Panther Securities PLC

Interim Report 2006

Chairman's Statement

Introduction

I am pleased to report the interim figures for the six months to 30th June 2006. Pre-tax profits amount to £1,692,000 compared to £2,785,000 for the same period last year.

Rental income receivable amounted to £3,724,000, as against £4,505,000 for the previous year's period.

These current year's figures are mainly lower due to the substantial property sales in earlier years, leaving lower rents in 2006, and there were larger profits produced on disposals in the period to June 2005.

Finance

The funds received from our property sales have not yet been reinvested and normally one would expect to receive higher rents than the interest received on the equivalent cash.

Under these circumstances, we have taken the opportunity to temporarily repay £8,000,000 off our HSBC loan. This facility still allows us to redraw the funds when we find suitable investment opportunities. We have also repaid £631,000 of building society loans as a consequence of the two Scottish property disposals. Currently, £40,000,000 is available to us under the HSBC facility, part of which may be drawn without granting further security to the bank. We also had over £5,500,000 cash at the balance sheet date.

Disposals

In February 2006 we sold two properties at auction; 22 Westburn Street, Greenock, for £700,000 and 70 High Street, Elgin for £583,000. Together after costs, they showed a small profit on the December 2005 revaluation. However, they produced a good profit over the value attributed to them when we originally acquired Eurocity Properties PLC in November 2002.

In the same month we sold virtually all of our shareholding in Hawtin PLC which gave us a profit of approximately £480,000. Shareholders may recall that we acquired 15% of Hawtin PLC at a cost of £1,488,000 in June 2004. A year later, we started discussions with Hawtin's board with a view to our making an agreed offer for the company. By November 2005, however, it was apparent and announced that an agreement could not be reached. Shortly thereafter, we were approached by a prospective purchaser for our holding, the sale of which was successfully concluded in February 2006. We purchased Hawtin at 13p per share and sold at 18¼p per share – a most satisfactory result. We retain a residual holding of 623,000 shares.

Acquisitions

In March 2006, we bought a large freehold property for a total cost of £990,000. It comprises four adjoining shops and upper parts in Queens Road, Southend-on-Sea, close to the prime retail area and is let in its entirety to HMV PLC.

In June 2006, we acquired a freehold double shop and upper parts at 182/184 Northdown Road, Cliftonville, Kent. It is close to some of our existing properties and was acquired at a cost of £410,000. This is let to W H Smith PLC, who sub-let at a profit rent.

In the same month we acquired the freehold of 25 Guildhall Street, Folkestone, for approximately £232,000. It is sited between 21/23 and 27 Guildhall Street, Folkestone, which are properties we have owned for some time. We are currently carrying out a major rebuild of No 27 to provide 13 residential units in the upper parts. We are also converting the upper part of No 23 into three self-contained residential units, although we have not yet decided whether we will retain and let the units, or sell them off individually.

Investments

Elektron PLC

Our investment in Elektron PLC is performing well, and Elektron recently announced improved figures and an increased dividend. We were originally attracted to the transaction because they became our tenants in the large factory premises in West Molesey, which have considerable long-term potential.

Real Estates Investors PLC

We have a substantial holding in this small AIM Listed property company, and whilst the current share price is slightly below our book value, we have every confidence in the management of this company. We have recently sold our investment at 30 High Street, Paisley to them for £1,100,000, with part payment of £200,000 by way of ordinary shares, valued at 10p each. This sale is in excess of the December 2005 Valuation and the profit will be brought into the full year's figures.

Post Balance Sheet Events

As well as the sale of 30 High Street, Paisley mentioned above, we have also sold 206/208 Main Street, Barrhead, for £975,000. This sale was also well over the December 2005 Valuation, and the profit will also be included in the figures for the year ended 31st December 2006.

Other Events

Ramsgate

In my chairman's statement for last year's accounts, I mentioned the long delays we experienced in our efforts to obtain planning permission on our site in High Street, Ramsgate. I am pleased to say that at last we received planning permission for 20 flats.

MRG Systems Limited

We have long held an investment in MRG Systems Limited, a small high-tech company, whose founding was financed by us in 1985/6. The company specialises in teletext systems and, although successful in a very limited field, its turnover and profits are erratic.

