with significant reductions in Government expenditure are likely to reduce domestic consumption and encourage the restoration of savings levels as the consumer battles to survive the storm. Unsurprisingly, these current difficulties are also adversely affecting levels of business confidence and are likely to continue to do so until the way ahead has greater clarity. Rental growth in the occupational markets has reduced by some 15.1 per cent over the last three years and whilst that fall now appears to have levelled out, it will likely take many years before any significant rental growth reappears.

I am pleased to report that our IPD investment portfolio performance for 2010 equalled that of the IPD UK Quarterly Property Index for that year notwithstanding that our portfolio of real estate investments does not include any element of Central London weighting. Whilst it was clear that Central London was the sector with the strongest capital and rental growth during 2010, our more than acceptable comparative performance to the benchmark confirms our long held contention that, in current market conditions, terms of trade in the secondary markets have moved towards those with appropriate expertise and capital. We expect this to continue. The valuation uplifts in our Balance Sheet of course take no account of improvements in the development and trading portfolios, which are reported only on ultimate sale. 2010 saw us continue with our strategy of focusing our investment portfolio on property assets that represent a mix of core defensive income and asset management initiatives. We have no present plans to change this approach. We do, however, have a considerable amount of equity remaining available in cash to invest into the marketplace as and when suitable opportunities arise and we remain alert to allocate this capital into a market which is likely to remain constrained of cash for some time.

Active development on a substantial scale is normally seen in the second half of an economic cycle when demand for retail and office accommodation is strengthening, vacancy rates are falling and capital availability is expanding. It is therefore unsurprising that we have not been recently engaged in any major development activity in the UK's largest cities although we continue to seek out sites that could represent profitable developments for future years. On the other hand, the rapid recovery in rental values in the City of London together with both a perception of reduced supply and the weight of inward investment have conspired to raise values of prime development sites to levels which would appear to be hard to justify in such an early stage of the current economic cycle. Whilst we continue to pursue opportunities in this particular market, we are apprehensive both with regard to the underlying strength of demand and also the quantum of supply that may be brought to the market in the medium-term. We suspect that the City of London will remain a market for those with deep pockets and a longer-term investment horizon.

Outlook

Monetary policy is hard to predict, perhaps even by those who pull the levers, but we do anticipate that interest rates will remain at minimal levels for some time yet to come. It is quite likely that both the Government and the Bank of England will seek to maintain interest rates at around current levels as and until stronger economic growth in the UK is initiated. To date, the two major domestic UK banking groups with significant government equity ownership have only gradually released troubled loans and foreclosed real estate into the market and it is arguable that this has had minimal impact on pricing such has been the strength of investor demand for product. It would appear that these UK banking groups have now realised the value from the larger, better located and better let properties and that the next few years will see them work harder to maintain the same level of capital release from smaller loans. It perhaps follows that the next tranche of loans to be realised by the banks will be within the secondary rather than the prime sector. The availability of capital to acquire these assets will be reduced since investors with an appetite for prime property are unlikely to have the same risk profile on assets which are noticeably inferior in terms of location, tenant covenant strength and lease maturity profile.

Conclusion

To say that we have clarity in all aspects of the marketplace would be wrong. However, we do have clarity with regard to the opportunity and returns that will be available to us as we apply our cash and expertise into those stressed areas of the market that lack adequate capital. If significant large-scale development projects need to await the next phase of the economic cycle, so be it. We will maintain the risk profile of our business model within the constraints in which we have operated for many years.

On behalf of the Board, I would again like to record my welcome to Sarah Bates, our new Board member, who brings with her an outstanding record of experience and skills, some of which we have now seen close at hand during the past year.

It remains for me to thank all of our Directors, management and staff for their valued contributions. Their professionalism and standing in the marketplace has undoubtedly been the key to our success throughout the last few years and will represent the base on which we will move forward with growing success.

David Jenkins
Chairman
1st March 2011

Chief Executive's Statement

Well positioned to unlock potential in the market

With the two recent, successful share offerings in July 2009 and July 2010 that have together raised £200 million, we are approaching the appropriate scale for a significant property business from which a number of advantages will flow.

Clearly, the Company has greater resources with which to approach a marketplace presently somewhat starved of capital, but not so much resource that we are compelled to seek larger, prime sector deals at what may be inflated prices – our preference remaining to operate in the space above the level associated with private capital, but below that normally associated with the large REIT operations. Secondly, we will be more operationally efficient since we intend to deploy the new equity without the need to add significantly to our overhead structure and as a result, the operational cash flow will be more even and move closer to being self-sustaining. Additionally, once we have completed the deployment of the fresh £200 million of capital raised, we will have doubled the value of property assets under our control, thus reducing the impact on our finances of those legacy assets from the previous cycle which are perhaps not best suited for this stage of the current economic cycle.

There continues a sense that the UK remains at the crossroads without any strong sense of clarity as to which direction the economy will eventually take. Probably in the main due to the swift application of the policy of quantitative easing, a complete economic collapse was avoided but there are undoubtedly pitfalls ahead wherever one looks. Unsurprisingly, after the traumatic experience of recent years, both business and consumer confidence is in relatively short supply and, as is often the case, it will need to be rebuilt slowly and carefully. It is of little comfort that the UK is not alone in these difficulties, especially since our major trading partner, the European Union, has its own problems on a perhaps more extensive scale.

This current uncertainty prescribes the behaviour of the consumer and consequently also of industry and business. Household savings ratios have now restored themselves to the reasonable level of five per cent as is the customary reaction following a period of financial stress.

Given the challenges faced in the coming few years through increased direct and indirect taxation, as well as the likely rise in unemployment induced by government-led cut backs, the savings ratios may plateau rather than increase as these savings reserves are utilised to overcome the next few difficult years. It remains to be seen whether and how rapidly the private sector can take on the challenge of energising the spare capacity that now exists in the UK economy – for therein lies the solution.

Rental growth has now levelled out after a decline of several years and given current vacancy rates that exist within most sectors, is unlikely to increase at a significant rate until the medium-term. Prospective IPD Index performance will therefore depend more on interest rate levels and yields if further capital growth is to be achieved. We do not view this as likely for some time, but we need to remind ourselves that real estate is a long-term, cyclical business rather than a short-term sprint.

In such circumstances, it is reassuring to see that on an historic comparative yield basis, property still looks fairly priced in comparison both to the bond and equity markets. It would seem that the generous yield spread is justified by the uncertainty that lies ahead.

Apart from the level of interest rates, which are to some extent within the control of the UK monetary authorities, the two big UK banking groups are in control of a substantial overhang of real estate that represents the legacy of past lending to the real estate sector. In addition, there are, of course, the even more acute problems associated with the Irish banking system. To date, the banks generally have been cautious with regard to both the speed and quantum of the real estate they have released back to the market and have focused primarily on those prime assets which have found ready investors from within the substantial amount of money that is seeking to enter the market. Increasingly, having now harvested what might be termed the low hanging fruit, the UK banking groups may find it more challenging to dispose of those assets of a more secondary nature. But since their exposure to real estate loans is still at levels above those when the 1990 crash began, deal with these assets they must. Effectively, circa £100 billion needs to be found over the medium-term to reduce the banks' inappropriate loan exposures to the real estate sector. Some of this amount will likely come from further loan loss provisions once the banks have internally replenished their capital through enhanced earnings, and some from redemption or refinancing. It is only once the banking sector has returned to health that the property business, amongst others, will have a chance to fire on all cylinders again.

The support of our shareholders in the last two years for fresh equity of £200 million has placed us in a strong position for the next few years. The large scale cash-rich real estate investors have traditionally and quite rightly been reluctant to invest outside the prime sector due to considerations of both risk and lot size. Development Securities represents one of the relatively few portals through which such much needed equity can flow in order to access the returns from this fertile area of the market, since we not only have the cash and the expertise necessary to deal with complex real estate issues, but have always remained diligently focused on commercial property in the UK. As such, our brand in the market has strengthened in those various areas of the sector where capital starvation is acute.

Development Securities, with its track record of partnership with both institutions and private investors, together with its transparency as a regulated, publicly listed entity, is increasingly seen as a desired partner for those in need of capital. Under such circumstances, we are tending to find that terms of trade are moving more in our favour.

It would seem that, for Development Securities, the next few years will be spent for the most part unlocking problem assets with pregnant value or carrying forward modest-sized development schemes which are unable to find sufficient available capital.

It is unsurprising that major development schemes in the next few years are likely to be restricted to Central London where special considerations have seemingly always applied. History would caution us that this market is the most volatile of all sectors in the UK due to its heavy focus on the financial services sector and with an increasing representation by overseas investors who may often also be significantly represented in the occupational markets in Central London. It would appear that the likely reason why real rents have declined so significantly in the Square Mile since the early 1980s is that supply has continued on average to consistently outpace demand. Since the advent of Canary Wharf, this supply has also appeared outside the walls of the City of London but has nevertheless drawn off a considerable amount of demand, thus weakening rental growth within the core district. We do not believe that a new generation of very tall buildings in the Square Mile will alleviate this factor – rather, perhaps, compound it. Nevertheless, since there still appears to be value to be captured in the increasing agglomeration of skills in London, we continue to pursue Central London development schemes and search out those opportunities where creativity and added value justify risk and price. We are confident that we will eventually secure appropriate opportunities, but we proceed with caution.

Whilst property is not manifesting indications of a fresh price bubble, there is little doubt that quantitative easing encouraged the recent sharp upward re-pricing of the market as investors struggled to find assets that they could regard as generating significant steady cash flow and which offered the potential, at least, of an inflation hedge. The assets that we have been able to acquire over the last 18 months or so have come forward to the market by virtue of some degree of financial stress. Apart from the obvious instances of where we have been able to acquire property previously foreclosed by the banks because of loan defaults, there would appear to be increasing pressure from the banks onto their customers to resolve loans that are not fully performing and accelerate property disposals in order to avoid the need for loan foreclosure. Additionally, the absence of significant fresh capital to the property sector outside of the prime Central London market, has brought forward a number of situations where both fresh capital and expertise is required to unlock development potential. Finally, mainly in the area of strategic land improvement, there is a significant shortage of capital available to individuals who have expertise and are willing to partner with us in exchange for appropriate funding. Strategic land opportunities in which we have taken interest relate mainly to prospective residential land. Otherwise, our preferred asset class for development propositions emerging from the market still tends to be neighbourhood shopping centres anchored either by a major food store or by an equally strong major retail trading covenant. These schemes enable us to create value where demand is evident and also provide a defensive component due to the strength of the anchor itself. More recently, we are evolving an increasing appetite in well established urban areas for mixed-use development projects that can embrace a not insignificant residential component. Of course, opportunistic transactions will always be of interest at the appropriate value.

Our current role, outside of possible large-scale commercial development in Central London, is focused on the transformation of assets, which presently languish for one reason or another within the secondary sector of the market, into higher quality real estate that will appeal to the ultimate cash investor. If interest rates remain low and inflation remains subdued, the cash investor will deploy his funds into these newly created or refreshed assets with or without a capital contribution from the banking sector. If inflation does begin to manifest itself, the cash investor will largely believe that his real estate portfolio will act in the medium- to longer-term as a partial inflation hedge.

