Minerva plc Interim Report 2000

Contents

Highlights

Profit before tax increased to £3.5 million (1998: loss of £2.3 million).

Net gearing reduced to 73 per cent at December 1999 (June 1999: 79 per cent).

Interim dividend increased to 0.95 pence per share (1998: 0.9 pence), payable on 12 May 2000.

Property acquisitions totalling £119 million, principally The Criterion, London, SW1.

Planning consents granted for new developments at The Walbrook and St Botolph's House for one million square feet of high specification offices and retail in the City of London.

Submission of planning application on Park Place, Croydon for new retail space of approximately one million square feet.

1 for 4 rights issue in December 1999 raising £71 million.

Since 31 December 1999, the Company has:

- Been admitted to the FTSE 250 index.
- Refinanced existing loan facilities totalling £79.8 million with a new £63.75 million 25 year facility from the Bradford & Bingley Building Society. The average annual cost of Group borrowings is now 7.3 per cent.
- Commenced construction of the office development on the corner of Wigmore Street and Welbeck Street in the heart of London's West End to produce two high quality buildings totalling 45,000 sq.ft. Completion scheduled for Autumn 2001.
- Acquired the freehold interest in Ludgate House on the South Bank of the River Thames for £69 million, let to United News & Media Plc for 15 years on an annual rent of £4.87 million. The 174,000 sq.ft. property is adjacent to the Group's freehold property at Sampson House.
- Completed an agreement with Allders plc for a new 345,000 sq.ft. flagship store in Croydon Town Centre, which will form an integral part of the Park Place development.
- Secured agreement with both British Telecom and Marsh & McLennan for vacant possession of the office accommodation at St Botolph's House and Ambassador House.
- Increased cash reserves to over £70 million.

Chairman's statement

Since our last accounts were published, and largely as a result of the events to which I will refer below, Minerva has entered the FTSE 250.

For the six months ended 31 December 1999 profit before tax was £3.5 million compared with a loss of £2.3 million for the first six months of last year. As a consequence of the sale of non-core assets rental income reduced to £18.2 million compared with £19.4 million over the same period last year. However, since the year-end we have acquired two significant properties which produce an additional annual net rental income of £11.2 million. The Directors have resolved to pay an interim dividend of 0.95 pence per share (1998: 0.9 pence), and this will be paid on 12 May 2000 to those shareholders on the register at close of business on 7 April 2000.

As I previously indicated would be the case, much of our concentration has been focused on the three major planning applications which were submitted during the summer of last year. As a result, we have been successful in obtaining consent for our major City of London office projects: St Botolph's House, EC3 and The Walbrook, EC4. In total these buildings will offer one million square feet of offices, retail and leisure accommodation together with car parking facilities, offering tenants the opportunity to occupy 'state-of-the-art' buildings with large floor plates of a size virtually unmatched in the heart of the City. Throughout the planning process we have worked closely with the Corporation of London and we have, as a consequence of their support and enthusiasm, been able to conclude the planning process in little over five months, which is a remarkably short time span for projects of this size and nature.

I have always emphasised our corporate requirement to maintain a steady income stream pending the actual realisation of our development opportunities and we will continue to maintain this policy until we are able to eliminate the risks associated with speculative development. To this end, in February of this year, we were able to secure vacant possession of the office accommodation at St Botolph's House and Ambassador House, both part of our St Botolph's redevelopment proposal, with the intention to relet both properties on terms which would provide a continuing income stream whilst maintaining the flexibility to terminate such income and obtain vacant possession at short notice, in order that redevelopment could commence when required. In this regard, and having received a reverse premium of £1.48 million, I can report that we have already relet all of the accommodation in Ambassador House at £1.5 million per annum – some 23 per cent higher than that of the previous rent passing.

As to our town centre redevelopment proposals in Croydon, the planning process for a one million square feet covered shopping mall is progressing well, and we continue to work closely with the local authority, adjoining land owners and other interested parties in order to ensure that this exciting project reaches its intended successful outcome.

With this in mind we concluded an agreement with Allders plc for a new 345,000 sq.ft. flagship department store, which it is intended will be the principal anchor of the new Croydon development, for a 50 year lease, at an initial rent of £2.1 million per annum. In addition, we simultaneously entered into an option agreement with Allders, subject to shareholders consent, for the acquisition of its existing Croydon store in the Whitgift Centre for £50 million, comprising an initial payment of £35 million, with a further payment of £15 million as and when the conditions of the agreement for lease are satisfied. Allders will take a leaseback for 35 years at a rent commencing at £2.9 million per annum rising to £4.2 million as and when the further payment of £15 million is made. I am pleased to report that this agreement with Allders was formally approved by its shareholders on 15 March.