Our original investment of £75,000 now has a value based on its share of its net assets of £300,000. This is not material in relation to our total net assets. Recently, however, the founding director and major shareholder expressed a wish to retire. It was therefore agreed that MRG Systems Limited would purchase his holding for cancellation out of the cash profits it had produced over the last few years. There is of course an existing management team to continue running the business. We are thus left owning 72% of MRG Limited, which becomes a subsidiary, and means under current accounting rules has to be fully consolidated in our accounts and this of itself will have an increased tax charge on profits by virtue of it becoming a subsidiary. This distorts our turnover and overheads but not the profit for an investment that is very, very minor to our overall business. Once again, accounting rules distort and tax rules punish, rather than contribute to an understanding of the accounts.

Dividends

An interim dividend of 6p per share was paid on 27th June 2006 and your board anticipate recommending a final dividend of not less than 5p per share for the year ending 31st December 2006.

The Shambles Gets Worse

My interim statement does not allow space for a full rant on the foolishness of the system we "hard labour" under, but my supplement gives two stories from my past property dealings, which may have some relevance. The first, *"The Tailor who Cried"* and the second, *"The Salesman who Died"*.

Outlook

Whilst it is difficult to find attractive investment opportunities for the funds we have available, our existing portfolio seems to be producing some good opportunities for improvement in both income and profits in due course. I also believe there will be more interesting opportunities available to us in the near future, because of our strong liquidity, which allows us to act quickly and decisively in situations where vendors' cash requirements mean speed is more important than the prices being obtained.

Andrew S. Perloff
Chairman

20 September 2006

The Tailor who Cried

Some 35 years ago, whilst still a young man, I had the task of dealing with a lease renewal on a shop and upper part in Commercial Road, E1, close to Limehouse Station. The property had been let on a 21 year full repairing and insuring lease at a rental fixed throughout the term at £250 per annum (a long letting at a fixed rent was not unusual at that time) and this had now expired.

I had served a termination notice, offering a new lease, but no reply was forthcoming. The tenant thus lost his renewal rights. As the tenant had always paid promptly, I and my partner Malcolm decided to call in to see him and discuss the matter.

When we called the door was opened by a short (much shorter than me) old (much, much, older than I then was) Jewish tailor, who had taken the original lease and apparently lived upstairs. The shop consisted of a bare shop divided in half by a large cutting table. The walls had numerous paper patterns pinned to them and it was apparent that the property had not received a visit from a decorator since the lease commenced. The chalk-dust covered suit worn by our tenant had certainly seen better days.

After the tailor had regaled us with his gloomy stories of poor trade, the high cost of materials, and how nobody wanted bespoke suits, I reduced the proposed rent from £750 pa to £600 pa. He became more mournful, saying he would have to give up the business and work for someone else doing alterations, so I suggested that, if he wished, he could vacate the shop and thus stop paying rent, although he must carry out the schedule of dilapidations for the redecoration of the premises, which I suggested, would cost no more than £500-£600. This burden was obviously too much for him to bear, he prostrated himself upon the cutting table, crying loudly with profuse tears, "I've no money, I'll go bankrupt, me and Golda will have to live with her sister, who hates me, my wife will leave me, I'll have to go to a hostel!"

Malcolm and I were visibly moved by this poor man's terrible plight, and wanting to help him, I instantly agreed to waive the dilapidations and reluctantly allowed him to stay on at the same rent until we could re-let. His tears subsided and we left, with him thanking us, but still sobbing slightly, eyes bright with tears. Four or five months later, the property was let at £1,000 pa as a Chinese take-away shop and subsequently sold.

This incident would have all but been forgotten but for the fact that four or five years later I let a room in Panther House to a small Jewish tailor. Assuming tailoring to be a small world, I asked him if he knew my former tenant. "Oh, yes" he replied, "what a very, very clever man! He works from his home in Kenton, a beautiful detached freehold that he bought for nothing in 1952. He makes a wonderful living."

I could not help but feel relief that his circumstances were so much better than I had originally feared, but also slightly foolish that I had been so easily misled. I don't know if he ever won prizes for his tailoring, but he certainly would have been a contender for a Laurence Olivier Drama Award.

The Salesman who Died

About 10 years after the tailor incident, I came to be letting a shop and upper part in Upper Street, Islington.

