

# **McKay Securities PLC**

---

Interim Report 2003

# McKay Securities PLC

## Directors and Company Information

### Directors

E. S. G. Lloyd F.C.A.  
Chairman

S. C. Perkins BSc, M.R.I.C.S.  
Managing Director

A. S. Childs  
Finance Director

S. R. Mew DipPropInv., M.R.I.C.S.  
Director

S. Morrice MSc, M.R.I.C.S.  
Director

I. A. McKay  
Non-executive

J. R. Chilton  
Non-executive

M. J. C. Hawkes F.R.I.C.S.  
Senior non-executive

I. C. Menzies, M.A., C.A.  
Non-executive

### Secretary

A. S. Childs

### Registered Office

20 Greyfriars Road  
Reading  
Berkshire RG1 1NL

### Registered Number

421479

### Registered Auditor

KPMG Audit Plc  
*Chartered Accountants*  
Arlington Business Park  
Theale  
Reading  
Berkshire RG7 4SD

### Registrar and Transfer Office

Lloyds TSB Registrars  
The Causeway  
Worthing  
West Sussex BN99 6DA  
Tel: 01903 502541  
Fax: 01903 854031

McKay Securities PLC is a property development and investment company which develops and refurbishes buildings of quality for its own portfolio, which it retains for long term investment. These include office, warehouse and industrial schemes which are concentrated mainly in the high growth areas of the West End and City of London, M25 and South East of England and other prime locations.

The Group, which has a portfolio value of over £202 million, does not trade or deal in its properties and therefore there is a hardcore rental stream underpinning profits growth which is further secured from time to time by the sale of investment properties. This policy has rewarded shareholders with above average growth in capital value, earnings and dividend distributions over many years.

## Financial Highlights

- Pre-tax profit adjusted to exclude property sales up 6.7% to £3,576,000 (2002 – £3,352,000)
- Interim dividend up 6.9% to 3.1 pence per share (2002 – 2.9 pence per share)
- Limited sales programme generating profit over book value of £128,000 (2002 – £1,359,000)
- Pre-tax profit, including property sales, down 21% to £3,704,000 (2002 – £4,711,000)
- Income from investment properties up 7.2% to £6,559,000 (2002 – £6,117,000)
- Diluted operating earnings per share 5.22p (2002 – 5.21p)
- Adjusted net asset value per share 281p (2002 – 288p)
- Net debt gearing as at 30th September of 60% (2002 – 60%)
- Weighted average cost of borrowing of 5.3% (2002 – 5.4%)

# McKay Securities PLC

## Chairman's Statement

### Results for the six months to 30th September 2003

**Pre-tax profit for the half year was £3,704,000 compared with £4,711,000 for the same period in 2002. Contributing to this was profit from the sale of investment properties of £128,000 compared with £1,359,000 in 2002.**

**At operating level, after charging interest and excluding property sales, profit increased to £3,576,000 from £3,352,000 last year. Net income from investment properties increased to £6,559,000 from £6,117,000.**

**The Directors have declared an interim dividend of 3.1p (2002 - 2.9p) payable on 15th January 2004 to shareholders on the register at the close of business on 19th December 2003.**

### Review

The 6.7% increase in operating profit reflects the good progress made so far this year within the Group's investment portfolio, where pro-active management of the properties has seen net income increase by 7.2%.

Rent reviews agreed during the period at Runnymede, Staines and St. Mary's Butts, Reading have added income totalling £300,000 per annum. The major proportion of this is from the Runnymede Distribution Centre, let to BAA Worldwide Duty Free, where the high level of demand for warehouse properties close to Heathrow Airport has seen the rent increase on review by £246,000 per annum (49%). Further income has been generated from new lettings completed at the end of last year, and so far this year at Bristol, Thatcham and at Bicester which is now fully let. There continues to be active interest in the remaining two buildings at Crawley and at Hook; the letting of these properties, which together total 5,545 sq m, is likely to add income of £1.1 million per annum and take the occupancy level within the entire portfolio from 88% to 95% by rental value.

The sale of investment properties during the half year has been limited to the disposal of part of Summers Road, Burnham, where we have taken advantage of strong demand for small freehold properties and split this office building into three self-contained units. Profit over book value on sales for the corresponding period last year was substantially higher, acting as a reminder that these profits will vary from year to year. Properties are held for their rental income, which represents the core income of the Group, until they are either considered to be ex-growth or the opportunity exists to unlock significant value.

The low cost of finance, and the continuing strong demand for investment property as an asset class, has helped push the price of potential acquisitions to levels where it is difficult to see scope to add value. Rather than pursue a market that is only just beginning to show signs of more reasonable pricing, we have held back the funds available for acquisitions and concentrated on opportunities within the existing portfolio to add value through development, refurbishment and active management.

