McKay Securities PLC

Interim Report 2004

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

The Group, which has a portfolio value of over £211 million, does not trade 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

- Profit before tax up 4% to £3,857,000 (2003 – £3,704,000)
- Net asset value per share up 5.9% to 286p (2003 – 270p)
- Interim dividend up 3.2% to 3.2 pence per share (2003 – 3.1 pence per share)
- Diluted operating earnings per share up 2.7% to 5.36p (2003 – 5.22p)
- Weighted average cost of borrowing of 5.9% (2003 – 5.3%)
- Net debt gearing of 57% (2003 – 60%)

Chairman's Statement

Results for the six months to 30th September 2004

Pre-tax profit for the half year increased to £3,857,000 from £3,704,000 for the same period in 2003. Contributing to this was profit from the sale of investment properties of £578,000 compared with £128,000 in 2003.

At operating level, excluding the surplus on property sales, pre-tax profit after interest amounted to £3,279,000 compared with £3,576,000 last year.

The Directors have declared an interim dividend of 3.2p (2003 - 3.1p) payable on 13th January 2005 to shareholders on the register at the close of business on 17th December 2004. This is an increase of 3.2%.

Review

The half year has seen the Group continue to benefit from a gradual improvement in the occupational market and from the strength of the investment market. Recent refurbishment expenditure on portfolio properties has resulted in new lettings and improved rental values, the development programme has also made good progress and a selective disposal programme has generated profits significantly over book value.

Sales of investment properties during the half year include The Arcade, Aldershot and 27 Summers Road, Burnham, which together achieved a profit of £578,000. The Arcade was developed by the Group in 1991 but, with future growth prospects considered limited, it was decided to take advantage of the current strength of the investment market. These sales, along with four successful disposals last year of smaller mature properties, have been in keeping with our intention to increase the average lot size within the portfolio, and to recycle capital once an asset becomes ex-growth. Future sales will be limited until we see further income contributions from the development programme and from new acquisitions.

Gross rents, excluding service charges, for the half year totalled £7,057,000. Recent sales and the transfer of properties into development resulted in a loss of income of £403,000, but reversions and new lettings reduced this shortfall to £95,000 for the period.

Continuing expenditure within the Group's core portfolio has made a major contribution to the retention and attraction of new tenants and helped generate rental growth. At Castle Lane, SW1 (offices - 1,304 sq m) work to the common parts and vacant floors was completed during the period leaving only the second floor to be refurbished when the existing tenancy expires in 2008. The keen interest in this property reported in my last statement led to the letting of the lower ground floor prior to completion of the works at rents well ahead of projections and there is firm interest in the remaining floor. Elsewhere, refurbishment work is nearing completion at Portsoken House, EC3, Newminster House, Bristol, Mallard Court, Staines and at our industrial properties in Crawley, Folkestone and Bicester. The works have resulted in new lettings and steadily improving rents. At Chancery House, Sutton, a full refurbishment of the common areas and vacant floors, planned when we purchased the head leasehold interest in March, is well underway and will improve the attractiveness of the building when marketing starts at the beginning of 2005.

Within the development programme, two office schemes are under construction and making good progress. At Wimbledon Gate (5,435 sq m), the steel frame is in place and the external glazing and cladding is now being installed; completion of the project is due early next summer. In Westminster, the partial demolition and stripping out at 1 Old Queen Street (2,000 sq m) has been concluded and the scheme is programmed for completion in November next year. Both buildings have been well received by the market and, although we are still at an early stage, there are encouraging signs of occupier interest.

The portfolio contains a number of other development and refurbishment opportunities, including the redevelopment of 30/32 Lombard Street, EC3 which will in time add value to shareholders' funds. In my previous statement I referred to the reduction in occupational demand for space in the City with the resultant fall in rental values and the options open to us in relation to 30/32 Lombard Street when the leases in the existing building expire in December 2005. Since then we have been exploring with our architects an improved scheme design with increased floor area which we believe merits further consideration as it will assist the financial viability of the scheme. We will be seeking to extend the current lease terms while we optimise the future of this prime City redevelopment.