At the end of last year we raised £71 million by way of a 1 for 4 rights issue at £2.30 per share. The issue was intended to provide the Group with greater flexibility to take advantage of new opportunities and also to assist in the £101.4 million acquisition of the Criterion which comprises a 260,000 sq.ft. office, retail and leisure complex spanning the entire south side of Piccadilly Circus. We believe that this acquisition, which provides the Group with a landmark asset located at the very heart of London's West End and where the prospects to increase the underlying rental income are extremely good, falls fairly and squarely within our philosophy of making acquisitions only where we see the 'added value' potential. The property is currently let producing a net annual income of £6.28 million per annum and its principal tenants are McKinsey & Co., Virgin Retail Limited and Lillywhites Limited.

In January the Group concluded a refinancing of existing loan facilities totalling £79.8 million with a new £63.75 million 25 year facility from the Bradford & Bingley Building Society. The balance was provided from the Group's cash reserves. The interest rate payable under the new facility is 7.29 per cent compared with an average rate of 8.9 per cent under the previous arrangements and produces an annual saving to the Group of around £1.3 million per annum. The cost of breaking the existing loan agreements is £6.1 million and this will be reflected in our full year results to 30 June. Principally as a consequence of this new refinancing we have further extended the Group's average debt maturity to 15 years and reduced the overall cost of borrowing to 7.3 per cent, one of the most competitive in the sector.

Also in March of this year we commenced the redevelopment of our holding on the corner of Wigmore Street and Welbeck Street, and completion of this 45,000 sq.ft. office and retail project is scheduled for Autumn 2001. In September we acquired the freehold interest of Delta Point, Croydon for £14.9 million. The acquisition thus consolidated our investment in this building which is leased, in entirety, to British Telecom Plc.

As I write this Chairman's statement, I am pleased to tell you that on 20 March we concluded, for £69 million, the acquisition of Ludgate House, a large modern headquarters office building totalling 173,000 sq.ft. The building, which overlooks the River Thames on its South Bank, is situated immediately adjacent to the large area of land which houses the railway lines that serve Blackfriars Station and is now leased to United News and Media Plc for a term of 15 years at a rent of £4.9 million per annum. Minerva has the right to terminate the lease at the tenth year for the purposes of redevelopment. Immediately opposite Ludgate House, on the other side of, and also adjacent to the railway lines, sits Sampson House, which the Group acquired in 1997 and which totals around 400,000 sq.ft. of offices leased to Lloyds Bank Plc for 103 years unexpired. Our holdings in this growth area will I am sure, benefit the Group in future years.

Since June of last year the team at Minerva has worked tirelessly to enhance the Group's position both in terms of its asset base and financial framework. We are greatly encouraged by the progress that has been made on the development front and the continuing unlocking of value that sits within our portfolio. As I indicated would be the case when Minerva came to the market, the entire structure, focus and nature of the Company, its portfolio and its debt profile have been changed to a point which, at this stage in the Company's development, gives comfort to your Board. We have assembled a property portfolio, which has expanded significantly, and which we anticipate will continue to expand, which is, for all practical purposes located in London, most of which, by both size and value, is in the City or West End, almost entirely income-producing, and mostly with development potential. Our recent acquisitions coupled with the rights issue, which was concluded immediately prior to Christmas, has created yet a further dimension in the Group's evolution and we therefore look forward to what will undoubtedly be an interesting year.

David Garrard Chairman
24 March 2000

Consolidated profit and loss account

For the six months ended 31 December 1999	Note	**(Unaudited) Six months to 31 December 1999 £000**	(Unaudited) Six months to 31 December 1998 £000	(Audited) Year to 30 June 1999 £000
Rental income		**18,194**	19,391	37,119
Net property outgoings		**(2,015)**	(1,839)	(4,247)
		16,179	17,552	32,872
Administrative expenses		**(1,972)**	(1,715)	(4,598)
Other income		**389**	72	118
Operating profit		**14,596**	15,909	28,392
Profit on disposal of investment properties		**–**	166	158
Write down of investment in quoted security		**–**	(51)	(37)
Net financing costs	3	**(11,098)**	(11,157)	(21,243)
Income/(charges) relating to early loan repayments		**50**	(7,120)	(7,168)
Profit/(loss) on ordinary activities before taxation		**3,548**	(2,253)	102
Taxation	4	**–**	–	–
Profit/(loss) on ordinary activities after taxation		**3,548**	(2,253)	102
Dividends	5	**(1,519)**	(1,150)	(3,452)
Retained profit/(loss) for the period		**2,029**	(3,403)	(3,350)
Earnings/(loss) per share – basic and diluted	6	**2.8p**	(1.8)p	0.1p

