



# **McKay Securities PLC**

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Interim Report 2002

## Directors and Company Information

### Directors

I. A. McKay

Chairman

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

Deputy Chairman and Managing Director

S. C. Perkins M.R.I.C.S.

Deputy Managing Director

A. S. Childs

Finance Director

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

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

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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 company, 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.

## Chairman's Statement

### Results for the six months to 30th September 2002

**Pre-tax profit for the half year was £4,711,000, compared with £2,426,000 for the same period in 2001. Contributing to this increase was profit from sales of investment properties of £1,359,000 (2001 - £427,000).**

**Operating profit, after charging interest but excluding property sales, rose to £3,352,000 from £1,999,000 for the same period last year, reflecting growth in net income from the investment portfolio to £6,117,000 from £4,854,000.**

### Review

The increase in gross income was mainly due to a full half year's contribution from Great Brighams Mead, Reading and from the Old Queen Street / Storey's Gate properties acquired in July 2001. In addition, there were rental contributions from new lettings at Newminster House, Bristol and Coombe Square, Thatcham, and from reversions at Portsoken House, 155/157 Minories, EC3 and Great Surrey House, 203/208 Blackfriars Road, SE1.

Investment properties at Chertsey, Farnham Common and Yateley were sold. The major share of the profit came from the sale of the industrial buildings at Bridge Wharf, Chertsey. This property formed part of a larger site incorporating adjoining ownerships which was sold for £20 million, of which our share was approximately £5 million. Whilst it remains our policy to retain completed developments and investments for long term income and growth, the property portfolio is kept under review and disposals are made where significant value can be released or where future growth prospects appear limited.

The construction of Pegasus Place, Crawley (offices - 4,719 sq m) was completed in mid August. The three buildings, which range from 1,183 sq m to 1,980 sq m, have been well received by the market following their formal launch in September, and I am pleased to report that terms have been agreed for the letting of one of the buildings (1,183 sq m). We continue to market previously completed refurbishments at Albion House, Newbury, Unit 1 Bicester and Bartley House, Hook.

Progress is being made with our current development programme which consists of schemes in prime locations within Wimbledon and Westminster. At Worple Road, Wimbledon, a planning application has been submitted to increase the office content from 4,292 sq m to 4,939 sq m, with the addition of a fifth floor. Subject to the outcome of this application, which is expected in January 2003, we remain on programme to make a start in the Spring. In Westminster, detailed planning consent has now been granted to develop and refurbish 6 Storey's Gate and 5 Old Queen Street, creating a single high quality office building of 1,888 sq m, to be known as 1 Old Queen Street. Dependent on the state of the market, it is intended to make a start on site towards the end of 2003.

Despite considering a number of possible additions to the property portfolio, no acquisitions have been made during the period, due to the high level of prices now being paid in the market and the difficulty in adding value. Even though tenant demand has fallen off in certain key areas, capital values have continued to be pushed to higher levels as a result of continuing low interest rates, readily available finance and the popularity of property as a resilient asset in difficult economic times. We continue to seek the right properties at the right prices.

## Financial position

Net debt at 30th September 2002 was £73 million (2001 - £67 million) representing 59% of shareholders funds. Total available borrowings amount to £103 million.

## Conversion of Capital Shares

Following the approval of shareholders at the Extraordinary General Meeting held on 30th July 2002, the capital shares were converted into ordinary shares. As a result of the conversion, the issued share capital of the Company became 45,255,555 ordinary shares of 20 pence each.

## Dividends

On 17th August 2002, a special dividend of 22 pence per share amounting to approximately £10 million was paid on the total issued share capital. This dividend was paid in addition to the annual dividend of 8.1 pence per share, which was in itself an increase of 8% over the previous year.

For this half year, the Directors have declared an interim dividend of 2.9p (2001 - 2.7p) payable on 16th January 2003 to shareholders on the register at the close of business on 20th December 2002. This is an increase of 7.4%.

