

## Profits

Profits before tax, including exceptional items, increased by 12% to £25.2m (2002: £22.6m). Profits after tax and minority interest rose by 2% to £17.4m (2002: £17.1m).

## Rental income

Gross rental income for the year fell to £29.3m (2002: £31.4m) reflecting the Company's decision to sell some of its main Central London office investments. During the year £131m of investment properties, yielding £8.8m of rental income were sold. £50m was used to add to the investment and trading portfolio with passing rent of £3.4m. Rent reviews and new lettings, net of lease expiries and rent free periods, added rental income of £3.6m on the remaining portfolio. These additions to the Company's rental stream did not compensate for the loss of rental income as the Company continued its drive to de-gear and reduce its exposure to the Central London office market.

Rental costs rose from £3.6m to £3.7m. Net rents, after deduction of these rental costs, fell to £25.6m from £27.8m.

## Trading profits

Trading profits of £0.3m were up on last year (2002: £0.2m) and came from the sale of a small industrial unit in Slough purchased last year and a small office in Cardiff. The Company made £0.4m from short term dealing in the shares of listed property companies.

## Development profits

Profits from the Group's funded development programme were substantially down on the previous year at £4.6m (2002: £17.1m). In the year to 31 March 2003 the Group recognised the remaining office development profit at 1 Bunhill Row, London EC1, 200 Hammersmith Road, London W6 and One Plough Place, London EC4. In addition it booked profits at its office development at 3 Bunhill Row, London EC1. This latter development provided the majority of the development profits in the year as City solicitors, Linklaters, committed themselves to the remaining floors in the building.

Developments	2003 £000	2002 £000	2001 £000	2000 £000	1999 £000
Profits	4,630	17,072	29,507	19,345	21,601

## Administrative expenses

Administrative expenses, before an exceptional negative goodwill credit, fell by 41% from £10.9m to £6.4m due to the reduced level of performance related bonuses. Administrative expenses, before goodwill and executive bonuses fell by 3% from £6.1m to £5.9m.

The result for the year included the write back of negative goodwill of £6.4m as a consequence of the disposal of 60 Sloane Avenue, London SW3 by a subsidiary, Glenlake Limited. As was explained in last year's annual report and accounts this negative goodwill arose as a result of the restatement of the acquisition of Glenlake following the adoption of FRS19 by the Group and the recognition of a deferred tax asset in Glenlake as at the date of its acquisition. The tax losses giving rise to this deferred tax asset have been used during the period (against profits arising on the disposal of investment properties) and the deferred tax asset of £5.7m has therefore been written off as part of the tax charge for the period resulting in an increase in the deferred tax provision in the consolidated balance sheet. The net impact of the write back of negative goodwill and the increase in deferred tax is an increase in distributable profits of £0.7m.

## Profit on sale of investment properties

During the year to 31 March 2003 the Group sold £134.7m of investment property on which it made £2.1m (2002: £2.5m) of profit over book value and sale costs. The properties sold included office investments at 60 Sloane Avenue, London SW3, Cheapside House, London EC2, 141-143 Drury Lane, London WC2, Dextra Court, Basingstoke and West Street Epsom. In addition a small industrial unit in Hailsham was sold.

### Net interest payable

The Company has always sought to protect itself against adverse movements in interest rates through the use of interest rate caps and short to medium term fixed rates when rates are low rather than through the issue of expensive longer term debentures and other fixed rate borrowings. This policy has continued to bear fruit in the year under review where the application of prevailing low rates of interest to the reduced level of borrowings resulted in a reduction in interest payable to £11.9m (2002: £18.0m).

Interest receivable during the year on cash balances was £2.2m (2002: £2.6m). The Company tends to keep actual cash balances to the minimum to reduce the costs of borrowing but as with last year there was a higher than normal level of cash on deposit throughout the year due to the forward sale of 3 Bunhill Row. The proceeds received at the time of the pre-sale have now been expended on the construction of the offices resulting in much reduced cash balances at the year end.

Finance arrangement costs of £0.8m (2002: £0.4m) reflect a higher than normal write off of refinancing costs in respect of cancelled bank facilities. Interest has been capitalised in respect of the development sites at Amen Corner, Bracknell and Liphook but is much reduced from previous periods.

<b>Net interest payable</b>	<b>2003 £000</b>	<b>2002 £000</b>	<b>2001 £000</b>	<b>2000 £000</b>	<b>1999 £000</b>
Interest payable on bank loans	9,543	14,804	19,514	17,893	14,097
Other interest payable	2,351	3,215	1,343	2,350	1,760
Finance arrangement costs	783	408	572	365	256
Interest capitalised	(795)	(1,006)	(1,597)	(2,661)	(2,088)
Interest receivable	(2,244)	(2,642)	(591)	(1,563)	(1,510)
Loan termination costs	–	–	–	(36)	–
	<b>9,638</b>	<b>14,779</b>	<b>19,241</b>	<b>16,348</b>	<b>12,515</b>

### Taxation

The corporation tax charge for the year is greater than the standard rate of 30% due to the sale of £134.7m of investment property. However, despite these sales and the release of revaluation gains of £34.0m, the use of tax losses and the impact of indexation has reduced the taxable element of these profits to £10.0m. The use of available tax losses is expected to mean that a corporation tax charge to the profit and loss account in the year to 31 March 2004 will not arise out of the sale of Capital House, London NW1.

The deferred tax charge for the year reflects the write off of the deferred tax asset referred to above and the additional provision required in respect of capital allowances claimed in the year. These charges have been offset by a reduction in the provision where we have sold investment property and no longer have the potential for a clawback of the allowances claimed to date.