Within the above strategic and tactical observations we will continue to run our business in accord with the same risk-averse policies which fashioned our track record over the last 15 years or so. Those strategies proved effective against the worst excesses of volatility that the UK market has ever seen and we believe will continue to do so.

Michael Marx
Chief Executive
1st March 2011

Operating Review

Adjusting our focus in response to the market to drive performance

The world in general, and the UK commercial property market in particular, seem non-committal as to the future direction of their markets.

They may also simply be exhausted. It is nearly three and a half years since the banking crisis began, and there is still no apparent let up. A return to the comforts of the old normality looks as far away as ever. As is apparent from the still gathering fiscal storm in the peripheral nations of the Eurozone, policy is still struggling to get on top of the liquidity and solvency issues that lie at the heart of the crisis.

Financial markets theoretically discount the future into today's prices. However, they have been, to date, strangely schizophrenic. Anyone who bet on inflation and economic recovery, buying gold, equities or inflation-linked bonds, made good money in 2010. Likewise, bets on deflation, namely nominal government bonds, have also paid off. This apparent conflict reflects the uncertainty felt by market participants as to whether the continued global economic recovery, which the equity markets are discounting, is built largely on government stimulus.

Against this backdrop, it is somewhat surprising, given the degree of current inflation and currency depreciation in recent years, that ten-year gilt yields are still under 4.0 per cent. This reflects both the impact of quantitative easing and a belief that the UK deficit will be brought under control in the medium-term and inflationary trends can be suppressed.

However, there is a degree of risk that the present low bond yields may be coming to an end in response to improving economic trends and rising inflation. Lenders are starting to seek higher returns on their funds, and if longer-term rates climb this could have implications for property yields.

Property values continued to rise during 2010 against the market's predictions, as investors sought to deploy cash earning a minimal return. However, much of this growth was front-loaded and the second six months of the year saw most values track sideways.

We believe that markets will continue to undulate in response to the latest economic news. Economic stimulus from governments and resilient demand from Asia should allow a continued slow and patchy recovery. It is imperative that we recognise the swings in sentiment and adjust tactics if appropriate.

This recovery should translate into commercial property values overall being flat in 2011, with prime values up a little and secondary easing, making asset management the key to differentiation in performance. Slow economic recovery is not conducive to a swift return to rental growth, and this remains the case with rental values in all sectors apart from Central London. We believe it will be 2012, at the earliest, before the wider market will witness positive growth trends. In addition, shortening lease lengths and the slow unpicking of risk will impact on assets with short-term lease events.

The need to drive business performance by intensive asset management has prompted us to move our focus further up the 'risk curve' and deploy our full range of value add skills. Taking advantage of the lack of liquidity in the secondary market, and the resulting favourable pricing of assets, we have secured a number of projects where we are planning extensive refurbishment or redevelopment, in order to create institutional-grade investment stock.

At this point in the property cycle, major development requirements are naturally few. Those that have arisen have been almost exclusively in Central London. We have reviewed several opportunities, and submitted bids on some, but we have been outbid by others with perhaps a more bullish view of medium-term occupier demand.

Investing in opportunities which offer strong returns

Major development portfolio

In a cyclically quiet period for major development, we have been active in pursuing our existing projects at PaddingtonCentral and West Quay, Southampton, and bringing forward our prospective new scheme in Hammersmith.

At Two Kingdom Street, PaddingtonCentral, we completed the 274,000 sq. ft. net prime office accommodation flagship of this project where we are in partnership with Aviva Investors and Irish-based Avestus. Whilst 75,000 sq. ft. was rapidly let in the spring to Astra Zeneca, interest in the remaining 199,000 sq. ft. has been subdued. At St Bride Street, London EC4, forward-funded by Corpus Sireo and completed in 2010, after a quiet year, 2011 has started well, and we currently have 12,000 sq. ft. of office accommodation under offer. Looking into the future we are now bringing forward, with a view to start in 2011, the detailed design of two office buildings at PaddingtonCentral (Four and Five Kingdom Street). At

Hammersmith Grove we hope for a determination of our planning application in March 2011, four months after we completed the purchase of the property. The Hammersmith site accommodates 275,000 sq. ft. net of prime offices in two buildings with the first phase comprising 105,000 sq. ft. net. We intend to build this speculatively on a forward-funded basis.

At Slough, the council will complete its handsome new bus interchange in mid-2011, allowing us to demolish the existing station, so clearing the way for the first phase of this 350,000 sq. ft. office development. Speculative development here is unlikely to be viable in 2011, so we shall be marketing for pre-lets.

Outside the South East, speculative development of commercial offices will be a rare phenomenon in current markets. Accordingly, our strategy at Cambourne, Cambridge; Curzon Street, Birmingham and Axis Tower, Manchester is to minimise expenditure and wait. All these locations are established, with strong commercial markets and, with very low levels of new product across the board, a return of confidence across the wider economy will induce a recovery of rental growth prospects, the key precondition for funding of speculative development. We see Manchester recovering first. It should not be forgotten that Curzon Street is in any event currently in something of a siding, having been identified as the site of Birmingham's new high-speed rail station. Whilst, for the moment, we are hamstrung by this proposal, the possible location of Birmingham's HS2 station on this site will of course significantly enhance the location.

Our hotel development at West Quay, Southampton, pre-let to Premier Inn and forward-sold to AMEC Pension Fund, is on target to complete in mid-2011.

Turning to new business, we remain active bidders for sites and opportunities in most London locations. On good sites in prime locations, bidding is very competitive, London exhibiting its enduring attraction as a store of value to the international investor. This often drives down returns to the point when they are too low to attract our capital, which can be invested elsewhere in the UK to deliver the appropriate return for our shareholders.

Other development and trading activity

The market is currently characterised by a dearth of new funding from the banks, the traditional providers of liquidity to the development marketplace. Having access to capital, we have considered a range of opportunities arising for this reason, and selected a number of acquisitions offering strong returns.

These projects are across a range of sectors and regions, with the common features mostly being their requirement for equity and for significant and often complex added value components. These projects are generally controlled by the Group, sometimes in partnership with others, working with specialists to access sectors or regions which are new to us.

Retail developments

In March 2010, we acquired a shopping precinct and car park in Hale Barns, an affluent suburb of Manchester. We have submitted a planning application for a comprehensive redevelopment comprising a 30,000 sq. ft. food store which has been pre-leased to Booths, 12,000 sq. ft. of further retail accommodation and 24 residential units. We expect to obtain planning permission shortly and, subject to resolving the final vacant possession issues, will be commencing development later this year. It is likely that the scheme will be developed in conjunction with an institutional development partner.

At the Wick Site in Littlehampton, we were sufficiently encouraged by the site's planning potential to take a surrender of the occupational leases for a reverse premium of £4.9 million. We now have a seven-acre development site held in our books at an industrial land valuation which should offer significant upside if a retail-led planning consent can be secured.

Residential developments

We believe that selected residential markets offer interesting demand/supply dynamics and we have reviewed a number, along with specialist partners.

At Westminster Palace Gardens, London SW1, which we acquired in June 2010, we have secured planning consent for the change of use of 22 office suites to residential use and have obtained vacant possession of the majority of these units. We are now preparing the tender for the conversion works. The continued strength of the Central London residential market is encouraging and we hope to exceed our original forecast returns from this development.

Since the year-end we have completed the £5.0 million acquisition of a single dwelling house on the Sandbanks peninsula, Dorset, which has planning permission for demolition and redevelopment as four luxury apartments. Development works will commence immediately and we are hopeful of securing early sales. Interestingly, of the 60 deals undertaken on the peninsula in 2010, only eight required mortgage finance. Our ability to transact with cash allowed us to secure the opportunity at an attractive entry price, since local and regional developers lacked access to capital.

Mixed-use developments
We continue to believe that the suburban London market will offer interesting mixed-use development opportunities as the demand for residential accommodation in London continues to be firm. This activity continues to build upon the principles of density of development and mix of uses that we secured earlier at our Colindale, London NW9 development.

To date, we have secured two new opportunities in this sector. In May, we entered into a joint venture with Orion Land & Leisure Limited to fund the planning and land acquisition costs to facilitate a 300,000 sq. ft. mixed-use residential and retail development in Shepherds Bush, West London. Since entering into the joint funding arrangement we have been selected as preferred developer by the London Borough of Hammersmith and Fulham and entered into option agreements with the key landowners. A planning strategy brief for the area has also been adopted and we are now preparing to submit a planning application in the second quarter of 2011. An assessment of our development options will be made once planning consent has been obtained.

In September we entered into a joint funding arrangement with Cathedral Group to promote a 2.5 acre site in Greenwich, South East London, for a 300,000 sq. ft. mixed-use development. Simultaneously, we entered into a contract, conditional on planning, for the site purchase and have recently submitted a planning application for our proposals which we are hopeful of seeing consented in the second quarter of 2011. We are already in discussions with end users for the hotel, affordable housing and student accommodation with a view to securing early commitments conditional upon planning. The strategy in respect of the private residential accommodation will be determined later.

We are in early stage negotiations on two further, similar projects in East London which are food store led mixed-use schemes incorporating a residential element. Both schemes are situated near major transport interchanges.

Since the year-end we have acquired for £4.3 million an industrial and office complex in a residential area of Watford, Hertfordshire. Currently yielding circa 8.5 per cent, we intend to secure residential planning consent on the majority of the site, retaining part of the site for employment uses. This granular activity has limited downside risk, yielding an attractive income return but with potential development upside. Again, our ability to transact for cash was important in securing the property.

Other sectors
We are also reviewing other specialist sectors in partnership with sector experts and during the course of 2010 signed framework agreements with two specialist care home developers. The UK’s demographics are supportive of increasing demand for care homes and we believe that the sector will in time mature into a mainstream investment class offering long-term indexed leases. We intend only to pursue opportunities which are either pre-let or pre-sold, choosing operators cautiously in a sector not unknown for its significant financing issues. We have recently commenced an 80-bed care home in Dartmouth which is pre-sold to an end user. We hope to secure further opportunities in this sector in 2011.

Bank portfolios
We have continued to work with several banks to resolve third party situations requiring both capital and expertise.

During 2010 we completed transactions with three different banks. In July, we acquired Airport House in Croydon for £7.8 million from LPA Receivers acting on behalf of Bank of Ireland, with the bank providing stapled finance. This local landmark building is a well-located serviced office which was underperforming because the previous owner lacked the capital required to maintain the quality of accommodation. We have commenced a programme of refurbishment works and already have seen improving income and occupancy levels.

In September, we acquired a vacant 103-key hotel in the Braehead area of Glasgow from LPA Receivers acting on behalf of Allied Irish Bank for £3.9 million. The price represented a capital value per key of £40,000, which was less than its replacement cost. We have granted a 25-year management contract to the Campanile Group, part of the Starwood Hotel Group. The hotel reopened in November and early indications are promising.

In November we acquired 14 assets (the ‘Rock portfolio’) for £23.2 million from LPA Receivers acting on behalf of Lloyds Banking Group. Several of the properties have asset management potential, requiring the Group’s combination of expertise and capital. We have a two- to three-year business plan for the portfolio, and have already implemented significant initiatives which should result in some early disposals. We believe that the realisation of the portfolio will make a significant contribution to the Group’s profits. The portfolio has an average lot size of circa £1.6 million. An ability to deal with detail and complexity will be an important theme in 2011 as the banks are reluctant to take a significant discount for uncertainty and Development Securities’ willingness and ability to undertake this analysis as part of the bidding process represents an advantage over competitors in the marketplace.