In this regard, good progress has been made with the redevelopment at Wimbledon where works began in July. The new building, which is to be called Wimbledon Gate, is being constructed to a high specification, and is to be clad in granite with a double height reception area. It will total 5,435 sq m over six floors and is due for completion in March 2005. In addition, the decision has been taken to proceed with the development of Old Queen Street, SW1 (offices - 2,004 sq m) where notices have been served on tenants to enable works to commence in June 2004 with completion in autumn 2005. When complete, both buildings will provide prospective occupiers with office floor space of the highest quality, well located in attractive established markets.



As part of the refurbishment programme, work has been carried out at Castle Lane, SW1 (offices - 1,300 sq m). This stand-alone period building was acquired in September 2000 with the objective of adding value by increasing low base rents, and we have good interest in much of this space at encouraging rental levels. In addition, the second floor of Portsoken House, EC3 has been upgraded and is now being marketed, and at Newminster House, Bristol, our policy of installing air conditioning has continued to improve the income stream from this building, with the letting of the final floor now imminent.

### **Financial Position**

Net debt as at 30th September 2003 was £73.2 million (2002 - £73 million) representing 60% of shareholders' funds. Total available facilities amount to £103 million.

An additional hedging instrument covering £20 million of debt has been completed, taking the total covered to £45 million. When taken together with loans secured on fixed rates, 51% of the available debt is protected against interest rate increases over certain levels.

### **Board and Management Changes**

With this, my first statement to shareholders as incoming Chairman, I would like to reiterate my vote of thanks at this year's AGM to my predecessor, Iain McKay, who had been Chairman of the Group since 1986. His close support and efforts on behalf of the Group over many years have assisted enormously in the substantial progress that has been made during this time and we are immensely grateful to him. I am delighted that he has agreed to remain on the Board as a non-executive director.

I would also like to welcome to the board Steven Morrice who was appointed a director in August 2003. Steven joined us in July 2002 and is responsible for the development programme.

### **Future prospects**

There are signs within the property market that demand from tenants for additional floor space is beginning to pick up; indications within the economy for a continuation of this trend are generally more encouraging than in the recent past. On completion of Wimbledon Gate and Old Queen Street in 2005, take up over the intervening period will have reduced the general supply available, creating upward pressure on rental levels. The pace of growth in the Group's fortunes will be dependent on the timing of the letting of these two properties, together with the other completed developments. However, when these lettings occur they will have a significant impact on future results and on account of the quality and location of the properties involved, your Board remains optimistic that the Group is well placed to generate strong future growth as the market picks up.

**E. S. G. Lloyd** Chairman

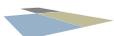
11th December 2003

# McKay Securities PLC

## Consolidated Profit and Loss Account

### Six months to 30th September 2003

	6 months to 30th September 2003 (Unaudited) £'000	6 months to 30th September 2002 (Unaudited) £'000	12 months to 31st March 2003 (Audited) £'000
Gross rents and service charges receivable	8,729	8,125	16,666
Direct property outgoings	(2,170)	(2,008)	(4,283)
Income from investment properties	6,559	6,117	12,383
Administration costs	(1,173)	(1,361)	(2,586)
Operating profit	5,386	4,756	9,797
Share of operating profit of associated undertakings	92	108	189
Profit on disposal of investment properties	128	1,359	1,755
Profit on ordinary activities before interest and taxation	5,606	6,223	11,741
Net interest payable	(1,902)	(1,512)	(3,339)
Profit on ordinary activities before taxation	3,704	4,711	8,402
Taxation	(1,218)	(1,242)	(1,975)
Profit on ordinary activities after taxation	2,486	3,469	6,427
Special dividend paid out of capital reserves	—	(9,956)	(9,956)
Dividends	(1,403)	(1,312)	(3,892)
Net (reduction)/increase in reserves	1,083	(7,799)	(7,421)
Transfer to capital reserve on disposal of properties	(123)	(1,115)	(1,425)
Transfer from capital reserve for distribution to shareholders	—	9,956	9,956
Net amount transferred to Profit and Loss Account Reserve	960	1,042	1,110
Earnings per share (note 3)			
Basic	5.49p	8.46p	14.90p
Diluted	5.49p	7.68p	14.20p
Adjusted earnings per share (note 3)			
Basic	6.50p	9.15p	15.47p
Diluted	6.50p	8.30p	14.74p
Operating earnings per share (note 3)			
Basic	5.22p	5.74p	11.60p
Diluted	5.22p	5.21p	11.05p
Adjusted operating earnings per share (note 3)			
Basic	6.23p	6.43p	12.17p
Diluted	6.23p	5.83p	11.59p
Dividend per share – interim	3.1p	2.9p	8.6p
– special	—	22.0p	—