Consolidated balance sheet

As at 31 December 1999	Note	(Unaudited) As at 31 December 1999 £000	(Unaudited) As at 31 December 1998 £000	(Audited) As at 30 June 1999 £000
Fixed assets				
Investment properties	7	714,360	534,519	590,175
Other fixed assets		1,718	1,586	1,725
Investments		11,018	175	2,271
		727,096	536,280	594,171
Current assets				
Amounts receivable from rights issue	8	71,373	–	–
Debtors		5,365	16,732	4,841
Cash at bank and in hand		51,287	80,341	68,874
		128,025	97,073	73,715
Creditors: amounts falling due within one year				
Amounts due in respect of property acquisition	9	(99,291)	–	–
Other creditors		(14,953)	(26,440)	(16,764)
Net current assets		13,781	70,633	56,951
Total assets less current liabilities		740,877	606,913	651,122
Creditors: amounts falling due after more than one year		(340,471)	(315,428)	(323,901)
Net assets		400,406	291,485	327,221
Capital and reserves				
Called up share capital		39,965	31,937	31,937
Share premium account		196,713	133,585	133,585
Revaluation reserve		108,172	72,489	108,172
Other reserves		41,795	41,795	41,795
Profit and loss account		13,761	11,679	11,732
Equity shareholders' funds		400,406	291,485	327,221
Net assets per share	10	250.5p	228.2p	256.1p

Statement of total recognised gains and losses

For the six months ended 31 December 1999	(Unaudited) Six months to 31 December 1999 £000	(Unaudited) Six months to 31 December 1998 £000	(Audited) Year to 30 June 1999 £000
Retained profit/(loss) for the period	**2,029**	(3,403)	(3,350)
Unrealised surplus on revaluation of properties	**–**	–	35,683
Total recognised gains and losses for the period	**2,029**	(3,403)	32,333

Reconciliation of movement in shareholders' funds

For the six months ended 31 December 1999	(Unaudited) Six months to 31 December 1999 £000	(Unaudited) Six months to 31 December 1998 £000	(Audited) Year to 30 June 1999 £000
Total recognised gains and losses for the period	**2,029**	(3,403)	32,333
New share capital issued	**73,735**	–	–
Costs on issue of new share capital	**(2,579)**	–	–
Net movement in shareholders' funds	**73,185**	(3,403)	32,333
Opening shareholders' funds	**327,221**	294,888	294,888
Closing shareholders' funds	**400,406**	291,485	327,221

Summary cash flow statement

For the six months ended 31 December 1999	Note	(Unaudited) Six months to 31 December 1999 £000	(Unaudited) Six months to 31 December 1998 £000	(Audited) Year to 30 June 1999 £000
Net cash inflow from operating activities	11a	**12,240**	11,976	30,306
Returns on investments and servicing of finance		**(11,575)**	(12,191)	(22,345)
Taxation		**–**	(192)	(192)
Net operating cash inflow/(outflow)		**665**	(407)	7,769
Capital expenditure and financial investment		**(34,084)**	11,493	(4,668)
Equity dividends paid		**(2,292)**	–	(3,316)
Cash (outflow)/inflow before use of liquid resources and financing		**(35,711)**	11,086	(215)
Movements in liquid resources		**9,022**	(53,636)	(52,847)
Financing		**18,124**	13,588	13,422
Decrease in cash	11b	**(8,565)**	(28,962)	(39,640)

Notes to the accounts

1. Accounting policies

The financial information included in the Interim Report comprises the consolidated profit and loss account and balance sheet, statement of total recognised gains and losses, reconciliation of movement in shareholders' funds and summary consolidated cash flow statement. This has been prepared in accordance with the normal accounting policies of the Group, except for that disclosed in note 7 regarding valuation of investment properties, and does not constitute statutory accounts.

2. Companies Act 1985

The financial information for the year to 30 June 1999 does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. It is extracted from the statutory accounts for that period, on which the auditors, PricewaterhouseCoopers, gave an unqualified report under Section 236 of the Companies Act 1985 which did not contain a statement under Section 237(2) or Section 237(4) of the Companies Act 1985. Statutory accounts for the year to 30 June 1999 have been delivered to the Registrar of Companies.