The completed but unlet development and refurbishment schemes which we continue to market are limited to Albion House, Newbury, Pegasus One and Pegasus Three, Crawley and the remaining floor at Bartley House, Hook. Together these account for only 5% of the total portfolio floor area. The apparent increase in letting activity in the spring fell away over the summer period but is again showing signs of recovery, and I am pleased to say that Albion House and two floors of Pegasus One are now in solicitors' hands. There are also encouraging levels of interest elsewhere and I am confident that with their inherent quality these properties will soon be let.

There are still opportunities to acquire property with good potential for future growth and various possible investments are being actively considered. However, with the low cost of borrowing there is no sign of a reduction in the weight of money being invested in commercial property by private and institutional buyers and prices look set to remain high for the foreseeable future. Demand has continued to push yields lower and investment in upgrading property through development and refurbishment is likely to show a better return over time than many opportunities currently available in the market and the selective approach we have adopted continues to be required.

Finance

Net debt at 30th September 2004 was £74 million (2003 - £73 million) representing 57% of shareholders' funds (2003 - 60%). Total available facilities amount to £108 million which, if fully drawn, would take balance sheet gearing to 83%. The Group's exposure to interest rate rises in respect of £52 million of its borrowings is protected by financial instruments. The average cost of borrowing for the period was 5.9% (2003 - 5.3%).

In my last statement I referred to the potentially significant introduction of Property Investment Funds by the Government as a new, more tax effective vehicle for property ownership. Further consultation now looks likely next year and we will continue to monitor the situation closely.

Future prospects

With the current signs of increased activity in the occupational market, prospects for new lettings and rental growth look encouraging. The speed at which Wimbledon Gate and 1 Old Queen Street become let and income producing will determine how soon the Group benefits from the significant contributions to profit and shareholder value that these schemes will generate and your Directors remain optimistic for the future.

E. S. G. Lloyd
Chairman

9th December 2004

Consolidated Profit and Loss Account

Six months to 30th September 2004

	6 months to 30th September 2004 (Unaudited) £'000	6 months to 30th September 2003 (Unaudited) £'000	12 months to 31st March 2004 (Audited) £'000
Gross rents and service charges receivable	8,422	8,729	17,365
Direct property outgoings	(2,101)	(2,170)	(4,260)
Income from investment properties	6,321	6,559	13,105
Administration costs	(1,242)	(1,173)	(2,701)
Operating profit	5,079	5,386	10,404
Share of operating profit of associated undertakings	140	92	305
Profit on disposal of investment properties	578	128	573
Profit on ordinary activities before interest and taxation	5,797	5,606	11,282
Net interest payable	(1,940)	(1,902)	(3,826)
Profit on ordinary activities before taxation	3,857	3,704	7,456
Taxation (note 2)	(841)	(1,218)	(1,549)
Profit on ordinary activities after taxation	3,016	2,486	5,907
Dividends	(1,460)	(1,403)	(4,073)
Net increase in reserves	1,556	1,083	1,834
Transfer to capital reserve on disposal of properties	(578)	(123)	(556)
Net amount transferred to profit and loss account reserve	978	960	1,278
Earnings per share (note 3)			
Basic	6.65p	5.49p	13.05p
Diluted	6.64p	5.49p	13.01p
Adjusted earnings per share (note 3)			
Basic	6.95p	6.50p	14.06p
Diluted	6.94p	6.50p	14.02p
Operating earnings per share (note 3)			
Basic	5.37p	5.22p	11.82p
Diluted	5.36p	5.22p	11.78p
Adjusted operating earnings per share (note 3)			
Basic	5.67p	6.23p	12.83p
Diluted	5.66p	6.23p	12.79p
Dividend per share	3.2p	3.1p	9.0p