# Consolidated Balance Sheet

## As at 30th September 2003

	As at 30th September 2003 (Unaudited) £'000	As at 30th September 2002 (Unaudited) £'000	As at 31st March 2003 (Audited) £'000
<b>Fixed assets</b>			
Tangible assets – properties and other fixed assets	202,544	202,108	200,911
Investments	4,028	2,136	2,294
	<u>206,572</u>	<u>204,244</u>	<u>203,205</u>
<b>Current assets</b>			
Debtors	2,970	7,525	6,285
Cash	2,337	1,563	3,414
	<u>5,307</u>	<u>9,088</u>	<u>9,699</u>
<b>Creditors</b>			
Amounts falling due within one year	(13,773)	(11,817)	(13,511)
<b>Net current liabilities</b>	<u>(8,466)</u>	<u>(2,729)</u>	<u>(3,812)</u>
<b>Total assets less current liabilities</b>	<u>198,106</u>	<u>201,515</u>	<u>199,393</u>
<b>Creditors</b>			
Amounts falling due after one year	(70,445)	(71,185)	(74,515)
<b>Provisions for liabilities and charges</b>			
Deferred taxation	(5,675)	(5,515)	(5,454)
	<u>121,986</u>	<u>124,815</u>	<u>119,424</u>
<b>Capital and reserves</b>			
Called up share capital	9,051	9,051	9,051
Share premium account	1,808	1,808	1,808
Revaluation reserve	51,708	57,574	51,027
Other capital reserves	36,049	34,765	35,853
Profit and loss account	23,370	21,617	21,685
<b>Shareholders' funds</b>	<u>121,986</u>	<u>124,815</u>	<u>119,424</u>
<b>Net asset value per share</b>	270p	276p	264p
<b>Effect of FRS 19</b>	11p	12p	12p
<b>Adjusted net asset value per share</b>	281p	288p	276p

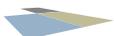


# McKay Securities PLC

## Consolidated Cash Flow Statement

### Six months to 30th September 2003

	6 months to 30th September 2003		6 months to 30th September 2002		Year to 31st March 2003	
	£'000	£'000	£'000	£'000	£'000	£'000
Net cash inflow from operating activities		10,002		1,231		5,962
Dividends received from associated undertaking		—		32		122
Returns on investments and servicing of finance						
Interest received	34		33		136	
Interest paid	(1,893)		(2,187)		(4,211)	
Dividends received	<u>1</u>		<u>1</u>		<u>1</u>	
Net cash outflow from returns on investments and servicing of finance		(1,858)		(2,153)		(4,074)
Taxation						
Corporation tax refund	51		23		42	
Corporation tax paid	<u>(1,199)</u>		<u>(1,255)</u>		<u>(2,657)</u>	
		(1,148)		(1,232)		(2,615)
Capital expenditure						
Purchase and development of investment properties	(2,116)		(2,689)		(8,848)	
Purchase of other fixed assets	(23)		(25)		(62)	
Sales of investment properties	<u>259</u>		<u>7,393</u>		<u>9,125</u>	
Net cash (outflow)/inflow for capital expenditure		(1,880)		4,679		215
Equity dividends paid		<u>(2,580)</u>		<u>(12,051)</u>		<u>(13,364)</u>
Cash inflow/(outflow) before financing		2,536		(9,494)		(13,754)
Financing						
(Decrease)/increase in debt		<u>(3,613)</u>		<u>9,494</u>		<u>15,605</u>
(Decrease)/increase in cash		<u>(1,077)</u>		<u>—</u>		<u>1,851</u>



## Consolidated Cash Flow Statement

### Six months to 30th September 2003

	At	Movement in period		At
	30th September 2003 £'000	Cash flow £'000	Non- Cash £'000	31st March 2003 £'000
Cash at bank	2,337	(1,077)	—	3,414
Debt due within one year	(5,123)	(452)	(6)	(4,665)
Debt due after one year	(70,445)	4,065	5	(74,515)
	<u>(73,231)</u>	<u>2,536</u>	<u>(1)</u>	<u>(75,766)</u>

	At	Movement in period		At
	30th September 2002 £'000	Cash flow £'000	Non- Cash £'000	31st March 2002 £'000
Cash at bank	1,563	—	—	1,563
Debt due within one year	(422)	9,041	—	(9,463)
Debt due after one year	(71,185)	(18,535)	—	(52,650)
	<u>(70,044)</u>	<u>(9,494)</u>	<u>—</u>	<u>(60,550)</u>

## Notes to the Interim Statement

### Six months to 30th September 2003

- The Group's properties were not revalued at 30th September 2003. The Consolidated Balance Sheet reflects the values as at 31st March 2003 adjusted for additions and disposals during the period, and any adjustments required by UITF 28.
- The results for the year to 31st March 2003 have been extracted from the full accounts for the year which received an unqualified auditors' report and which have been lodged with the Registrar of Companies.