Two Iranian exiles approached us wanting to rent the property for an antique carpet showroom. They could not supply references, but they explained that they had escaped from Iran with their stock of carpets, and had been experienced traders in their own country before being forced to leave.

They offered to pay nine months' rent in advance if we were to let them have a three month rent free period to fit out the shop. This clinched matters, as money was tight at that time. They took over the shop and made it into a very attractive showroom, with carpets draped all round the walls, and stacked on the floors. We were very pleased with this letting. A year passed, and it was about time to start collecting rent. From the outset, however, they were bad payers, and gradually they fell further and further into arrears. They were always pleasant to speak to, and they always had an excuse. For the sake of expedience, I shall call them Nazir and Wazir, Wazir appearing to be the main partner.

One day when total arrears had reached six months rent, Malcolm phoned and spoke to Nazir, saying that we were at the end of our patience, to which Nazir pleasantly replied that he fully understood, but Wazir signed all cheques and was at home ill. Malcolm said "All right, I'll phone in two weeks and hopefully he will be better and back at work. Malcolm called again after two weeks and was told Wazir was seriously ill and in hospital, and could not receive visitors at the moment.

After another month of hearing nothing, Malcolm phoned again and, without waiting for an excuse, angrily began with, "We can't wait any longer, we must have some rent!"

Nazir cut in, "Wazir died last week!". That, of course, was a conversation stopper. After humming and hawing, Malcolm expressed our deepest sympathies, and said that we would leave matters for another month, to enable Nazir to sort matters out. Six weeks later, we had heard no more, so we decided to call unexpectedly at the shop to see if Nazir had "done a runner".

When we arrived outside the shop, all appeared exactly as normal, fully stocked and open for trade. We walked in, and behind an antique desk at the back of the shop sipping coffee from dainty china coffee cups were Nazir **and** Wazir.

We approached Wazir and expressed surprise at his good health and liveliness after hearing of his death from Nazir. He replied, "Ah, yes. Thanks be to the all merciful God. From my deathbed almighty God produced a miraculous recovery for me. Praise be to God."

Well, his God wasn't my God, and didn't feel able to produce any miraculous recovery of our rent arrears. So, in due course, with rather less divine methods, we managed to repossess and re-let the property.

However, some five years later, about 1988 or '89, at the height of the last property boom, we sold the property at a miraculous price. So, with hindsight, perhaps his God did produce a miracle for us – but just took a little longer to get around to non-believers.

Over the years, I have many examples of people who, to protect their own financial interests, will tell little "porky pies".

You may ask what is the relevance of these stories, and how they relate to my dissatisfaction with Government – I will explain.

We have three main political parties, all promising to spend huge sums either greater but never less than their opponents. These carefully thought out policies are based on the hypothesis that numerous surveys and polls show that when "Joe Public" is asked whether he would like Government to spend more money on Education, the National Health Service, the Police etc, etc, the questioner nearly always gets the answer – YES!

But the real meaning of that answer is "YES, but somebody else's money, **not my money**".

If, after answering yes to that question, a person instead was then asked to make a donation of £250 to their local hospital and a blank cheque produced for them to sign, I suspect that the local hospital in question would have several additional emergency cases to deal with.

Andrew S. Perloff
Chairman

20 September 2006

Consolidated Income Statement

For the six months ended 30 June 2006

	Six months ended 30 June 2006 £'000	Six months ended 30 June 2005 £'000	Year ended 31 December 2005 £'000
Revenue	**4,247**	4,905	8,498
Cost of sales	**(1,165)**	(1,216)	(2,035)
Gross profit	**3,082**	3,689	6,463
Other income	**54**	52	133
Administrative expenses	**(1,026)**	(870)	(2,061)
	2,110	2,871	4,535
Profit on the disposal of investment properties	**171**	662	1,607
Movement in fair value of investment properties	**70**	–	22,537
Finance costs	**(1,437)**	(1,587)	(3,281)
Investment income	**323**	522	877
Profit on the disposal of available for sale investments (shares)	**480**	87	87
Profit on sale of subsidiary	**–**	66	66
Surplus of assets acquired over consideration given	**–**	17	17
Share of result from associate	**(25)**	147	104
Profit before tax	**1,692**	2,785	26,549
Income tax expense	**(112)**	(512)	(5,938)
Profit for the period	**1,580**	2,273	20,611
Attributable to:			
Equity holders of the parent	**1,589**	2,273	20,611
Minority interest	**(9)**	–	–
Net profit for the period	**1,580**	2,273	20,611
Earnings per share			
Basic and diluted	**9.3p**	13.4p	121.3p