Consolidated Balance Sheet

As at 30th September 2004

	As at 30th September 2004 (Unaudited) £'000	As at 30th September 2003 (Unaudited) £'000	As at 31st March 2004 (Audited) £'000
Fixed assets			
Tangible assets – properties and other fixed assets	211,376	202,544	211,975
Investments	4,662	4,028	4,564
	216,038	206,572	216,539
Current assets			
Debtors	2,761	2,970	2,660
Cash at bank and in hand	1,364	2,337	1,607
	4,125	5,307	4,267
Creditors			
Amounts falling due within one year	(11,660)	(13,773)	(22,324)
Net current liabilities	(7,535)	(8,466)	(18,057)
Total assets less current liabilities	208,503	198,106	198,482
Creditors			
Amounts falling due after one year	(72,260)	(70,445)	(64,520)
Provisions for liabilities and charges			
Deferred taxation	(5,753)	(5,675)	(5,491)
Net assets	130,490	121,986	128,471
Capital and reserves			
Called up share capital	9,110	9,051	9,051
Share premium account	2,115	1,808	1,808
Revaluation reserve	59,994	51,708	56,983
Other capital reserves	34,341	36,049	36,677
Profit and loss account	24,930	23,370	23,952
Equity shareholders' funds	130,490	121,986	128,471
Net asset value per share	286p	270p	284p
Effect of FRS 19	11p	11p	11p
Adjusted net asset value per share	297p	281p	295p

Consolidated Cash Flow Statement

Six months to 30th September 2004

	6 months to 30th September 2004 (Unaudited)		6 months to 30th September 2003 (Unaudited)		12 months to 31st March 2004 (Audited)	
	£'000	£'000	£'000	£'000	£'000	£'000
Net cash inflow from operating activities		4,408		10,002		15,532
Dividends received from associated undertaking	—			—		103
Returns on investments and servicing of finance						
Interest received	27		34		85	
Interest paid	(2,615)		(1,893)		(3,651)	
Dividends received	1		1		1	
Net cash outflow from returns on investments and servicing of finance		(2,587)		(1,858)		(3,565)
Taxation						
Corporation tax refund	38		51		189	
Corporation tax paid	(485)		(1,199)		(1,923)	
		(447)		(1,148)		(1,734)
Capital expenditure						
Purchase and development of investment properties	(3,084)		(2,116)		(8,578)	
Purchase of other fixed assets	(2)		(23)		(30)	
Sales of investment properties	4,673		259		3,268	
Net cash inflow/(outflow) for capital expenditure		1,587		(1,880)		(5,340)
Equity dividends paid		(2,670)		(2,580)		(3,983)
Cash inflow before financing		291		2,536		1,013
Financing						
Issue of ordinary share capital		366		—		—
Decrease in debt		(900)		(3,613)		(2,820)
Decrease in cash		(243)		(1,077)		(1,807)

Consolidated Cash Flow Statement

Six months to 30th September 2004

	At 30th September 2004 (Unaudited) £'000	Movement in period: Cash flow £'000	Movement in period: Non-Cash £'000	At 31st March 2004 (Audited) £'000
Cash at bank and in hand	1,364	(243)	—	1,607
Debt due within one year	(3,200)	8,820	(180)	(11,840)
Debt due after one year	(72,260)	(7,920)	180	(64,520)
Net debt	(74,096)	657	—	(74,753)

	At 30th September 2003 (Unaudited) £'000	Movement in period: Cash flow £'000	Movement in period: Non-Cash £'000	At 31st March 2003 (Audited) £'000
Cash at bank and in hand	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)
Net debt	(73,231)	2,536	(1)	(75,766)

Other Primary Statements
Six months to 30th September 2004

Consolidated Statement of Total Recognised Gains and Losses

	As at 30th September 2004 (Unaudited) £'000	As at 30th September 2003 (Unaudited) £'000	As at 31st March 2004 (Audited) £'000
Profit for the period	3,016	2,486	5,907
Unrealised surplus/(deficit) on revaluation of properties	97	(314)	5,291
Unrealised surplus on revaluation of properties in associated undertaking	—	1,800	2,149
Share of associated company prior year adjustment to deferred tax provision	—	—	(191)
Taxation on previously recognised gains	—	(7)	(36)
Total recognised gains for the period	3,113	3,965	13,120

Consolidated Historical Cost Profits and Losses

Reported profit before taxation	3,857	3,704	7,456
Realisation of property revaluation (deficit)/surpluses of previous years	(2,914)	157	464
Historical cost profit before taxation	943	3,861	7,920
Historical cost (loss)/profit for period retained after taxation and dividends	(1,358)	1,233	2,262

