

2011

Interim Report



McKay
Securities PLC

Directors and Company Information

Directors

David Thomas F.C.A.
Chairman

Simon Perkins BSc(Hons), M.R.I.C.S.
Managing Director

Giles Salmon B.Com. F.C.A.
Finance Director

Steven Mew DipProplnv. M.R.I.C.S.
Director

Andrew Gulliford F.R.I.C.S.
Senior Independent Director

Nigel Aslin F.R.I.C.S.
Non-executive

Viscount Lifford F.S.I.
Non-executive

Secretary

Joanne McKeown A.C.I.S.

Registered Office

20 Greyfriars Road
Reading
Berkshire RG1 1NL
Tel: 0118 950 2333

Registered Number

421479

Website

www.mckaysecurities.plc.uk

Registered Auditor

KPMG Audit Plc
Chartered Accountants
Arlington Business Park
Theale
Reading
Berkshire RG7 4SD

Corporate Solicitors

Slaughter and May
One Bunhill Row
London EC1Y 8YY

Registrar and Transfer Office

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
U.K.: Tel: 0871 384 2101
Overseas: Tel: 44(0) 121 415 7047

McKay Securities PLC is a commercial property investment company with Real Estate Investment Trust (REIT) status specialising in the development and refurbishment of quality buildings within established and proven markets of South East England and central London. Completed projects are generally retained for growth within the Group's portfolio, valued in excess of £209 million.

Properties are not traded and are actively managed to maximise income potential. As a result, there is a hardcore rental stream under-pinning profits growth which is further secured from time to time by the sale of investment properties.

Contents

02	Financial Highlights	08	Consolidated Statement of Comprehensive Income
03	Chairman's Statement	09	Group Balance Sheet
06	Responsibility Statement of the Directors	10	Group Cash Flow Statement
07	Independent Review Report to McKay Securities PLC	11	Consolidated Statement of Changes in Equity
		12	Notes to the Financial Statements

Financial Highlights

Profits and earnings	Adjusted profit before tax £2.50 million (30th September 2010 – £2.52 million) Loss before tax £13.99 million (30th September 2010 – loss £12.12 million) Earnings per share (EPRA) 5.22 pence (30th September 2010 – 6.56 pence)
Portfolio value	£209.25 million (31st March 2011 – £208.52 million)
Net asset value per share	NAV (EPRA) – 224 pence (31st March 2011 – 223 pence) NAV (Basic) – 161 pence (31st March 2011 – 197 pence)
Net debt	£95.60 million (30th September 2010 – £90.21 million)
Loan to value	47.2% (31st March 2011 – 46.9%)
Interim dividend	2.7 pence per share (30th September 2010 – 2.7 pence)

Chairman's statement

Profit before tax, adjusted to exclude non recurring profit on sales, surrender premiums, and unrealised movements in the value of both the Group's property portfolio and its interest rate hedging instruments was £2.50 million, compared with £2.52 million for the six month period to 30th September 2010. Adjusted earnings per share was 5.38 pence (2010: 5.50 pence).

The external valuation of the Group's property portfolio at 30th September 2011 was £209.25 million, representing a 0.02% increase (£0.05 million) in book value for the half year period. The Group's interest rate hedging instruments reduced in value by £16.72 million. With the inclusion of these unrealised movements, the Group reported a loss before tax of £13.99 million (2010: £12.12 million loss).

Net asset value per share (EPRA) was 224 pence, an increase of 0.4% from 223 pence reported at 31st March 2011. Basic net asset value per share reduced from 197 pence to 161 pence mainly on account of the negative movement in the value of the interest rate hedging instruments.

The Board has declared an interim dividend of 2.7 pence per share (2010: 2.7 pence).

Review

The Group's properties have had a stable and positive start to the financial year. The office and industrial sectors of central London and South East England, the focus of our activity, have proved more resilient than other markets to date. The firm financial platform that we have established has been maintained, and adjusted profit before tax of £2.50 million was at a similar level to the equivalent period last year.

The retention and generation of income and the release of value from the existing portfolio have continued to be key priorities which have contributed to this result. High occupancy levels have been maintained and we continue to collect in excess of 90% of rental income within seven days of the due date.

The underlying strength of our tenant base, which supports this recurring income stream remains closely monitored and 65% of contracted rental income continues to be paid by tenants with net worth in excess of £15 million (source: Dun and Bradstreet). The high quality and established locations of our assets have also assisted performance as occupiers and investors have become more selective.

Towards the end of the last financial year the Group restructured its interest rate hedging facilities, significantly reducing the extent of these facilities in order to mitigate the previously over-hedged position. This was well timed as interest rate projections have fallen since then which would have made the restructure more expensive. The valuation of the retained facilities has reduced as a result of this fall in rates, and the loss reported for the period at headline level is directly attributable to these unrealised movements.