Consolidated Balance Sheet

As at 30 June 2006

	30 June 2006 £'000	30 June 2005 £'000	31 December 2005 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	**20**	7	9
Investment property	**100,170**	79,119	99,881
Goodwill	**13**	–	–
Interests in Associate	**–**	407	364
Available for sale investments (shares)	**1,779**	3,078	3,047
	101,982	82,611	103,301
Current assets			
Inventories	**152**	–	–
Stock properties	**9,770**	9,525	9,534
Available for sale investments (shares)	**424**	423	410
Trade and other receivables	**3,547**	3,424	3,196
Cash and cash equivalents	**5,594**	13,715	14,546
	19,487	27,087	27,686
Total assets	**121,469**	109,698	130,987
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Capital and reserves			
Share capital	**4,250**	4,250	4,250
Share premium account	**2,886**	2,886	2,886
Capital redemption reserve	**571**	571	571
Retained earnings	**59,650**	42,460	59,925
	67,357	50,167	67,632
Minority interest	**116**	–	–
Total equity	**67,473**	50,167	67,632
Non-current liabilities			
Long-term borrowings	**38,009**	47,635	46,562
Deferred tax liabilities	**10,778**	5,566	11,010
	48,787	53,201	57,572
Current liabilities			
Trade and other payables	**3,988**	3,703	4,350
Short-term borrowings	**109**	224	187
Current tax payable	**1,112**	2,403	1,246
	5,209	6,330	5,783
Total liabilities	**53,996**	59,531	63,355
Total equity and liabilities	**121,469**	109,698	130,987

Consolidated Statement of Recognised Income and Expenditure

For the six months ended 30 June 2006

	Six months ended 30 June 2006 £'000	Six months ended 30 June 2005 £'000	Year ended 31 December 2005 £'000
Movement in fair value of available for sale investments (shares) taken to equity	**116**	(35)	(66)
Deferred tax relating to movement in fair value of available for sale investments (shares) taken to equity	**(110)**	12	20
Net income/(expense) taken directly to equity	**6**	(23)	(46)
Profit for the period	**1,580**	2,273	20,611
Total recognised income and expense for the period	**1,586**	2,250	20,565
Attributable to:			
Equity holders of the parent	**1,595**	2,250	20,565
Minority interest	**(9)**	–	–
	1,586	2,250	20,565

Consolidated Cash Flow Statement

for the six months ended 30 June 2006

	30 June 2006 £'000	30 June 2005 £'000	31 December 2005 £'000
Cash flows from operating activities			
Profit before interest, investment income and tax	**2,110**	2,871	4,535
Add: Depreciation charges for the year	**3**	3	9
Less: Provision against available for sale investments (shares) – current assets	**(13)**	–	13
Profit before working capital change	**2,100**	2,874	4,557
(Increase)/decrease in stock properties	**(189)**	230	221
(Increase)/decrease in receivables	**(192)**	839	1,067
Increase/(decrease) in payables	**(636)**	25	328
Cash generated from operations	**1,083**	3,968	6,173
Interest paid	**(1,437)**	(1,754)	(3,105)
Income tax paid	**(479)**	(765)	(1,896)
Net cash from operating activities	**(833)**	1,449	1,172
Cash from investing activities			
Purchase of plant and equipment	**(3)**	(1)	(9)
Purchase of investment properties	**(1,516)**	(282)	(632)
Purchase of available for sale investments (shares) – non current assets	**–**	(100)	(100)
Purchase of available for sale investments (shares) – current assets	**(1)**	(7)	(7)
Investment in subsidiaries	**–**	(76)	(76)
Acquisition of subsidiary – cash and cash equivalents acquired	**361**	–	–
Proceeds from disposal of subsidiary	**–**	66	66
Proceeds from sale of investment properties	**1,469**	9,637	12,707
Proceeds from disposal of available for sale investments (shares) - non current assets	**1,749**	399	399
Dividend income received	**8**	7	37
Interest income received	**315**	516	840
	2,382	10,159	13,225
Cash from financing activities			
New loans net of repayments	**(8,631)**	(11,276)	(12,384)
Dividends paid	**(1,870)**	(1,954)	(2,804)
	(10,501)	(13,230)	(15,188)
Net (decrease) in cash and cash equivalents	**(8,952)**	(1,622)	(791)
Cash and cash equivalents at the beginning of period	**14,546**	15,337	15,337
Cash and cash equivalents at the end of period	**5,594**	13,715	14,546