These three transactions confirm that the Group is increasingly accepted by the banks as a reliable partner in the deleveraging of their balance sheets; the Rock transaction illustrates our capability in increasingly larger deal sizes.

We continue to pursue such opportunities. We believe that the terms of the International Monetary Fund (IMF) 'bailout' of the Irish banking sector will require those banks, in conjunction with the National Asset Management Agency (NAMA), to accelerate their debt reduction activity. We have invested time in 2010 in building relationships with key market participants and these efforts should provide the foundation for a subsequent deal flow.

HDD

Continuing strength of demand for floor space from food retailers has rewarded our decision to acquire the whole of the Henry Davidson Development (HDD) business early in 2010.

HDD had been a strategic partner of the Group since 2007, specialising in the development of local shopping centres, in particular within new residential schemes, and we acquired the whole of the business in March 2010. We consider that HDD has significant growth potential as it focuses on food store anchored development, an area where occupier demand remains high; however, the business needed a firmer capital base in order to capture this growth and secure its pipeline of opportunities. The full integration of the business has been implemented and HDD has achieved a number of notable successes in the year.

At Stanground in Peterborough, planning permission was secured for a 45,000 sq. ft. food store led development. The land consented for food store use was sold to Morrisons, producing a profit of £0.5 million.

At Lawley, Telford, planning consent was achieved for a mixed-use scheme anchored by a 35,000 sq. ft. food store, which has been pre-let to Morrisons, and further retail, residential and ancillary uses. Funding discussions with institutional partners are now under way ahead of a start on site in 2011.

Planning permission has also been received for a circa 50,000 sq. ft. leisure scheme in Llanelli, Carmarthenshire, including a 53-key hotel and offices. HDD has secured pre-lets on 50 per cent of the accommodation and the scheme will commence on site in April 2011, with a target completion date of autumn 2012, by which time further lettings should have been secured.

At Bannerbrook in Coventry, HDD completed a 10,800 sq. ft. retail parade, with seven of the eight units let in advance of practical completion. The asset will be marketed for institutional sale in the Spring.

HDD continues to secure new opportunities and three new projects have been added in 2010.

Strategic partnerships

We leverage our equity and expertise by working with selected partners whose strengths and skills are complementary with our own.

Manchester Arena Complex
The Manchester Arena Complex was the Group's most significant acquisition in 2010. The purchase was concluded in June, and the joint venture formally completed in August. The Arena is the largest indoor venue in Europe and attracts over one million visitors per annum. Immediately following acquisition, we re-geared the lease on the Arena to the incumbent operator allowing us to make an immediate revaluation gain of £9.5 million, of which the Group's share was £2.8 million. We are pursuing further asset management initiatives identified in conjunction with our partners, Patron Capital Partners. We regard this transaction as the beginning of an investment management activity, adopting similar principles to our development business and leveraging off our long-term performance track record.

CTP
CTP, our associate company based in Manchester, has successfully completed several developments and continues to review a number of potential new schemes.

In November practical completion was reached on a 35,000 sq. ft. food store in Neston, Lancashire, pre-sold to Sainsbury's. In October CTP also achieved practical completion of a mixed-use scheme in Kensington, Liverpool where the majority of the accommodation had been let or sold by practical completion.

Planning permission has been achieved for a 100,000 sq. ft. food store in Hattersley, Greater Manchester. Terms are under discussion for forward-funding, and CTP expects to commence work on site in the first half of 2011.

CTP has identified three new projects with similar characteristics to those acquired by the Group, where the ability to introduce both equity and expertise will be rewarded with higher than normal risk-adjusted returns.

Beyond Green
Beyond Green Developments (formerly Blue Living) specialises in sustainable development with a focus on urban extensions. We are working with them to bring forward selected large developments designed and planned on sustainable principles. During the year the team has continued to pursue a planning appeal for a major scheme in Tilehurst, near Reading in Berkshire. In addition, they have secured a promotion agreement for a 3,500 residential unit scheme in Norwich, in respect of which it is intended to submit a planning application during 2011.

Wessex Investors
Wessex Investors are our local partners in the West Country, working with us to implement individual asset improvement plans and to bring forward new opportunities.

In Plymouth we have acquired an existing hotel on a site with potential for retail-led redevelopment. The hotel will be operated under a management contract to produce income whilst the planning strategy is progressed. This type of complicated development proposition is not untypical of those we are seeing, offering significant upside with limited downside risk.

Barwood
Since entering our strategic land promotion venture with Barwood Group, we have been pleased with progress on each of the secured projects, although the recent major revisions to the planning system have prompted a review of our approach in each case. The venture has obtained planning consents on two smaller sites which will now be sold in the open market to capitalise on the shortage of supply to the market of smaller parcels of land.

Investment portfolio

Throughout 2010, we remained committed to our strategy of focusing on assets with a mix of core defensive income and asset enhancement initiatives to drive value in the medium-term.

As at 31st December 2010 the portfolio comprised 37 assets with a fair value of £199.2 million, increased from 33 assets at £181.0 million a year earlier. We retain our strong discipline in evaluating each opportunity both in respect of our existing portfolio and new assets, since income return will come under increasing pressure in this stage of the current economic cycle.

The revaluation of the direct investment portfolio at December 2010 showed a capital gain of £8.8 million or 4.6 per cent. We were pleased to achieve a 15.2 per cent IPD Total Portfolio Return in 2010, equal to the IPD UK Quarterly Property Index return. The IPD Index return benefited from a strong contribution from Central London, excluding which the Index would have shown 10.1 per cent. Our portfolio does not include Central London exposure, indicating an outperformance in regional and secondary markets of 50 per cent.

This builds on our record over several years, which saw us secure in April a prestigious IPD award for the highest three-year annualised return within the specialist funds sector.

The average initial yield in 2010 was 6.12 per cent compared with 6.82 per cent in 2009.

Acquisitions during the year added £4.9 million to the rent roll, which was reduced by £1.9 million through the sales of Grimsby and Warrington. New lettings within the portfolio during the year totalled 101,067 sq. ft. and rent of £1.3 million. Voids within the completed portfolio rose slightly from 7.5 per cent to 8.0 per cent, principally owing to the acquisition of Pearl Assurance House, Nottingham, with a business plan of rolling refurbishment within the office accommodation. Overall, contracted annual rent rose to £12.5 million from £11.6 million as at the previous year end.

At Atlantic Village, Bideford it has been another active and successful year. Key lettings have been secured to Gap and Nike which serve to strengthen further the scheme’s attractiveness with footfall at the scheme up 20 per cent year-on-year as a direct consequence. With the anchor tenants now in place, we are working on the remainder of the Centre to improve the line up. We also feel that the scheme is now sufficiently strong to progress the proposed extension, and we have recently submitted a planning application for a further 84,000 sq. ft. of retail accommodation on existing land to provide a second anchor area to the scheme. It is expected that planning will be obtained later this year and that circa 50 per cent of the space will be pre-let before a start on site is made.

During 2010 we acquired a 40 per cent interest in land known as Atlantic Park, located directly across the road from Atlantic Village. This 20-acre site has recently been allocated in the Local Plan for a mixed-use development and we are working up a planning application for submission in 2012.

At The Furlong Shopping Centre, Ringwood, we have had a successful year in capturing, through rent reviews, the rental reversion generated through our earlier letting campaign. We continue to improve the tenant mix at the Centre and to work on our Phase II proposals, where the land acquisition strategy is nearing completion and a revised planning application should be made in 2011.

At Kingsland Shopping Centre, Thatcham, several smaller lettings have served to improve trading. We are also giving active consideration to a 10,000 sq. ft. extension to the Centre. This additional floor space will enhance the retail critical mass, which is the next stage in the value creation process.

At Crown Glass Shopping Centre, Nailsea, we were much encouraged by Waitrose taking over the former Somerfield unit adjacent to our holding. We have seen elsewhere just how powerful the impact of this can be on adjoining retail units and this is starting to occur at Nailsea as existing tenants such as HSBC have sought to upsize their space and WH Smith are under offer on a unit. We plan to continue this process in 2011 whilst working on our development plans for further retail accommodation on the land we acquired adjacent to the Centre.

At Swanley Shopping Centre, Swanley, the opening of the Wilkinson unit has provided a much needed anchor for the scheme and we are already seeing both new occupiers enter the scheme and existing tenants renew their leases. In 2011, we need to build on this momentum whilst developing, in conjunction with the Local Authority, our ideas for an expansion of the scheme in the medium-term.

At The Broadway, Bexleyheath, we secured an expansion of the Primark unit, simultaneously re-gearing the lease to a new 25-year term. This activity added ten per cent to the asset value and underscores how important a proactive asset management strategy can be in a low growth environment.

At the same time, we need to consider the overall return potential of the portfolio and dispose of those assets where performance has peaked or whose performance may be better driven by an alternative strategy outside our core skill base. These were the reasons behind the disposals of the House of Fraser store in Grimsby (where we considered that performance had peaked) and The Genesis Centre, Warrington (where more intensive local management was needed in these recessionary times).

The sales achieved a profit over their fair value as at 31st December 2009 of £0.3 million. The Grimsby property had been acquired only in July 2009, and achieved a selling price of £13.2 million against its acquisition cost of £10.5 million 14 months earlier.

Inevitably these disposals remove valuable income, and we are pleased to report that the Grimsby income has now been replaced by the acquisition of three assets in Burnley, Port Talbot and Carmarthen totaling £11.8 million, yielding 8.9 per cent and with a weighted unexpired lease term of 8.9 years. These assets, whilst primarily acquired for their income, also have a degree of value-added potential. We continue to seek similar assets to replace the Warrington rent roll.

Investment property key statistics

Investment Property - key statistics

	Portfolio value £m	Contracted rent £m	Number of assets held at 31 December No.	New lettings in year £m/sq.ft.	Initial yield in %	Equivalent yield %	Voids (excluding developable land) %	Rate of rental collections within 30 days %
2010	199.24	12.54	37	£1.29m/101,067 sq.ft.	6.12	7.32	7.97	92.33
2009	181.04	11.56	33	£1.26m/98,975 sq.ft.	6.82	8.07	7.54	91.88

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

	Property owned throughout the year £'000	Acquisitions £'000	Disposals £'000	Transfers £'000	Total net rental income £'000
2010					
Investment	7,240	4,259	1,252	—	12,751
Development and trading	1,312	1,127	—	—	2,439
Joint ventures	—	925	—	—	925
	8,552	6,311	1,252	—	16,115
2009					
Investment	7,296	738	1,508	406	9,948
Development and trading	433	—	—	(406)	27
Joint ventures	—	—	—	—	—
	7,729	738	1,508	—	9,975

Completed Investment Portfolio – 31st December 2010

Gross rental income – Tenant profile

PLC/Nationals	71.9%
Local Traders	14.1%
Regional Multiples	11.3%
FTSE 100	1.8%
Government	0.9%

Gross rental income – Lease term profile

0 - < 5 years	30.7%
5 - < 10 years	39.3%
10 - < 15 years	17.6%
15 - < 20 years	2.6%
20 years +	9.8%

Capital value – Location profile

South East	39.4%
South West	20.2%
North	8.3%
London	11.9%
Wales	12.5%
Midlands	7.7%

Capital value – Sector analysis

Retail	77.8%
Mixed	13.3%
Industrial	7.3%
Office	0.6%
Residential	1.0%

Financial Review

Resilience and flexibility are key

Our reputation and risk-averse capital structure has enabled us to raise both equity and debt in a market where liquidity is constrained.