### Dividends

The Board is recommending to shareholders at the Annual General Meeting on 23 July 2003 a final dividend of 9.00p per share (2002: 8.25p) to be paid on 24 July 2003 which, with the interim dividend of 6.00p, makes a total of 15.00p. This is an increase of 9% on the previous year's dividend of 13.75p. This is covered over four times by profits after tax.

<b>Dividends</b>	<b>2003 pence</b>	<b>2002 pence</b>	<b>2001 pence</b>	<b>2000 pence</b>	<b>1999 pence</b>
Interim	6.00	5.50	5.00	4.40	4.00
Final	9.00	8.25	7.50	6.75	6.00
	<b>15.00</b>	<b>13.75</b>	<b>12.50</b>	<b>11.15</b>	<b>10.00</b>
Special	–	100.00	–	–	100.00
	<b>15.00</b>	<b>113.75</b>	<b>12.50</b>	<b>11.15</b>	<b>110.00</b>

Including special dividends, the Company's average dividend over the last five years was 52p or 8% on the current share price.

### Earnings per share

Earnings per share in the year to 31 March 2003 were 61.2p (2002: 60.0p) per share and on a diluted basis were 59.2p (2002: 57.8p) per share.

<b>Earnings per share</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>pence</b>	<b>pence</b>	<b>pence</b>	<b>pence</b>	<b>pence</b>
Earnings per share	61.2	60.0	70.0	55.0	66.7
Diluted earnings per share	59.2	57.8	67.7	53.7	50.7

### Investment portfolio

During the year the investment portfolio changed significantly with sales of over £130m of Central London offices and the purchases of over £42m of retail and industrial units. In addition around £5m of capital expenditure was spent on refurbishing various office, industrial and retail buildings. At 31 March 2003 there was a revaluation deficit of £13.4m (2002: surplus £18.5m) on the investment portfolio.

<b>Investment portfolio</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Cost or valuation at 1 April	439,911	453,607	419,570	332,457	250,718
Additions at cost	47,175	32,838	24,341	163,029	76,920
Disposals	(131,168)	(65,062)	(29,624)	(106,320)	(14,357)
Revaluation	(13,434)	18,528	39,320	30,404	19,176
Cost or valuation at 31 March	342,484	439,911	453,607	419,570	332,457

Since the year end Capital House has been sold at its 31 March 2003 valuation of £41m.

### Net asset values

The retained profits of £13.1m (2002: retained losses £15.3m) less the revaluation deficit of £13.4m (2002: surplus £18.5m) and movements in minority interest led to a reduction in net assets to £238.5m (2002: £239.1m after payment of £28.4m special dividend).

In calculating the net assets per share a provision has been made for the deferred tax which would become payable should all the capital allowances claimed to date be clawed back as a taxable adjustment in the Company's tax computations. The Company believes this clawback is unlikely and accordingly, has calculated the diluted net asset value assuming this not to be the case in line with current practice. Adjusted diluted net assets per share of 770p compare to 769p in 2002. After allowing for the unprovided deferred tax on revaluation surpluses and the value ascribed to financial instruments, the adjusted diluted triple net asset value of the Company has increased from 663p to 702p at 31 March 2003.

<b>Net asset values per share</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>pence</b>	<b>pence</b>	<b>pence</b>	<b>pence</b>	<b>pence</b>
Diluted net asset value – 1	770	769	754	581	473
Diluted net asset value – 2	702	663	655	516	406

1 – net asset value diluted for share options, but adding back the provision of deferred tax on clawback of capital allowances.

2 – net asset value diluted for share options, unprovided deferred tax, FRS13 value of financial instruments but adding back the provision of deferred tax on clawback of capital allowances.

### Borrowings and financial risk

The Company's ongoing reduction in its exposure to the Central London office market has continued the reduction in debt and, at 31 March 2003, net debt had fallen to £140.9m from £152.4m. The Company's net gearing fell to 59% from 64% at 31 March 2002. The sale of Capital House since the year end has further reduced net debt and gearing to £105.6m and 45% at 12 June 2003.

<b>Net debt and gearing</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
Net debt	£140.9m	£152.4m	£232.8m	£243.1m	£174.5m
Gearing	59%	64%	99%	131%	123%

The Company seeks to manage financial risk by ensuring that there is sufficient financial liquidity to meet foreseeable needs and to invest surplus cash safely and profitably. At the year end, Helical had £53m of undrawn bank facilities and cash of £16.1m (2002: £75.5m). In addition it had £115m of uncharged property on which the Company could borrow funds.

Helical insures against adverse movements in interest rates through the use of a number of interest rate hedging instruments. Borrowings of £49m are capped until 2004 and £111m until 2006 at interest rates between 6.00% and 7.50%. A further £80m is capped at 7.00% from January 2006 until September 2009. The Company has £18.5m of interest rate swaps at rates which vary from 5.0% to 5.8% and a fixed rate loan of £8.8m at 9.05% until 2009. The Company has interest rate floors at 4.73% on £80m until January 2006, at 4.83% on £80m from January 2004 to January 2006, and on £80m at 4.80% from January 2006 until September 2009.

As at 12 June 2003 Helical average interest rate was 5.6%.

FRS13 requires disclosure of financial instruments on a fair value basis and at 31 March 2003 an adjustment to reflect this basis would reduce net assets, after tax relief, by £5.1m (2002: £3.6m) which, if provided for, would reduce diluted net assets by 15p (2002: 6p).

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