Notes to the Interim Financial Report

For the six months ended 30 June 2006

1. Basis of preparation of accounts

The results for the year ended 31 December 2005 have been audited whilst the results for the six months ended 30 June 2005 and 30 June 2006 are un-audited. The interim report is un-audited and does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The statutory accounts for the year ended 31 December 2005 have been delivered to the Registrar of Companies. The auditors' opinion on these accounts was unqualified and did not contain a statement made under s237(2) or s237(3) of the Companies Act 1985. Copies of the report are available from the address shown in note 8.

There is no material seasonality associated with the group's activities.

To the best of the Directors' knowledge, the half yearly interim financial report gives a true and fair view of the assets, liabilities, financial position and profit or loss of the entity and were approved by the board on 11 September 2006.

The Interim figures are prepared on the basis of the accounting policies set out in the last annual report to 31 December 2005.

2. Taxation

The charge for taxation comprises the following:

	30 June 2006 £'000	30 June 2005 £'000	31 December 2005 £'000
Current period UK corporation tax	**455**	2,060	2,242
Prior period UK corporation tax	**–**	29	(180)
Current period deferred tax	**(343)**	(1,577)	3,876
	112	512	5,938

The taxation charge is calculated by applying the Directors' best estimate of the annual effective tax rate to the profit for the period.

3. Dividends

Amounts recognised as distributions to equity holders in the period:

	30 June 2006 £'000	30 June 2005 £'000	31 December 2005 £'000
Final dividend for the year ended 31 December 2005 of 5p (2004 – 4p) per share	**850**	680	680
*Special interim dividend for the year ended 31 December 2005 of 10p per share	**–**	1,274	1,274
Interim dividend for the year ended 31 December 2006 of 6p (2005 – 5p) per share	**1,020**	–	850
	1,870	1,954	2,804

*A S Perloff waived his personal entitlement to the special 10p dividend for the year ended 31 December 2005.

The Directors anticipate recommending a final dividend of not less than 5p per share for the year ended 31 December 2006.

Notes to the Interim Financial Report

continued

4. Earnings per ordinary share (basic and diluted)

The calculation of earnings per ordinary share is based on earnings, after minority interests, of £1,589,000 (30 June 2005 – £2,273,000 and 31 December 2005 – £20,611,000) and on 16,998,151 (30 June 2005 and 31 December 2005 – 16,998,151) ordinary shares being the weighted average number of ordinary shares in issue throughout the six months ended 30 June 2006.

5. Net assets per share

	30 June 2006	30 June 2005	31 December 2005
Net assets per share	**396p**	295p	398p

The calculation of net asset per ordinary share is based on the equity attributable to share holders of the equity in the parent company, and on 16,998,151 (30 June 2005 and 31 December 2005 – 16,998,151) ordinary shares being the weighted average number of ordinary shares in issue throughout the six months ended 30 June 2006.

6. Investment Properties

	30 June 2006 £'000	30 June 2005 £'000	31 December 2005 £'000
Fair value of investment property			
At 1 January	**99,881**	87,812	87,812
Additions	**1,516**	282	632
Disposals	**(1,297)**	(8,975)	(11,100)
Revaluation increase	**70**	–	22,537
	100,170	79,119	99,881

7. Retained earnings

	30 June 2006 £'000	30 June 2005 £'000	31 December 2005 £'000
At 1 January	**59,925**	42,164	42,164
Profit for the period	**1,589**	2,273	20,611
Movement in fair value of available for sale investments (shares) taken to equity	**116**	(35)	(66)
Deferred tax relating to movement in fair value of available for sale investments (shares) taken to equity	**(110)**	12	20
Dividends paid	**(1,870)**	(1,954)	(2,804)
	59,650	42,460	59,925

8. Copies of this report are to be sent to all shareholders and are available from the Company's registered office at Panther House, 38 Mount Pleasant, London WC1X 0AP.

Panther Securities PLC
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