Capital structure and liquidity management

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

Having successfully survived the effects of the banking crisis in late 2008 and early 2009, and made all appropriate loan-to-value repayments from its own resources, the Group was well placed in July 2009 to raise £100.0 million of new equity (£94.0 million net of expenses), through a Firm Placing, Placing and Open Offer. In March of 2010 we raised new 15-year, fixed rate debt of £58.2 million from Aviva Commercial Finance Limited, secured against a portfolio of new and existing investment properties. In the Spring of 2010, having made excellent progress in deploying the new equity, the Directors identified that the Group was continuing to see a growing stream of opportunities for further investment, and that this would rapidly exceed its remaining equity resources. Consequently, in July 2010, having committed circa £69.0 million of the equity raised in the previous year, the Group again approached shareholders and raised a further £100.2 million of new equity (£93.7 million net of expenses) through a successful Placing and Rights Issue.

Since the equity raising in 2009, as at 31st December 2010 the Group had expended and committed equity of £93.8 million, and deployed net new debt of £133.8 million, increasing to £109.6 million and £133.8 million as at the date of this report.

Consequently, the Group’s gearing (including share of joint ventures) as at 31st December 2010 was 27.7 per cent, compared with 23.9 per cent at the beginning of the year. During the year this ratio peaked at 54.2 per cent, immediately before the Placing and Rights Issue. If joint ventures are excluded, the figures for December 2010 and 2009 were 21.4 per cent and 18.7 per cent respectively.

The current relatively low level of gearing reflects the recent equity issue. We expect to see this level continue to increase as the funds are invested. In line with our risk-averse policy of maintaining a conservative level of gearing, we target a level of between 50 and 60 per cent as an efficient operating level for the business.

Our cash and overall liquidity is managed at Group level, with our investment, development and trading portfolios assessed and monitored according to their own specific risks. Within our debt facilities we maintain a mix of fixed and variable rates, in general preferring the certainty of fixed rates for our larger and longer-term borrowings.

The Group limits its risk in 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 per annum.

The principal tools of assessment are a 15-month 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 per annum, via the Group's Risk Committee, which reports to the Board, and at the Board's annual strategy review. In addition this is discussed informally as appropriate at each Board meeting.

Medium-term liquidity is arranged through a mix of the Group's equity and its debt facilities. The continuing net withdrawal of bank debt from the property sector means that lending is very cautious. However, the Group has strong relationships with its lenders, and has not been constrained in arranging new debt during 2010, completing new facilities totalling £137.0 million.

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

The Group's temporarily high levels of cash have prompted a reconsideration of our policy on treasury management. Cash may be invested across a wider range of instruments, including instant and term deposit accounts, money market funds and commercial paper. The 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 the year-end the Group had £104.1 million of cash held across eight banks.

					Principal financial covenants			
Facility type	Total facility £'000	Utilised as at 31st Dec 2010 £'000	Interest rate rate	Maturity	Loan to value ratio	Interest cover ratio	Minimum net worth £'000	Notes 1
Loans financing longer-term assets								
Revolving credit	38,000	31,113	Variable	31-Jan-13	70%	105%	—	
Term loan	47,500	47,500	Hedged	16-Jun-13	65%	160%	—	4
Term loan	6,200	6,200	Variable	11-Jul-15	80%	—	—	
Term loan	57,565	57,565	Hedged	12-Mar-25	80%	110%	—	
Loan notes	32,844	32,844†	Hedged	25-Oct-27	—	—	100,000	2
Debenture	20,000	20,000	Fixed	06-Jan-16	66%	—	—	
Loans financing development and refurbishment assets								
Term loan	6,565	6,565	Hedged	25-Jun-12	65%	—	100,000	
Term loan	15,296	15,296	Hedged	28-Oct-13	65%	160%	—	
Term loan	15,610	15,610	Variable	06-May-15	65%	—	100,000	3,4
Revolving credit	3,455	—	Hedged	24 mths from draw	50%	—	100,000	
Term Loan	17,550	—	Variable	42 mths from draw	—	—	150,000	

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

2 These unsecured, variable rate loan notes are denominated in Euros, with a nominal value of €47 million. The Group has entered into a cross-currency interest rate swap, such that interest rates are fixed and the Group will repay a fixed Sterling amount. The minimum net worth covenant applies to the hedge rather than the loan notes.

3 The loan to value ratio covenant is only testable after the third anniversary of the loan being refinanced (i.e. in April 2013).

4 Loans relating to Joint Ventures represent the total loan facility and not the Group share.

† Represents the amount of the Group's liability in Sterling taking account of the hedging instrument.

Current bank facilities and borrowings

The Group's bank facilities are set out in the table above. As at 31st December 2010 the value of the Group's gross borrowings was £175.5 million (2009: £126.2 million). Cash balances were £104.1 million (2009: £80.6 million), including amounts of £27.0 million held as restricted deposits, giving net debt of £71.4 million and gearing of 21.4 per cent (2009: £45.6 million and 18.7 per cent).

The Group's share of net debt in joint ventures was £20.8 million (2009: £12.8 million); if this is aggregated with the Group balances, net debt rises to £92.2 million and gearing to 27.7 per cent (2009: £58.4 million and 23.9 per cent).

During 2010 the Group repaid loans totalling £18.9 million and refinanced other borrowings totalling £24.1 million. We also cancelled certain facilities originally intended to finance the extension and redevelopment of certain investment assets, but which were deemed no longer appropriate for our asset management plans.

In addition to the new loan of £58.2 million, the Group has drawn debt against several asset acquisitions. In June the Group arranged a two-year facility of £10.0 million for the acquisition and development of Westminster Palace Gardens; in the same month we drew down a five-year facility of £6.2 million from Bank of Ireland, secured against Airport House, Croydon, as part of the agreement for the acquisition of the asset from the administrator acting for the bank. Similarly in October we drew stapled three-year debt of £15.3 million from Lloyds Banking Group, in connection with the acquisition of the Rock portfolio.

In March the Group and its partner each lent a further £5.0 million to the Curzon Park Limited joint venture, to enable the joint venture to make a part prepayment of its bank loan, reducing that borrowing to £15.6 million. In June the Group drew down £47.5 million for a term of three years in respect of the acquisition of the Manchester Arena Complex; in August this facility was transferred into the joint venture vehicle, in which the Group retains a 30 per cent stake.

Committed facilities as at 1st March 2011 total £176.8 million, with a weighted average term of 9.1 years (falling to 8.5 years including the Group's share of joint ventures). Unutilised facilities are £27.9 million.

In the Group's portfolio the earliest maturity date is June 2012, in respect of the Westminster Palace Gardens project, where the debt is expected to be repaid from project cash flows and the Group has no plans to refinance. The earliest maturity in respect of facilities financing longer-term assets is January 2013.

The bank loan to Curzon Park Limited matures in May 2015, and the Group is keeping this under review, whilst monitoring the prospects for the asset itself. The borrowings in respect of the Manchester Arena Complex joint venture mature in 2013; the Directors currently anticipate that this will either be refinanced closer to that time, or repaid from an earlier sale of the asset.

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.

Interest rate risk and hedging

As at 31st December 2010 the summary of the Group's interest rate exposure was as follows:

	Excluding share of joint ventures %	Including share of joint ventures %
Fixed rate	43.8	39.0
Floating rate, swapped into fixed	26.5	30.7
Floating rate with cap	8.6	7.7
Floating rate	21.1	22.6

The weighted average interest rate payable was 5.8 per cent (5.6 per cent including joint ventures).

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.

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 monitors their continuing creditworthiness. There is no current indication that any of the Group's hedging 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 to 31st December 2010 are set out in the note Derivative financial instruments below.

Other financial instrument risks

Development and trading portfolios

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

The current phase in the cycle means that the Group has no major development debtors. 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 year-end was valued at £5.0 million (2009: £5.0 million). The Directors are satisfied that the combination of the Group's risk-averse approach to development funding, its cautious selection of development partners and its focused and active management of each project 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. The Group maintains the portfolio under continuous 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 2010 are set out in the Operating Review.

Projects in partnership

As described in the Operating Review, the Group is conducting an increasing proportion of its business 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 13 below.

The financial instrument risks in respect of projects in partnership are 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. The Directors have increased the resources dedicated to this element of our internal control, and refined the required level of reporting to the Board in this regard.

Contingent liabilities

The Directors ensure that any contingent liabilities 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, which is fully hedged to provide an effective Sterling liability. The details of the Group's sensitivity to exchange rate movements are set out in the Group financial information.

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 31st December 2010.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's review and in the Operating Review. The financial position of the Group, its cash flows, liquidity position, borrowing facilities and financial instrument risks are described in the Financial Review, which also cover 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. The Group financial information gives further information about the Group's financial instruments and hedging activities.

The Group has considerable financial resources. Rental income continues to be robust, with the risk of significant default assessed by the Directors as low. Our development and trading activities are well-diversified across regions and sectors. Our debt finance is secured for appropriate periods and we are comfortable with our covenant positions. As a consequence, 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 of accounting in preparing the financial information.

Result for the year and net asset value
Profit before tax for the year was £2.6 million, an improvement from the prior year loss of £11.4 million. After an unrealised loss of £2.8 million in respect of an interest rate swap, and a small loss on operating property revaluation, Total comprehensive income for the year was a negative £0.7 million (2009: negative £9.0 million).

The investment portfolio produced a contribution of £9.5 million, together with net revaluations of £8.8 million in the direct portfolio and a further £3.4 million in the Manchester Arena Complex joint venture. Profits from development and trading were £5.5 million. Operating costs totalled £12.9 million and net finance costs (including swap revaluations) were £12.8 million.

Other movements in net assets were dividend payments of £3.9 million and the proceeds of the Placing and Rights Issue of £93.7 million, giving a net asset value as at 31st December 2010 of £333.1 million and 272 pence per share (2009: £244.0 million and 297 pence per share). The movement in net asset value is set out in the table below.

	31/12/09	30/06/10	11/08/10 Pro forma following equity raising*	31/12/10
Net assets (£ million)	244.0	238.5	330.2	333.1
Number of shares (million)	82.3	82.3	122.4	122.4
Pence per share	297	290	270	272

*Calculated by adding the net proceeds raised from the Placing and Rights Issue of £93.7 million less the final 2009 dividend of £2.0 million paid in July 2010 to the net asset value as at 30th June 2010.

Net rental income
Gross rental income from the investment portfolio grew by 29 per cent to £12.8 million (2009: £9.9 million), the increase arising from both new investment properties acquired (£1.4 million) and letting and rent review activity on the existing portfolio (£1.5 million). Direct costs reduced to £3.7 million from £4.6 million in 2009, with the net charge within this figure in respect of onerous lease provisions falling from £1.7 million in 2009 to £0.4 million in 2010. As a result net rental income improved to £9.2 million from £5.5 million in 2009.