## Board and Management Changes

After more than 30 years as Managing Director, Eric Lloyd is to retire as an executive director early in the new year, but I am pleased to say that he will remain on the Board as Deputy Chairman in a non executive capacity. Simon Perkins will take over as Managing Director.

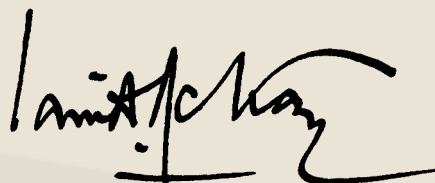
I would like to welcome to the Board Steven Mew who was appointed a Director in August 2002. I would also like to welcome Steven Morrice, MRICS, aged 38, who has

joined the company as Senior Development Surveyor. Steven came to us from Laing Property in July 2002 having previously worked for King Sturge and St. Quintin.

Finally, I should mention that it is my intention to step down as Chairman at the conclusion of the next Annual General Meeting but I will remain as a non-executive director. With the management changes now taking place I believe that, after 16 years, the time has come for me to hand over the reins. Eric Lloyd will take over as non-executive Chairman at the conclusion of the Annual General Meeting. With his extensive experience and success in running the Company, he is well placed to provide the continuity needed for the smooth transition to the new management team.

## Future Prospects

Following the completion of Pegasus Place, Crawley, the Group's policy of reinvesting capital in quality developments with income and capital growth potential continues. Notwithstanding the uncertainty within the general economy, with low gearing, secured undrawn finance, and robust income from the investment portfolio, the Group is well placed to continue to add value to shareholders' funds. The changes now evolving at senior level have been made in a co-ordinated and carefully planned way, and I am confident that our new management team have the experience, drive and expertise to generate continuing growth.



**I. A. McKay** Chairman

12th December 2002

## Interim Statement

Six months to 30th September 2002

	6 months to 30th September 2002 (Unaudited) £'000	6 months to 30th September 2001 (Unaudited) £'000 Restated	12 months to 31st March 2002 (Audited) £'000
Gross rent receivable	6,691	5,703	12,560
Service charges receivable	1,434	1,559	3,164
<b>Total revenues</b>	<b>8,125</b>	7,262	15,724
Direct property outgoings	<b>(2,008)</b>	(2,408)	(4,591)
<b>Income from investment properties</b>	<b>6,117</b>	4,854	11,133
Administration costs	<b>(1,361)</b>	(1,024)	(2,163)
<b>Operating profit</b>	<b>4,756</b>	3,830	8,970
Share of operating profit of associated undertakings	108	90	173
Profit on disposal of investment properties	1,359	427	1,219
<b>Profit on ordinary activities before interest and taxation</b>	<b>6,223</b>	4,347	10,362
Net interest payable	<b>(1,512)</b>	(1,921)	(3,526)
<b>Profit on ordinary activities before taxation</b>	<b>4,711</b>	2,426	6,836
Taxation	<b>(1,242)</b>	(612)	(1,685)
<b>Profit on ordinary activities after taxation</b>	<b>3,469</b>	1,814	5,151
Special dividend paid out of capital reserves	<b>(9,956)</b>	—	—
Dividends	<b>(1,312)</b>	(1,048)	(3,143)
<b>Net (reduction)/increase in reserves</b>	<b>(7,799)</b>	766	2,008
Transfer to capital reserve on disposal of properties	<b>(1,115)</b>	(285)	(951)
Transfer from capital reserve for distribution to shareholders	<b>9,956</b>	—	—
<b>Net amount transferred to profit and loss account reserve</b>	<b>1,042</b>	481	1,057
<b>Earnings per share</b>			
Basic	<b>8.46p</b>	4.25p	13.28p
Diluted	<b>7.68p</b>	3.67p	11.44p
<b>Adjusted earnings per share</b>			
Basic	<b>9.15p</b>	4.78p	14.80p
Diluted	<b>8.30p</b>	4.13p	12.75p
<b>Operating earnings per share</b>			
Basic	<b>5.74p</b>	3.73p	10.83p
Diluted	<b>5.21p</b>	3.22p	9.33p
<b>Adjusted operating earnings per share</b>			
Basic	<b>6.43p</b>	4.26p	12.35p
Diluted	<b>5.83p</b>	3.68p	10.64p
<b>Dividend per share – interim</b>	<b>2.9p</b>	2.7p	8.1p
– special	<b>22.0p</b>	—	—