3. Net financing costs

	(Unaudited) Six months to 31 December 1999 £000	(Unaudited) Six months to 31 December 1998 £000	(Audited) Year to 30 June 1999 £000
Interest payable and similar charges	**(12,620)**	(13,149)	(25,280)
Interest receivable	**1,522**	1,992	4,037
	(11,098)	(11,157)	(21,243)

4. Taxation

No liability to mainstream UK corporation tax is expected to arise after taking account of losses brought forward and capital allowances available.

5. Dividends

The interim dividend of 0.95 pence (1998: 0.9 pence) per ordinary share is payable on 12 May 2000 to members on the register at 7 April 2000. Dividends are calculated on 159,858,601 (1998: 127,748,748) shares, being the number of ordinary shares in issue after the 1 for 4 rights issue in December 1999.

6. Earnings per share

Earnings per share have been calculated on a weighted average of 127,796,044 ordinary shares of 25 pence each in issue throughout the period (year to 30 June 1999: 127,748,748 ordinary shares; six months to 31 December 1998: 127,748,748 ordinary shares), and have been based on profit on ordinary activities after taxation of £3,548,000 (year to 30 June 1999: profit of £102,000; six months to 31 December 1998: loss of £2,253,000). The weighted average number of shares in issue during the period has not been adjusted for the rights issue announced in December 1999, as the net cash raised was not received by the Group until January 2000. Accordingly earnings per share and the comparatives remain unchanged. The necessary adjustment will be made to the weighted average number of shares for the full year ending 30 June 2000.

Diluted earnings per share have been calculated after allowing for the exercise of share options, and have been based on 128,246,816 ordinary shares of 25 pence each in issue throughout the period (year to 30 June 1999: 128,133,194 ordinary shares; six months to 31 December 1998: 127,903,275 ordinary shares).

7. Investment properties

Investment properties owned at 30 June 1999 are included in the balance sheet at 31 December 1999 at the independent valuation at 30 June 1999 plus costs incurred on the properties since that date, less disposals at valuation. Investment properties acquired during the period under review are included at the cost of acquisition plus any costs incurred on the property since the date of acquisition.

8. Amounts receivable from rights issue

The amounts receivable from the rights issue represents the proceeds less commissions. An accrual for the other expenses in connection with the issue have been included within creditors.

9. Amounts due in respect of property acquisition
The amounts due in respect of property acquisition were settled in full in March 2000, from new bank loans of £80,955,000 and existing cash resources.

10. Net assets per share
Net assets per share have been calculated on 159,858,601 ordinary shares of 25 pence each in issue at 31 December 1999 (30 June 1999: 127,748,748; 31 December 1998: 127,748,748) and have been based on net assets attributable to shareholders of £400,406,000 (30 June 1999: £327,221,000; 31 December 1998: £291,485,000).

11. Cash flow statement

	(Unaudited) Six months to 31 December 1999 £000	(Unaudited) Six months to 31 December 1998 £000	(Audited) Year to 30 June 1999 £000
a. Reconciliation of operating profit to net cash movement from operating activities			
Operating profit	**14,596**	15,909	28,392
Depreciation charges	**121**	107	212
Profit on sale of tangible fixed assets	**(4)**	–	(19)
Movement in debtors	**(118)**	(1,467)	2,763
Movement in creditors	**(2,355)**	(2,573)	(1,042)
Net cash movement from operating activities	**12,240**	11,976	30,306
b. Reconciliation of net cash flow to net debt			
Decrease in cash during the period	**(8,565)**	(28,962)	(39,640)
Cash outflow/(inflow) from movement in liquid resources	**(9,022)**	53,636	52,847
Cash outflow/(inflow) from movement in debt financing	**(17,655)**	16,242	13,401
Other movements	**(316)**	(107)	(485)
Movement in net debt during the period	**(35,558)**	40,809	26,123
Opening net debt	**(251,605)**	(277,728)	(277,728)
Closing net debt	**(287,163)**	(236,919)	(251,605)
Net debt			
Debt due within one year	**(1,934)**	(5,786)	(533)
Debt due after one year	**(336,516)**	(311,474)	(319,946)
	(338,450)	(317,260)	(320,479)
Cash and short term investments	**51,287**	80,341	68,874
	(287,163)	(236,919)	(251,605)

12. Copies of the Interim Report
Copies of the Interim Report are available from the Company Secretary at 10 Gloucester Place, London W1H 3AX.

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