Trading and development profits
Profits from development and trading activity recovered to £5.5 million, net of abortive costs, from a net breakeven in 2009, with contributions from several projects. The sale of Canon House, Wallington produced a profit of £1.1 million, and a further £1.0 million of profit arose from the premium in respect of the lease surrender at the Wick Site, Littlehampton. The hotel development at West Quay, Southampton generated a profit of £0.7 million (being accounted for as a construction contract under IAS 11), and HDD's sale at Stanground contributed £0.5 million (over and above its fair value on acquisition in March 2010). Rents from the development and trading property portfolio contributed £2.4 million, including £1.1 million from the Weeke Local Centre, Winchester.

Operating costs
Operating costs were £12.9 million, a slight increase from the 2009 figure of £12.8 million. Within these totals, staff costs increased in 2010 by £1.1 million to £7.7 million, principally reflecting the consolidation of HDD since the acquisition in March. The 2009 total included a non-recurring charge of £1.4 million for a capital contribution in respect of a sub-letting.

Net finance costs
Interest income during the year was £1.4 million, slightly above the prior year figure of £1.0 million on higher average cash balances, but continuing to reflect very low deposit rates. Interest payable increased to £10.9 million from £9.1 million in 2009, on higher average borrowings and a slightly higher proportion of fixed rate debt.

Interest payable included a charge of £0.8 million in respect of the revaluation of swap instruments on two loans. During the year both loans were repaid, incurring break costs of £2.9 million, of which £2.1 million had been provided as at 31st December 2009. A further charge of £2.8 million was taken to Other comprehensive income in respect of the cross-currency fixed rate swap relating to the €47 million 2027 Unsecured Subordinated Loan Notes (see note Derivative financial instruments below).

Interest capitalised against development projects was £nil in 2010, compared with a figure of £1.4 million in 2009.

Investment portfolio
The carrying value of investment property increased from £181.0 million in December 2009 to £199.2 million at December 2010.

Details of acquisitions, disposals and valuation movements are set out in note 6(a) below, and further analyses of the management and performance of the portfolio are given in the Operating Review.

Sales of investment properties during the year produced a small net gain of £0.3 million over their fair value as at 31st December 2009.

Inventory – developments and trading properties
As described in the Operating Review, following the equity raises in 2009 and 2010 the Group has acquired a number of sites with potential for redevelopment. Under accounting rules this work in progress is stated not at fair value, but at the lower of cost and net realisable value; hence any improvement in value is reported only on sale. Acquisitions of development and trading assets during 2010 were £89.7 million, with a further £3.2 million added to existing schemes. Included in this were the Rock portfolio at £24.6 million and Westminster Palace Gardens at £10.5 million, as well as HDD projects of a further £23.1 million, including £18.1 million of existing work in progress consolidated on acquisition. Net of disposals during the year, inventory increased by £79.1 million to £157.7 million.

Joint ventures
The increase in the carrying value of investments in joint ventures from £nil in 2009 to £9.7 million in 2010 reflects the Group's 30 per cent share of the Manchester Arena Complex joint venture (MAC), established in July 2010.

MAC reported profit for the six-month period since acquisition of £11.4 million. Key to this level of performance was the revaluation gain, achieved primarily through the regearing of the principal lease. The Group's share of profit after tax was £3.4 million.

The loss of £0.5 million in Curzon Park Limited mainly represented interest on the bank loan. The Group's share of net assets of the joint venture was written down to £nil in 2008. As at 31st December 2010, the Group has a debtor due from the joint venture of £5.0 million, held within Financial assets, and has provided a guarantee for its share of the joint venture's bank loan of £15.6 million, as noted within contingent liabilities.

Financial assets

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 2010 Sterling strengthened slightly against the Euro, decreasing the effective Sterling liability of the loan by £1.4 million and reducing the fair value of the derivative asset by a similar figure. The softening of EURIBOR interest rates over the period caused a further reduction in the value of the swap, such that its total fair value reduced to £3.3 million, from £7.5 million at the previous year end.

Other financial assets
Other financial assets include the Group's participation in the third phase of PaddingtonCentral, which has been revalued by the Directors at £5.0 million (unchanged from the previous year), together with loans to a number of associate companies. During the year the Group advanced a further £2.4 million to CTP, taking the total investment in that company to £14.3 million. New loans were provided to the Cathedral Group (£1.4 million) and Barwood (£1.2 million). The loans to HDD of £9.9 million as at December 2009 are now eliminated on consolidation, following the acquisition of that group during the year.

The representation of the Group's projects in partnership under IFRS is complex, being a mixture of equity and loan instruments. An analysis of the Group's interests and the accounting treatment of each is set out in note 13 below.

Cash and borrowings

		2010	2009
Net debt and gearing			
Gross debt	£m	**(175.5)**	(126.2)

Cash and cash equivalents	£m	**104.1**	80.6
Net debt	£m	**(71.4)**	(45.6)
Net assets	£m	**333.1**	244.0
Gearing	%	**21.4**	18.7
Share of net debt in joint ventures	£m	**(20.8)**	(12.8)
Gearing including joint ventures	%	**27.7**	23.9
Adjusted gearing	%	**12.7**	6.3

The gross debt figure includes the €47 million 2027 Unsecured Subordinated Loan Note facility, stated in Sterling at the current fair value of £40.3 million (2009: £41.7 million), and ignoring the hedging instrument. If these loan notes are removed from borrowings, gearing falls to 12.7 per cent. This is calculated by deducting from net debt the current fair value of £40.3 million (2009: £41.7 million) and adding back relevant restricted cash balances of £10.1 million (2009: £10.3 million) and transaction costs of £1.1 million (2009: £1.1 million).

Taxation

The tax charge for the year was £1.0 million, principally representing an increase in the Group's deferred tax liability of £0.8 million. The Group has significant potential deferred tax asset balances, but the Directors have restricted recognition to the amount of corresponding deferred tax liabilities, as uncertain market conditions do not offer sufficient probability of profits in the foreseeable future within the terms of IAS 12. The charge in the period principally reflects the deferred tax in respect of revaluation gains. There is a corresponding credit of £0.8 million in Other comprehensive income, representing additional recognition of the deferred tax asset.

Dividends

The Board will recommend to shareholders at the Annual General Meeting on 27th May 2011 a final dividend of 2.4 pence per share (2009: 2.4 pence per share) to be paid on 6th July 2011 to shareholders on the register on 3rd June 2011. This final dividend, amounting to £2.9 million, has not been included as a liability at 31st December 2010, in accordance with IFRS. The total dividend for the year will be 4.8 pence per share (2009: 4.8 pence per share).

Earnings/(loss) per share

The basic and diluted earnings per share for the year to 31st December 2010 was 1.7 pence (2009: loss of 16.8 pence on both bases, both restated following the 2010 Placing and Rights Issue).

After removing the unrealised revaluation of the investment portfolio and the mark-to-market adjustment of interest rate swaps, the EPRA adjusted loss per share was 11.8 pence per share (2009: 20.3 pence per share), as set out in note 5.

Performance measures

Key performance indicators are set out below:

Year ended 31st December		**2010**	2009
Net asset value movement	%	**36.5**	51.5
Gearing	%	**21.4**	18.7
Investment property portfolio return as reported under IPD*	%	**15.2**	9.5
Total shareholder return	%	**(32.8)**	27.6

* Quarterly return reported for 2010 as the Annual Return is not published until mid-March 2011.

Consolidated Statement of Comprehensive Income

For the year ended 31st December 2010

	Notes	**2010 £'000**	2009 £'000
Revenue	2	**44,432**	35,070
Direct costs	2	**(31,058)**	(30,883)
Gross profit	2	**13,374**	4,187
Operating costs	2	**(12,907)**	(12,844)
Gain on disposal of investment properties	2	**313**	—

Gain on revaluation of investment property portfolio	6(a)	**8,769**	3,681
Operating profit/(loss)		**9,549**	(4,976)
Other income		**186**	41
Share of post-tax profits/(losses) of joint ventures and associates		**2,914**	(10)
Provision for impairment of joint ventures	7(b)	**—**	(422)
Income from financial assets	11(a)	**—**	503
Loss on sale of other fixed assets		**(32)**	(14)
Profit on sale of investments	7(b)	**—**	221
Profit/(loss) before interest and income tax		**12,617**	(4,657)
Finance income	3(a)	**1,542**	2,065
Finance costs	3(b)	**(11,510)**	(8,795)
Profit/(loss) before income tax		**2,649**	(11,387)
Income tax		**(971)**	693
Profit/(loss) after income tax		**1,678**	(10,694)
Other comprehensive income:			
Loss on revaluation of operating properties		**(310)**	(352)
(Loss)/gain on valuation of cross-currency interest rate swap	11(c)	**(2,819)**	2,794
Deferred income tax credit/(charge)		**761**	(783)
Total comprehensive income for the year attributable to owners of the parent		**(690)**	(9,035)
Basic earnings/(loss) per share*	5	**1.7p**	(16.8)p
Diluted earnings/(loss) per share	5	**1.7p**	(16.8)p

*Adjusted earnings per share from continuing activities is given in note 5.

Consolidated Balance Sheet

As at 31st December 2010

	Notes	**£'000**	**2010 £'000**	£'000	2009 £'000
Non-current assets					
Property, plant and equipment					
– Operating properties		**1,190**		1,580	
– Other plant and equipment		**4,838**		4,212	
– Investment properties	6(a)	**199,237**		181,036	
Intangible assets – goodwill		**1,268**		—	
Other financial assets	11(a)	**27,240**		16,844	
Investments in associates	7	**1,944**		1,500	
Investments in joint ventures	7	**9,718**		—	
Trade and other receivables	9(a)	**2,861**		2,354	
Deferred income tax assets		**5,507**		3,912	
Derivative financial instruments	11(c)	**3,308**		7,473	
			257,111		218,911
Current assets					
Inventory – development and trading properties	8	**157,683**		78,555	
Other financial assets	11(a)	**467**		10,598	
Trade and other receivables	9(b)	**25,780**		23,016	
Cash and cash equivalents		**104,110**		80,574	

			288,040		192,743
Total assets			**545,151**		411,654
Current liabilities					
Trade and other payables	10(a)	**(24,987)**		(28,273)	
Borrowings	11(b)	**(523)**		(12,669)	
			(25,510)		(40,942)
Non-current liabilities					
Borrowings	11(b)	**(174,976)**		(113,533)	
Derivative financial instruments	11(c)	**—**		(2,126)	
Deferred income tax liabilities		**(5,507)**		(3,912)	
Provisions for other liabilities and charges	10(b)	**(6,051)**		(7,122)	
			(186,534)		(126,693)
Total liabilities			**(212,044)**		(167,635)
Net assets			**333,107**		244,019
Equity					
Share capital		**61,176**		41,128	
Share premium		**103,961**		103,961	
Revaluation reserve		**127**		437	
Other reserves		**43,264**		45,322	
Retained earnings		**124,579**		53,171	
Equity attributable to the owners of the parent			**333,107**		244,019
Basic net assets per share	5		**272p**		297p
Diluted net assets per share	5		**272p**		297p