# Consolidated Balance Sheet

As at 30th September 2002

	As at 30th September 2002 (Unaudited) £'000	As at 30th September 2001 (Unaudited) £'000 Restated	As at 31st March 2002 (Audited) £'000
<b>Fixed assets</b>			
Tangible assets - properties and other fixed assets	202,108	200,361	205,400
Investments	2,136	1,985	2,040
	<u>204,244</u>	<u>202,346</u>	<u>207,440</u>
<b>Current assets</b>			
Debtors	7,525	1,263	2,639
Cash	1,563	263	1,563
	<u>9,088</u>	<u>1,526</u>	<u>4,202</u>
<b>Creditors</b>			
Amount falling due within one year	(11,817)	(9,748)	(20,303)
<b>Net current liabilities</b>	<u>(2,729)</u>	<u>(8,222)</u>	<u>(16,101)</u>
<b>Total assets less current liabilities</b>	<b>201,515</b>	<b>194,124</b>	<b>191,339</b>
<b>Creditors</b>			
Amounts falling due after one year	(71,185)	(63,810)	(52,650)
<b>Provision for liabilities and charges</b>			
Deferred taxation	(5,515)	(4,995)	(5,231)
	<u>124,815</u>	<u>125,319</u>	<u>133,458</u>
<b>Capital and reserves</b>			
Called up share capital	9,051	8,998	8,998
Share premium account	1,808	1,861	1,861
Revaluation reserve	57,574	56,375	61,564
Other capital reserves	34,765	38,085	40,460
Profit and loss account	21,617	20,000	20,575
<b>Shareholders' funds</b>	<u>124,815</u>	<u>125,319</u>	<u>133,458</u>
<b>Net asset value per share</b>	<b>276p</b>	<b>279p</b>	<b>297p</b>
<b>Effects of FRS 19</b>	<b>12p</b>	<b>10p</b>	<b>11p</b>
<b>Adjusted net asset value per share</b>	<b>288p</b>	<b>289p</b>	<b>308p</b>

**Note:**

The reduction in shareholders' funds since 31st March 2002 is attributable to the payment of the special dividend as adjusted for retained earnings and profits on the sale of investment properties during the half year period to 30th September 2002.

## Group Cash Flow Statement

Six months to 30th September 2002

	6 months to 30th September 2002		6 months to 30th September 2001		Year to 31st March 2002	
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Net cash inflow from operating activities</b>		<b>1,231</b>		<b>2,236</b>		<b>6,483</b>
<b>Dividends received from associated undertaking</b>		<b>32</b>		<b>40</b>		<b>88</b>
<b>Returns on investments and servicing of finance</b>						
Interest received	<b>33</b>		17		42	
Interest paid	<b>(2,187)</b>		(2,039)		(3,322)	
Dividends received	<b>1</b>		1		1	
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(2,153)</b>		<b>(2,021)</b>		<b>(3,279)</b>
<b>Taxation</b>						
Corporation tax refund	<b>23</b>		233		219	
Corporation tax paid	<b>(1,255)</b>		(1,090)		(2,515)	
		<b>(1,232)</b>		<b>(857)</b>		<b>(2,296)</b>
<b>Capital expenditure</b>						
Purchase and development of investment properties	<b>(2,689)</b>		(8,878)		(14,241)	
Purchase of other fixed assets	<b>(25)</b>		(15)		(32)	
Sales of investment properties	<b>7,393</b>		4,786		13,685	
<b>Net cash inflow/(outflow) for capital expenditure</b>		<b>4,679</b>		<b>(4,107)</b>		<b>(588)</b>
<b>Equity dividends paid</b>		<b>(12,051)</b>		<b>(1,938)</b>		<b>(2,986)</b>
<b>Cash outflow before financing</b>		<b>(9,494)</b>		<b>(6,647)</b>		<b>(2,578)</b>
<b>Financing</b>						
Increase in debt		<b>9,494</b>		<b>5,840</b>		<b>3,461</b>
<b>(Decrease)/increase in cash</b>		<b>—</b>		<b>(807)</b>		<b>883</b>