Consolidated Reconciliation of Movements in Shareholders' Funds

Profit for the period	3,016	2,486	5,907
Dividends	(1,460)	(1,403)	(4,073)
	1,556	1,083	1,834
Unrealised surplus/(deficit) on revaluation of properties	97	(314)	5,291
Unrealised surplus on revaluation of properties in associated undertaking	—	1,800	2,149
Share of associated company prior year adjustment to deferred tax provision	—	—	(191)
Taxation on previously recognised gains	—	(7)	(36)
Issue of ordinary share capital under share option scheme	366	—	—
Net addition to shareholders' funds	2,019	2,562	9,047
Opening shareholders' funds	128,471	119,424	119,424
Closing shareholders' funds	130,490	121,986	128,471

Notes to the Interim Statement
Six months to 30th September 2004

1

The Group's properties were not revalued at 30th September 2004. The Consolidated Balance Sheet reflects the values as at 31st March 2004 adjusted for additions and disposals during the period, and any adjustments required by UITF 28.

2 Taxation

	6 months to 30th September 2004 (Unaudited) £'000	6 months to 30th September 2003 (Unaudited) £'000	12 months to 31st March 2004 (Audited) £'000
Analysis of charge in period:			
Current tax:			
UK corporation tax on profits for the period	575	776	1,588
Adjustments in respect of prior periods	(38)	(7)	(145)
Share of associate's tax – current period	42	(1)	84
– prior period	—	—	(17)
Total current tax	579	768	1,510
Deferred tax:			
Origination and reversal of timing differences	262	221	37
Share of associate	—	236	38
Tax on profit on ordinary activities	841	1,225	1,585
Less tax on previously recognised gains	—	(7)	(36)
	841	1,218	1,549

Factors affecting the tax charge for the period:
The current tax charge for the period is lower (2003: lower) than the standard rate of corporation tax in the UK of 30% (2003 – 30%). The differences are explained below.

Current tax reconciliation:			
Profit on ordinary activities before tax	3,857	3,704	7,456
Current tax at 30% (2003 – 30%)	1,157	1,111	2,237
Effects of:			
Expenses not deductible for tax purposes	5	1	4
Capital allowances for period in excess of depreciation	(231)	(206)	(421)
Chargeable gains below profit on disposal of properties	(174)	(26)	(72)
Interest capitalised and other timing differences	(140)	(76)	(70)
Difference on tax rate on share of associate's profits	—	(29)	(6)
Adjustments to tax charge in respect of prior years	(38)	(7)	(162)
Current tax charge for period (see above)	579	768	1,510

The tax charge for the period is based on an estimate of the likely effective tax rate for the year ending 31st March 2005, adjusted for the impact of the disposal of properties in the period which reduced the tax charge by £262,000.

3 Earnings per share

Basic earnings per share on ordinary shares are based on profit after tax of £3,015,685 (2003 – £2,485,490) and 45,364,819 (2003 – 45,255,555) shares, being the weighted average number of ordinary shares in issue during the period.

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 45,435,616 (2003 – 45,284,371), which takes into account the number of potential ordinary shares arising from the exercise of share options.

Operating earnings of £2,437,800 (2003 – £2,362,204) 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.

Reconciliation of earnings per share to diluted earnings per share:

		EPS 2004 p	EPS 2003 p
Weighted number of ordinary shares in issue	45,364,819	6.65	5.49
Number of shares under option	620,182	(0.09)	(0.07)
Number of shares that would have been issued at fair value	(549,385)	0.08	0.07
	45,435,616	6.64	5.49

	30th September 2004		30th September 2003	
	Basic p	Diluted p	Basic p	Diluted p
Earnings per share	6.65	6.64	5.49	5.49
Effect of FRS 19	0.30	0.30	1.01	1.01
Adjusted earnings per share	6.95	6.94	6.50	6.50
Earnings per share	6.65	6.64	5.49	5.49
Property sales after taxation	(1.28)	(1.28)	(0.27)	(0.27)
Operating earnings per share	5.37	5.36	5.22	5.22
Effect of FRS 19	0.30	0.30	1.01	1.01
Adjusted operating earnings per share	5.67	5.66	6.23	6.23

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.

Notes to the Interim Statement

Six months to 30th September 2004

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The results for the year to 31st March 2004 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.

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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.

Directors and Company Information

Directors

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Managing Director

Alan Childs
Finance Director

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

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

Iain McKay
Non-executive

Michael Hawkes F.R.I.C.S.
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Ian Menzies, M.A., C.A.
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Secretary

Alan Childs

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