Consolidated Statement of Changes in Equity

For the year ended 31st December 2010

	Notes	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1st January 2009		20,302	109,907	44,164	(13,328)	161,045
Loss for the year ended 31st December 2009		—	—	—	(10,694)	(10,694)
Other comprehensive income:						
Loss on revaluation of operating properties		—	—	(352)	—	(352)
Gain on valuation of cross-currency interest rate swap	11(c)	—	—	2,794	—	2,794
Deferred income tax charged directly to equity		—	—	(783)	—	(783)
Total comprehensive income for the year ended 31st December 2009		20,302	109,907	45,823	(24,022)	152,010
Share-based payments		—	—	(64)	—	(64)
Net proceeds of issue of new shares		20,826	(5,946)	—	79,141	94,021
Final dividend relating to 2008	4	—	—	—	(974)	(974)
Interim dividend relating to 2009	4	—	—	—	(974)	(974)
Balance at 31st December 2009		41,128	103,961	45,759	53,171	244,019
Profit for the year ended 31st December 2010		—	—	—	1,678	1,678
Other comprehensive income:						
Loss on revaluation of operating properties		—	—	(310)	—	(310)
Loss on valuation of cross-currency interest rate swap	11(c)	—	—	(2,819)	—	(2,819)
Deferred income tax credited directly to equity		—	—	761	—	761
Total comprehensive income for the year ended 31st December 2010		41,128	103,961	43,391	54,849	243,329

Net proceeds of issue of new shares		20,048	—	—	73,678	93,726
Final dividend relating to 2009	4	—	—	—	(1,974)	(1,974)
Interim dividend relating to 2010	4	—	—	—	(1,974)	(1,974)
Balance at 31st December 2010		61,176	103,961	43,391	124,579	333,107

Consolidated Cash Flow Statement

For the year ended 31st December 2010

	Note	**2010 £'000**	2009 £'000
Cash flows from operating activities	12	**(69,805)**	3,529
Cash (used in)/from operations:			
Capitalised interest charged to direct costs		**—**	2,084
Interest paid		**(13,831)**	(9,897)
Income tax paid		**(867)**	(75)
Net cash used in operating activities		**(84,503)**	(4,359)
Cash flows from investing activities:			
Interest received		**1,065**	741
Proceeds on disposal of plant and equipment		**200**	27
Proceeds on disposal of investment properties		**25,005**	—
Purchase of plant and equipment		**(1,479)**	(1,263)
Purchase of investment properties		**(34,124)**	(43,307)
Purchase of investments in joint ventures and associates		**(7,062)**	(1,500)
Purchase of subsidiary, net of cash acquired		**(1,574)**	—
Investment in financial assets		**(11,770)**	(3,228)
Cash outflow from joint ventures		**—**	(54)
Net cash used in investing activities		**(29,739)**	(48,584)
Cash flows from financing activities:			
Dividends paid		**(3,948)**	(1,948)
Issue of new shares (net of transaction costs)		**93,726**	94,021
Repayments of borrowings		**(48,289)**	(36,533)
New bank loans raised		**95,661**	18,189
Net cash from financing activities		**137,150**	73,729
Net increase in cash and cash equivalents		**22,908**	20,786
Cash and cash equivalents at the beginning of the year		**80,564**	60,352
Net foreign currency differences arising on retranslation of cash and cash equivalents		**(193)**	(574)
Cash and cash equivalents at the end of the year		**103,279**	80,564
Cash and cash equivalents comprise:			
Cash at bank and in hand		**77,114**	63,198
Pledged cash held as security against financial liabilities		**26,996**	17,376
Cash and short-term deposits		**104,110**	80,574
Bank overdrafts		**(831)**	(10)
Cash and cash equivalents at the end of the year		**103,279**	80,564

	2010 £'000	2009 £'000

Net debt comprises:		
Cash and short-term deposits	**104,110**	80,574
Financial liabilities:		
Current borrowings	**(523)**	(12,669)
Non-current borrowings	**(174,976)**	(113,533)
Net debt	**(71,389)**	(45,628)

Notes to the Consolidated Financial Information

For the year ended 31st December 2010

1 Basis of preparation and accounting policies

a)

(i) General information

This financial information has been extracted from the Annual Report and audited financial statements for the year ended 31st December 2010, which were authorised by the Board for issue on 1st March 2011.

This information does not constitutes statutory accounts within the meaning of s434 of the Companies Act 2006.

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 information as discussed in the Financial Review.

b) Basis of preparation

The Group's financial information 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 31st December 2010 and applied in accordance with the Companies Act 2006 as applicable to companies reporting under IFRS. Except as described below, the accounting policies applied in this financial information are consistent with those of the Group's annual financial statements for the year ended 31st December 2009.

The Consolidated financial statements have been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through the Statement of Comprehensive Income.

The preparation of financial statements, in conformity with IFRS, requires the use of critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Consolidated financial statements, are disclosed in note 1(c).

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.

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

The Group earns revenue from property development, trading and investment. 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 larger 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.

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 principal purpose on acquisition. A change in classification would be made only in exceptional circumstances, where the strategy has demonstrably changed for a period of over one year (e.g. an asset originally acquired for development and resale might be held for investment purposes).

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. 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 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 13.

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 subsidiary, and whether the subsidiary has its own staff to manage the property (over and above the maintenance and security of the premises).

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. The hotel development at West Quay, Southampton, and the office at CityPark in Manchester are characterised as construction contracts (under IAS 11), whereby revenue is reported in line with construction progress.

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 105-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 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 and in the Financial Review.

In view of operating losses at ECC, the Group's serviced office subsidiary, the Group has conducted an impairment review of its investment in the business. The review requires significant judgement about customer demand and competitor behaviour. The Directors are satisfied that there is no impairment to the business.

Estimates
The key source of estimation uncertainty rests in the values of property assets, which significantly affects several categories of asset in the Balance Sheet. The investment property portfolio is carried 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 note 6(b).

The same uncertainties affect the determination of fair value of certain available-for-sale financial instruments, 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 8.

In March 2010 the Group acquired the entire share capital of Henry Davidson Developments Limited. IFRS 3R requires the Group to estimate the fair value of the assets and liabilities acquired, which demands an assessment of the value of land and work-in-progress for a number of projects whose outcomes are uncertain. The resulting goodwill is monitored for impairment, requiring a regular update of this calculation. At 31st December 2010 the fair value assessment was revisited (as permitted by IFRS 3R), in the light of events since the acquisition which have shed more light on circumstances prevailing as at the acquisition date.

The Group is party to a number of interest rate swap and foreign currency agreements which are required by IAS 39 to be carried in the Balance Sheet at fair value. The estimation of this figure is based upon market assumptions about future movements in interest and exchange rates.

The Group has significant deferred 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 Group has made provision against the cost of onerous lease obligations. In each case the Group is required to make assumptions about the likelihood, timing and rental levels of future lettings. These provisions are described in note 10(b).

2 Segmental analysis

The segmental information presented, as required for IFRS 8, 'Operating Segments', consistently follows the information provided to the Chief Operating Decision-Maker (CODM) and reflects the three sectors in which the Group is operational. 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 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, except assets of £642,000 (2009: £642,000), which are located in France and The Netherlands. All revenue arises from continuing operations.

				Year ended 31st December 2010
	Investment £'000	Development and trading £'000	Operating £'000	Total £'000
Segment revenue	12,865	27,744	3,823	44,432
Direct costs	(3,682)	(22,258)	(5,118)	(31,058)
Segment result	9,183	5,486	(1,295)	13,374
Operating costs	(3,588)	(9,319)	—	(12,907)
Gain on disposal on investment properties	313	—	—	313

Gain on revaluation of investment property portfolio	8,769	—	—	8,769
Operating profit/(loss)	14,677	(3,833)	(1,295)	9,549
Other income	159	27	—	186
Share of post-tax profits/(losses) of joint ventures	3,416	(502)	—	2,914
Unallocated loss on sale of other fixed assets				(32)
Profit before interest and income tax				12,617
Finance income	826	716	—	1,542
Finance costs	(8,528)	(2,982)	—	(11,510)
Profit before income tax				2,649
Income tax				(971)
Profit after income tax				1,678
Assets and liabilities				
Segment assets	249,335	223,432	7,181	479,948
Unallocated assets				65,203
Total assets				545,151
Segment liabilities	(128,239)	(71,466)	(3,094)	(202,799)
Unallocated liabilities				(9,245)
Total liabilities				(212,044)

A summary of unallocated assets and liabilities is shown below.

Other segment information				
Capital expenditure	34,124	155	543	34,822
Unallocated capital expenditure				781
Depreciation	—	4	482	486
Unallocated depreciation				215
Revenue				
Rental income	12,751	2,439	—	15,190
Operating property income	—	—	3,823	3,823
Project management fees	—	170	—	170
Trading property sales	—	4,923	—	4,923
Other trading property income	—	5,561	—	5,561
Construction contract revenue	—	6,564	—	6,564
Development proceeds	—	8,087	—	8,087
Other income	114	—	—	114
	12,865	27,744	3,823	44,432

In 2010, four transactions with a combined turnover, totalling £22,517,000, individually generated in excess of 10.0 per cent of total revenue and falls within the development and trading segment.

				Year ended 31st December 2009
	Investment £'000	Development and trading £'000	Operating £'000	Total £'000
Segment revenue	10,080	21,390	3,600	35,070
Direct costs	(4,574)	(21,414)	(4,895)	(30,883)
Segment result	5,506	(24)	(1,295)	4,187
Operating costs	(5,089)	(7,755)	—	(12,844)
Gain on revaluation of investment property portfolio	3,681	—	—	3,681
Operating profit/(loss)	4,098	(7,779)	(1,295)	(4,976)
Other income	41	—	—	41
Share of post-tax losses of joint ventures	—	(10)	—	(10)
Provision for impairment of joint ventures	—	(422)	—	(422)
Income from financial assets	—	503	—	503
Unallocated loss on sale of other fixed assets				(14)

Profit on sale of investments	—	221	—	221
Loss before interest and income tax				(4,657)
Finance income	1,745	320	—	2,065
Finance costs	(6,881)	(1,914)	—	(8,795)
Loss before income tax				(11,387)
Income tax				693
Loss after income tax				(10,694)
Assets and liabilities				
Segment assets	217,454	148,613	7,099	373,166
Unallocated assets				38,488
Total assets				411,654
Segment liabilities	(103,727)	(48,321)	(2,561)	(154,609)
Unallocated liabilities				(13,026)
Total liabilities				(167,635)
Other segment information				
Capital expenditure	43,307	—	1,167	44,474
Unallocated capital expenditure				116
Depreciation	—	—	396	396
Unallocated depreciation				145
Revenue				
Rental income	9,948	27	—	9,975
Operating property income	—	—	3,600	3,600
Project management fees	—	974	—	974
Construction contract revenue	—	20,389	—	20,389
Other income	132	—	—	132
	10,080	21,390	3,600	35,070

In 2009, one transaction of £20,389,000 generated in excess of 10.0 per cent of total revenue and falls within the development and trading segment.