## Group Cash Flow Statement

Six months to 30th September 2002

	Movement in period			
	At 30th September 2002 £'000	Cash £'000	Non-cash £'000	At 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>

	Movement in period			
	At 30th September 2001 £'000	Cash £'000	Non-cash £'000	At 31st March 2001 £'000
Cash at bank	263	(417)	—	680
Overdraft	(390)	(390)	—	—
	(127)	(807)	—	680
Debt due within one year	(480)	—	(98)	(382)
Debt due after one year	(63,810)	(5,840)	—	(57,970)
	<u>(64,417)</u>	<u>(6,647)</u>	<u>(98)</u>	<u>(57,672)</u>

## Notes to the Interim Statement

Six months to 30th September 2002

1. The Group's properties were not revalued at 30th September 2002. The Consolidated Balance Sheet reflects the values as at 31st March 2002 adjusted for additions and disposals during the period.
2. The results for the year to 31st March 2002 have been extracted from the full accounts for the year which received an unqualified auditor's report and which have been lodged with the Registrar of Companies.
3. 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.

## Other Primary Statements

Six months to 30th September 2002

### Consolidated Statement of Total Recognised Gains and Losses

	30th September 2002 £'000	30th September 2001 £'000 Restated	31st March 2002 £'000
Profit for the period	3,469	1,814	5,151
Unrealised surplus on revaluation of properties in associated undertaking	24	—	8,005
UITF 28 adjustment	(237)	—	(370)
Taxation on previously recognised gains	(631)	(371)	(1,109)
Exchange movements	—	(3)	(3)
	<u>2,625</u>	<u>1,440</u>	<u>11,674</u>
Prior year adjustment	—	—	(3,698)
Total recognised gains for the period	<u>2,625</u>	<u>1,440</u>	<u>7,976</u>

### Consolidated Historical Cost Profits and Losses

	30th September 2002 £'000	30th September 2001 £'000 Restated	31st March 2002 £'000
Reported profit before taxation	4,711	2,426	6,836
Realisation of property revaluation surpluses of previous years	3,754	2,052	4,499
Historical cost profit before taxation	<u>8,465</u>	<u>4,478</u>	<u>11,335</u>
Historical cost (loss)/profit for period retained after taxation and dividends (including payment of the special dividend)	<u>(4,676)</u>	<u>2,447</u>	<u>5,398</u>

### Consolidated Reconciliation of Movements in Shareholders' Funds

	30th September 2002 £'000	30th September 2001 £'000 Restated	31st March 2002 £'000
Profit for the period	3,469	1,814	5,151
Dividends	(11,268)	(1,048)	(3,143)
Retained (reduction)/addition for the period	<u>(7,799)</u>	<u>766</u>	<u>2,008</u>
Unrealised surplus on revaluation of properties in associated undertaking	24	—	8,005
UITF 28 adjustment	(237)	—	(370)
Exchange movements	—	(3)	(3)
Taxation on previously recognised gains	(631)	(371)	(1,109)
Net (reduction)/addition to shareholders' funds	<u>(8,643)</u>	<u>392</u>	<u>8,531</u>
Opening shareholders' funds	<u>133,458</u>	<u>124,927</u>	<u>124,927</u>
Closing shareholders' funds	<u>124,815</u>	<u>125,319</u>	<u>133,458</u>

**McKay Securities PLC**

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