#### 3. Earnings per share

Basic earnings per share on ordinary shares are based on profit after tax of £2,485,490 (2002 – £3,469,204) and 45,255,555 (2002 – 41,001,453) shares, being the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share are based on the same profit after tax and on the weighted average number of shares in issue during the period of 45,284,371 (2002 – 45,167,566), which takes into account the number of potential ordinary shares arising from the exercise of share options and the number of capital shares in issue that could be converted to ordinary shares.

Operating earnings of £2,362,204 (2002 – £2,354,048) exclude the profits (net of tax) on the sale of investment properties, investments and other income; operating earnings per share are calculated on the basis of the same number of shares in issue as for earnings per share noted above.

# McKay Securities PLC

## Notes to the Financial Statements

### Six months to 30th September 2003

#### 3. Earnings per share continued

Reconciliation of earnings per share to diluted earnings per share:

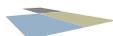
		EPS 2003 p	EPS 2002 p
Weighted number of ordinary shares in issue	45,255,555	5.49	8.46
Weighted number of capital shares in issue	—	—	(0.77)
Number of shares under option	550,697	(0.07)	(0.05)
Number of shares that would have been issued at fair value	(521,881)	0.07	0.04
	<u>45,284,371</u>	<u>5.49</u>	<u>7.68</u>

	30th September 2003		30th September 2002	
	Basic p	Diluted p	Basic p	Diluted p
Earnings per share	5.49	5.49	8.46	11.44
Effect of FRS 19	1.01	1.01	0.69	1.31
Adjusted earnings per share	<u>6.50</u>	<u>6.50</u>	<u>9.15</u>	<u>12.75</u>
Earnings per share	5.49	5.49	8.46	7.68
Property sales after taxation	(0.27)	(0.27)	(2.72)	(2.47)
Operating earnings per share	5.22	5.22	5.74	5.21
Effect of FRS 19	1.01	1.01	0.69	0.62
Adjusted operating earnings per share	<u>6.23</u>	<u>6.23</u>	<u>6.43</u>	<u>5.83</u>

Operating earnings per share have been disclosed to show earnings that reflect the core operating activities of the Group.

Adjusted earnings per share exclude the deferred tax provided in accordance with FRS 19, on capital allowances on properties in development and completed investment properties, where no tax payment is expected to crystallise. Where on the sale of an investment property, the agreed value for the plant and machinery disposed of is less than original cost, there is a release of part of the provision. However, in practice it is expected that the full capital allowance provision would be released.

4. The Interim Statement is being posted to all shareholders today. Copies are available to members of the public from the Company's registered office at 20 Greyfriars Road, Reading, Berkshire RG1 1NL, and on the Company's website at [www.mckaysecurities.plc.uk](http://www.mckaysecurities.plc.uk).



# Other Primary Statements

## Six months to 30th September 2003

### Consolidated Statement of Total Recognised Gains and Losses

	30th September 2003 £'000	30th September 2002 £'000	31st March 2003 £'000
Profit for the period	2,486	3,469	6,427
Unrealised deficit on revaluation of properties	(314)	(237)	(5,940)
Unrealised surplus on revaluation of properties in associated undertaking	1,800	24	—
Taxation on previously recognised gains	(7)	(631)	(673)
Total recognised gains for the period	<u>3,965</u>	<u>2,625</u>	<u>(186)</u>

### Consolidated Historical Cost Profits and Losses

Reported profit before taxation	3,704	4,711	8,402
Realisation of property revaluation surpluses of previous years	157	3,754	4,597
	<u>3,861</u>	<u>8,465</u>	<u>12,999</u>
Historical cost profit/(loss) for period retained after taxation and dividends	<u>1,233</u>	<u>(4,676)</u>	<u>(3,497)</u>

### Consolidated Reconciliation of Movements in Shareholders' Funds

Profit for the period	2,486	3,469	6,427
Dividends	(1,403)	(11,268)	(13,848)
	1,083	(7,799)	(7,421)
Unrealised deficit on revaluation of properties	(314)	(237)	(5,940)
Unrealised surplus on revaluation of properties in associated undertaking	1,800	24	—
Taxation on previously recognised gains	(7)	(631)	(673)
	2,562	(8,643)	(14,034)
Opening shareholders' funds	119,424	133,458	133,458
Closing shareholders' funds	<u>121,986</u>	<u>124,815</u>	<u>119,424</u>



## **McKay Securities PLC**

20 Greyfriars Road, Reading, Berkshire RG11NL  
T: 0118 950 2333 F: 0118 939 1393