	2010 £'000	2009 £'000
Unallocated assets can be analysed as follows:		
Other plant and equipment	**964**	626
Deferred tax asset	**5,507**	3,912
Derivative financial instruments	**3,308**	7,473
Trade and other receivables	**5,250**	2,626
Cash and cash equivalents	**50,174**	23,851
	65,203	38,488
Unallocated liabilities can be analysed as follows:		
Current borrowings	**(17)**	(17)
Trade and other payables	**(3,721)**	(9,097)
Deferred tax liability	**(5,507)**	(3,912)
	(9,245)	(13,026)

3 Finance income and costs

a) Finance income

	2010 £'000	2009 £'000

Interest receivable	**1,389**	1,022
Other finance income	**147**	146
Fair value gain on financial instruments – interest rate caps and collars	**6**	897
Total finance income	**1,542**	2,065

b) Finance costs

	2010 £'000	2009 £'000
Interest on bank loans and other borrowings	**8,740**	6,875
Interest on debenture	**2,200**	2,200
Amortisation of transaction costs	**377**	542
Net foreign currency differences arising on retranslation of cash and cash equivalents	**193**	574
	11,510	10,191
Capitalised interest on development and trading properties	**—**	(1,396)
Net finance cost	**11,510**	8,795

In 2009, interest was capitalised at an average rate of 5.25 per cent. Capitalised interest of £nil (2009: £2,084,000) was written off in the year against gross profit as a result of property disposals. The tax treatment of capitalised interest follows the accounting treatment.

4 Dividends

	2010 £'000	2009 £'000
Declared and paid during the year:		
Equity dividends on Ordinary shares:		
Final dividend for 2009: 2.40 pence per share (2008: 2.40 pence per share)	1,974	974
Interim dividend for 2010: 2.40 pence per share (2009: 2.40 pence per share)	1,974	974
	3,948	1,948
Proposed for approval by shareholders at the Annual General Meeting:		
Final dividend for 2010: 2.40 pence per share (2009: 2.40 pence per share)	2,936	1,974

Subject to approval by shareholders, the final dividend was approved by the Board on 23rd February 2011 and has not been included as a liability or deducted from retained profits as at 31st December 2010. The final dividend is payable on 6th July 2011 to ordinary shareholders on the register at the close of business on 3rd June 2011 and will be recognised in 2011.

On 28th July 2010, 4,110,000 new Ordinary shares of 50 pence each were allotted following a Placing and on 11th August 2010, 35,986,030 new Ordinary shares of 50 pence each were allotted following a Rights Issue. The new shares rank pari passu in all respects with existing shares, including the right to receive dividends and other distributions after issue, save for the interim dividend in respect of the six months ended 30th June 2010.

On 15th July 2009, 41,653,260 new Ordinary shares of 50 pence each were allotted following a Firm Placing and Placing and Open Offer. The new shares rank pari passu in all respects with existing shares, including the right to receive dividends and other distributions after issue, save for the interim dividend in respect of the six months ended 30th June 2009.

5 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.

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/(loss) is the profit/(loss) after taxation excluding investment property revaluations and mark-to-market adjustments on interest rate swaps.

EPRA net assets are the Balance Sheet net assets excluding mark-to-market adjustments on financial instruments used for hedging purposes and deferred taxation on revaluations and is calculated on a fully diluted basis.

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

	2010 £'000	2009 £'000
Profit/(loss)		
Profit/(loss) for the purposes of basic and diluted earnings/(loss) per share	**1,678**	(10,694)
Revaluation surplus (including share of joint venture revaluation surplus)	**(12,063)**	(3,681)
Gain on disposal of investment properties	**(313)**	—
Gain on disposal of trading properties	**(1,133)**	—
Impairment of development land	**—**	2,366
Mark-to-market adjustment on interest rate swaps (including share of joint venture mark-to-market adjustment)	**151**	(897)
EPRA adjusted loss from continuing activities attributable to owners of the Company	**(11,680)**	(12,906)

	2010 '000	2009 '000
Number of shares		
Weighted average number of Ordinary shares for the purposes of earnings/(loss) per share	**98,970**	63,481
Effect of dilutive potential Ordinary shares:		
Share options	**1**	6
Weighted average number of Ordinary shares for the purpose of diluted earnings/(loss) per share	**98,971**	63,487
Basic earnings/(loss) per share (pence)	**1.7p**	(16.8)p
Diluted earnings/(loss) per share (pence)	**1.7p**	(16.8)p
EPRA adjusted loss per share (pence)	**(11.8)p**	(20.3)p
EPRA adjusted diluted loss per share (pence)	**(11.8)p**	(20.3)p

On 28th July 2010, 4,110,000 new Ordinary shares of 50 pence each were allotted following a Placing and on 11th August 2010, 35,986,030 new Ordinary shares of 50 pence each were allotted following a Rights Issue. The weighted average number of Ordinary shares for 2009 has been adjusted accordingly.

Basic net assets per share amounts are calculated by dividing net assets by the number of Ordinary shares in issue at the year-end.

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

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

			2010			2009
	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	**333,107**	**122,352**	**272**	244,019	82,256	297
Cumulative mark-to-market adjustment on interest rate swaps	**4,303**			3,487		
EPRA adjusted net assets per share	**337,410**	**122,352**	**276**	247,506	82,256	301
Cumulative mark-to-market adjustment on interest rate swaps	**(4,303)**			(3,487)		
Fair value of debt	**7,455**			8,807		
EPRA adjusted triple net assets per share	**340,562**	**122,352**	**278**	252,826	82,256	307
Effect of dilutive potential Ordinary shares	**1,518**	**448**	**—**	1,350	418	—
Diluted net assets per share	**334,625**	**122,800**	**272**	245,369	82,674	297
EPRA diluted net assets per share	**338,928**	**122,800**	**276**	248,856	82,674	301
EPRA diluted triple net assets per share	**342,080**	**122,800**	**278**	254,176	82,674	307

6 Property, plant and equipment

a) Investment properties

	Freehold £'000	Long leasehold £'000	Total £'000
At valuation 1st January 2009	131,980	2,104	134,084
Additions:			
– acquisitions	41,728	—	41,728
– capital expenditure	1,579	—	1,579
Disposals	(36)	—	(36)
Surplus on revaluation	3,510	171	3,681
At valuation 31st December 2009	178,761	2,275	181,036
Additions:			
– acquisitions	30,027	—	30,027
– capital expenditure	4,097	—	4,097
Disposals	(24,187)	(505)	(24,692)
Surplus/(deficit) on revaluation	9,084	(315)	8,769
At valuation 31st December 2010	197,782	1,455	199,237

Direct costs of £3,682,000 (2009: £4,574,000) arose as a result of ownership of investment properties.

b) 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.

	2010 £'000	2009 £'000
Market value at 31st December assessed by the independent valuers or Directors	**202,118**	183,677
Amount included in prepayments and accrued income in respect of lease incentives	**(2,881)**	(2,641)
Net book amount of Investment property at 31st December	**199,237**	181,036

The Group's Investment properties have been valued at 31st December 2010 and 2009 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 or Ryden LLP, Commercial Property Consultants at a value of £168,399,000 (2009: £153,938,000).

Land held as investment property has been valued by Colliers CRE, Chartered Surveyors at £12,400,000 (2009: £10,000,000).

Also included within Investment properties are freehold land and buildings representing investment properties under development, amounting to £18,438,000 (2009: £17,098,000), 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 £7,104,000 (2009: £8,682,000) 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.

£145,425,000 (2009: £121,825,000) of Investment properties are charged as security against the Group's borrowings.

7 Investments

	Investments in associates £'000	Investments in joint ventures £'000
At 1st January 2009	—	610
Additions	1,500	43
Transfer to subsidiary	—	(231)
Impairment provision of joint venture	—	(422)
At 31st December 2009	1,500	—
Additions	444	9,718
At 31st December 2010	1,944	9,718

A summary of the Group's projects in partnership and the balance sheet classification of its interests is set out in note 13.

a) Investment in associates

During 2010, the Group acquired 40.0 per cent of the Ordinary shares of Atlantic Park (Bideford) Limited, a company incorporated and registered in the United Kingdom, whose principal activity is investment in strategic land, for £444,000.

During 2009, the Group acquired 25.0 per cent of the Ordinary shares of Barwood Land and Estates Limited, a company incorporated and registered in the United Kingdom, whose principal activity is investment in strategic land, for £1,500,000.

The Group holds a 29.0 per cent interest in Continental Estates Corporation BV, a company incorporated and registered in The Netherlands, whose principal activity is the holding of investments. The equity investment of £256,000 has been provided against in full in previous years.

The Group holds 25.0 per cent of the Ordinary shares of CTP Securities Limited, a company incorporated and registered in the United Kingdom, whose principal activity is property development. The rights granted under the shareholder agreement for this company reflect the status of this investment as an associate. As at 31st December 2009 and 2010, the investment in Ordinary shares has been fully provided against.

Wessex Property Fund is a Jersey property unit trust that was established on 5th April 2006. Its principal activity is to invest in property situated in the south-west of England. As at 31st December 2009 and 2010 the Group held 47.0 per cent of the units in issue. The investment has been fully provided against.

All investments in associates are included within the development and trading segment.

b) Investment in joint ventures

The Group has the following interests in joint ventures:

	% of holding	Country of incorporation	Principal activity	Reporting segment	Joint venture partner
Manchester Arena Complex LP	30	United Kingdom	Investment property	Investment	Patron Capital Partners
Curzon Park Limited	50	United Kingdom	Property development	Development and trading	Grainger PLC
Wimbledon Phoenix Limited	50	United Kingdom	Property development	Development and trading	Foinavon Limited (in administration)

During the year the Group acquired a 30.0 per cent holding in Manchester Arena Complex Limited Partnership (MAC) with its partner, Patron Capital Partners, holding 70.0 per cent of the equity. The company is registered and incorporated in the United Kingdom. The Group's 30.0 per cent holding has been recognised at its share of net assets as at 31st December 2010. MAC is accounted for as a joint venture as both parties jointly control the management of the asset.

During the year the Group provided a further £5,000,000 funding to our Curzon Park Limited joint venture, to enable a partial repayment of the bank loan held within the entity. Our joint venture partner also made a similar contribution. These partial repayments reduced the bank's loan to the joint venture entity to £15,610,000. In turn, the bank extended the loan for a new five-year term, with loan-to-value testing suspended for three years.

The joint venture acquired the 10.5-acre Curzon Street site in Birmingham in November 2006. In March 2010, the Government published a paper outlining the proposed High Speed Rail Link between London and Birmingham (HS2), which indicates that the planned route passes through the site. The Group, together with its joint venture partner, has put on hold plans for development while it awaits the Government's proposals for taking the project forward. The proposed route may restrict development by approximately two-thirds of its original potential. Due to the uncertainty surrounding the project, the Group has provided for its share of net assets.

During 2009, the Group's joint venture partners withdrew from Hammersmith Central Unit Trust resulting in a profit of £221,000. Hammersmith Central Unit Trust is now accounted for as a subsidiary undertaking.

The Group's joint venture partner in Wimbledon Phoenix Limited, Foinavon Limited, went into administration on 26th August 2009 at which time the Directors considered the investment in joint venture to be impaired and made a full provision. On 14th February 2011, the Group acquired the 50.0 per cent share capital previously held by Foinavon Limited. The Group has provided for its share of net assets due to the uncertainty surrounding the project.

8 Inventory – development and trading properties

	Development properties £'000	Trading properties £'000	Total inventory £'000
At 1st January 2009	17,347	42,018	59,365
Additions:			
– acquisitions	19,550	2,838	22,388
Disposals	(746)	(86)	(832)
Write-down of development and trading properties to net realisable value	(818)	(1,548)	(2,366)
At 31st December 2009	35,333	43,222	78,555
Additions:			
– acquisitions	34,430	37,168	71,598
– acquired through business combination	18,114	—	18,114
– development expenditure	3,180	—	3,180
Disposals	(11,386)	(2,378)	(13,764)
Transfer from trading to development properties	4,507	(4,507)	—
At 31st December 2010	84,178	73,505	157,683

Included in the above amounts are projects stated at net realisable value, being development and trading properties of £42,947,000 (2009: £38,552,000).

Net realisable value has been estimated by the Directors, taking account of our 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. The write down of £2,366,000 in 2009 was in respect of the reduced market value estimates of certain development and trading properties.

Capitalised interest on development and trading properties to date is £615,000 (2009: £615,000).

No interest was capitalised on development and trading properties during the year.

9 Trade and other receivables

a) Non-current

	2010 £'000	2009 £'000
Prepayments and accrued income	**2,861**	2,354

b) Current

	2010 £'000	2009 £'000
Trade receivables	**10,750**	3,718
Amounts due from customers for contract work	**3,109**	—
Other receivables	**4,756**	15,791
Other taxation recoverable	**3,372**	260
Prepayments and accrued income	**3,793**	3,247
	25,780	23,016

The Group has provided £72,000 (2009: £104,000) for outstanding balances where recovery is considered doubtful. Apart from the receivables that have been provided for, there are no other material receivables passed due but not impaired at the year end and relate to customers with no recent history of default.

10 Trade and other payables

a) Current

	2010 £'000	2009 £'000
Trade payables	**1,027**	244
Other payables	**6,387**	9,600
Current income tax	**660**	131
Other tax and social security	**1,625**	6,867
Accruals and deferred income	**15,288**	11,431
	24,987	28,273

b) Non-current – provisions

	2010 £'000	2009 £'000
At 1st January	**7,122**	5,982
Utilised during the year	**(1,801)**	(1,843)
Charged to the Statement of Comprehensive Income in the year	**730**	2,983
At 31st December	**6,051**	7,122

Provisions of £775,000 (2009: £1,114,000) relate to properties and £5,276,000 (2009: £6,008,000) to onerous leases.

The property provisions arose from residual liabilities on completed development projects where the Group was responsible for certain development costs in prior years. The provisions include estimated costs, the timing and amount of which are currently uncertain.

The onerous lease provision has arisen from four lease obligations entered into by the Group. A provision of £3,624,000 (2009: £3,100,000) has been made in respect of a lease to Stead & Simpson Limited of which Development Securities PLC is a guarantor. Stead & Simpson Limited was placed into administration on 28th January 2008. The lease was surrendered on 21st January 2011 and the provision represents the final liability due as guarantor. Two provisions of £590,000 (2009: £1,250,000) and £52,000 (2009: £358,000) relate to onerous lease obligations entered into in 1989 and 1975 respectively.

The final provision is in respect of the Group's lease entered into on 19th December 2008 for office premises at One Kingdom Street, PaddingtonCentral. On 23rd December 2009, a lease was signed to sublet the office at PaddingtonCentral to MWB Business Exchange Plc, thereby facilitating a letting of the entire floor to this serviced office operator. The provision of £1,010,000 (2009: £1,300,000) relates to the shortfall in rent over the 15-year lease term.

11 Financial assets and financial liabilities

a) Other financial assets

Non-current	2010 £'000	2009 £'000
Available-for-sale financial assets	**18,726**	8,330
Loan notes at amortised cost	**8,514**	8,514
	27,240	16,844

Available-for-sale financial assets comprise:	2010 £'000	2009 £'000
Development participation	**5,000**	5,000
Development loans to joint ventures	**13,726**	3,330
	18,726	8,330

Development participation represents the Group's risk capital invested alongside our partners in one of our development schemes. The fair value of the participation is assessed by reference to the stage of completion of the project and progress on construction and lettings. The second phase of PaddingtonCentral was completed in 2008, and the participation was returned to the Group together with the related interest and profit share. In accordance with the agreement with our funding partner, the Group immediately reinvested £5,000,000 in the next phase, Two Kingdom Street.

Development loans to joint ventures include a number of working capital and project-specific loans of £5,703,000 (2009: £3,300,000) 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.

Following the renegotiation of the Curzon Park Limited loan facility, the Group provided a £5,000,000 loan to the joint venture in order to repay a share of its bank debt. The joint venture partner provided a similar loan.

During 2010, the Group entered into three further funding agreements totalling £3,023,000 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 (2009: £89,000) are held in Continental Estates Corporation BV, an associate. Interest is earned at a fixed rate of 6.0 per cent. Loan notes with a carrying value of £8,425,000 were issued in November 2007 by CTP Securities Limited, with a term of five years and a fixed coupon rate of 4.25 per cent.

Current	£'000	2010 £'000	£'000	2009 £'000
Available-for-sale financial assets:				
Development participation		**—**		9,881
Loans and receivables:				
CTP Securities Limited	**200**		200	
Fiducia Group Limited	**—**		250	
Other	**267**		267	
		467		717
		467		10,598

As at 31st December 2009, £9,881,000 funds had been advanced for development funding to the Henry Davidson Developments (HDD) companies and an additional £250,000 was advanced to Fiducia Group, the former parent of HDD, by way of a loan earning a fixed coupon rate of 5.0 per cent. During 2009 the Group received £503,000 in respect of HDD's profit share arrangements.

On 29th March 2010, the Group acquired 100.0 per cent of the shares in HDD. As at 31st December 2010, the assets and liabilities of the HDD entities acquired have been fully consolidated within the Group financial information.

The Group provided two loans totalling £267,000 (2009: £267,000) to third parties by way of development funding. These are carried at cost.

In 2009, the Group provided a short-term, non-interest-bearing facility of £200,000 to CTP Securities Limited.

b) Borrowings

Current	£'000	2010 £'000	£'000	2009 £'000
Bank overdrafts		**831**		10
Current instalments due on bank loans	**17**		12,987	
Unamortised transaction costs	**(325)**		(328)	
		(308)		12,659
		523		12,669

Non-current	2010 £'000	2009 £'000
First mortgage debenture 11% due 2016	**20,000**	20,000
Bank loans and loan notes	**157,037**	94,902
Unamortised transaction costs	**(2,061)**	(1,369)
	174,976	113,533

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

c) Derivative financial instruments

	2010 £'000	2009 £'000
Cash flow hedges: cross-currency interest rate swap	**3,302**	7,473
Derivative financial instruments at fair value through the Statement of Comprehensive Income:		
Interest rate caps and collars	**6**	(2,126)

At 31st December 2010, 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 (fixed at a rate of €1.43:£) and Euro currency exposure from the loan notes. 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 effective. The mark-to-market movement in the foreign currency leg of the swap of £1,352,000 (2009: £3,231,000) has been recycled through the Statement of Comprehensive Income to offset the re-translation of the €47,000,000 loan. The mark-to-market movement on the interest leg of this swap of £2,819,000 loss (2009: £2,794,000 gain) is included within the net unrealised gain/(loss) reserve in equity.

At 31st December 2010, the Group held interest rate caps and swaps 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 £6,565,000 (2009: £30,952,000). The fair value of the derivatives £6,000 is recorded as a financial asset at 31st December 2010 (2009: £2,126,000 liability) with the fair value gain/(loss) taken to finance costs.

12 Note to the cash flow statement

Reconciliation of operating profit/(loss) to net cash (outflow)/inflow from operating activities

	2010 £'000	2009 £'000
Profit/(loss) before income tax	**2,649**	(11,387)
Adjustments for:		
Gain on disposal of investment properties	**(313)**	—
Net gain on revaluation of property portfolio	**(8,769)**	(3,681)
Other income	**(186)**	(41)
Share of post-tax (profits)/losses of joint ventures and associates	**(2,914)**	10

Provision for impairment of joint ventures	**—**	422
Income from financial assets	**—**	(503)
Loss on sale of other fixed assets	**32**	14
Profit on sale of investments	**—**	(221)
Finance income	**(1,542)**	(2,065)
Finance costs	**11,510**	8,795
Depreciation of property, plant and equipment	**701**	541
Operating cash flows before movements in working capital	**1,168**	(8,116)
Increase in development and trading properties	**(61,014)**	(20,628)
(Increase)/decrease in receivables	**(570)**	25,975
(Decrease)/increase in payables	**(8,318)**	5,158
(Decrease)/increase in provisions	**(1,071)**	1,140
Cash flows from operating activities	**(69,805)**	3,529

13 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	**2010 £'000**	2009 £'000
Barwood Land and Estates Limited	Strategic land investment	Investment in associates	**1,500**	1,500
		Financial assets	**1,178**	—
Atlantic Park (Bideford) Limited	Strategic land investment	Investment in associates	**444**	—
Wessex Property Fund	Property investment	Investment in associates	**—**	—
CTP Securities Limited	Property development	Investment in associates	**—**	—
		Financial assets	**14,328**	11,955
Continental Estates Corporation BV	Holding of investments	Investment in associates	**—**	—
		Financial assets	**89**	89
Manchester Arena Complex LP	Investment property	Investment in joint ventures	**9,718**	—
Curzon Park Limited	Property development	Investment in joint ventures	**—**	—
		Financial assets	**5,000**	—
Wimbledon Phoenix Limited	Property development	Investment in joint ventures	**—**	—
Beyond Green Developments	Property development	Development properties	**4,516**	2,916
Wessex Investors	Property development	Development properties	**3,121**	—
Grantham Associates	Hotel operator	Trading property	**4,215**	—
Orion Shepherds Bush Limited	Property development	Financial assets	**408**	—
Cathedral (Greenwich Village) LLP	Property development	Financial assets	**1,437**	—
Henry Davidson Developments Group	Property development	Financial assets	**—**	10,131
			45,954	26,591

The aggregate amounts included within each relevant Balance Sheet account are as follows:

	2010 £'000	2009 £'000
Investment in associates	**1,944**	1,500
Investment in joint ventures	**9,718**	—
Financial assets – current	**200**	10,331
Financial assets – non-current	**22,240**	11,844
Development properties	**7,637**	2,916
Trading properties	**4,215**	—
	45,954	26,591

14 Post balance sheet events

Since the balance sheet date the Group has entered into the following significant contracts:

In January 2011, the Group acquired an investment property in Watford, Hertfordshire for £4,250,000. In February 2011, the Group acquired a residential property in Sandbanks, Dorset for £5,000,000.

In February 2011, the Group acquired 50 per cent of the share capital of Wimbledon Phoenix Limited for £nil consideration.

15 Glossary

- Operating profit/(loss): 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 and capital gains or losses from disposals and revaluation surpluses or deficits, divided by the average capital employed during the financial period, as defined and measured by Investment Property Databank Limited, a company that produces independent benchmarks of property returns.
- 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.
- EPRA is the European Public Real Estate Association.
- EPRA earnings is the profit after taxation excluding investment property revaluations (including revaluations of joint venture investment properties), gains/(losses) on disposals of investment and trading properties, 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 the 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 diluted number of shares at the period end.
- EPRA triple net assets is the EPRA NAV adjusted to reflect the fair value of debt and derivatives and to include deferred taxation on revaluations.