Across the Group's South East and central London markets, the improved conditions reported in June have generally been maintained. Demand from a diverse range of occupiers in our South East office market, which accounts for 40% of the portfolio by value, remains steady at 3.5 million sq ft; take up for the year as a whole is expected to be similar to the 2.0 million sq ft achieved last year. Grade A supply within this market has fallen by 11% over the last twelve months to a vacancy rate of 8% and new supply has reduced by 24% to a low vacancy rate of 3%. With continued take up of new buildings in particular there remains upward pressure on rental values in the most under-supplied centres for the best quality buildings. Considerable variations remain between centres and our market knowledge and contacts have continued to be of great importance in securing occupier interest and in assessing acquisition opportunities.

This market knowledge helped secure ten lettings over the period with a total contracted rent of £0.78 million pa. Of these, eight were new lettings and two were lease renewals. In general, the new lettings were of smaller portfolio voids, but of particular note was the letting of Units 1 & 2 (19,250 sq ft) at the McKay Trading Estate, Poyle. Interest was

Chairman's statement continued

only secured after refurbishment of the units, which supports our view that properties generally benefit from refurbishment prior to marketing.

This proved to be the case at Eastgate House, Fleet (13,780 sq ft), where we received strong interest on completion of the refurbishment at the beginning of the summer. Although that interest did not lead to a letting, the refurbishment gives the building a competitive advantage and marketing continues, along with other void properties including the remaining three units at Poyle (24,250 sq ft); Switchback Office Park, Maidenhead (16,570 sq ft); and Pegasus Place, Crawley (17,750 sq ft).

Our active approach to portfolio management helped retain 78% of tenants at lease break or expiry, securing £0.80 million of contracted annual rent. Overall this was 6.6% ahead of valuation rental values, and 2.0% ahead of passing rents.

The most significant break exercised was at Great Surrey House, SE1 (21,560 sq ft). This was anticipated and the payment by the outgoing tenant of a penalty of six months rent will provide cover for the remainder of the year whilst the building is marketed. This attractive office building is in a prominent location close to Southwark Underground and the new southern entrance to Blackfriars station. It is therefore in a highly accessible area which has improved significantly with recent investment in local infrastructure and amenities. This has helped attract occupiers into the area from the City and West End, which has generated rental growth and contributed to a low vacancy rate for Grade A product. A number of refurbishment options are being appraised to take best advantage of this evolving market.

The void level as a percentage of portfolio rental value reduced from 10.9% as at 31st March 2011 to 10.7%, increasing to 13.5% at the end of the period with the inclusion of Great Surrey House which was vacated on 28th September.

We continue to monitor the City of London market closely as prospects for the timing

and delivery of the redevelopment of 30/32 Lombard Street, EC3, which will replace the existing 30,000 sq ft building with a top quality 60,000 sq ft office building in this prime City location, are dependent on a predictable letting market. Design work is underway, and a review of the development options available will be carried out in the spring, ahead of potential vacant possession at the end of December 2012.

Elsewhere in the portfolio, the lease expiry at 100 Bothwell Street, Glasgow (100,000 sq ft) is due at the end of December 2013. A dialogue with the existing occupier regarding a lease extension has been maintained, and refurbishment and redevelopment proposals are also under consideration as the limited supply of good quality office buildings in the central Glasgow market makes this a potentially attractive way forward.

We continue our selective approach to the appraisal of earnings enhancing acquisition opportunities with the potential for capital gain through active management, refurbishment or development. Lending banks appear to be coming to terms with their distressed loan books, but the market is still waiting for a more significant flow of property to come from that source. However, investment values in a number of cases are now more reflective of the risks associated with lower rental levels and the cost of refurbishment.

Since the end of the period, the Group has taken advantage of this and acquired Doncastle House, Bracknell (33,600 sq ft) at a price of £2.71 million, generating an initial yield of 12.5% off low average rents in the region of £15 psf, with a potential yield of 17.5% when fully let. The purchase price equates to £85 psf, which is significantly below the cost of reinstatement. The property has excellent car parking and provides small flexible suites with good access to the motorway network. The intention is to improve the quality and occupancy of the building with limited external and internal improvement, keeping under review the possibility of renewing and implementing a recent planning consent for an additional 12,000 sq ft.

Valuation

The independent valuation of the Group's property portfolio as at 30th September 2011 totalled £209.25 million, representing a 0.02% (£0.05 million) increase in book value from 31st March 2011. Gains within the portfolio were mainly from London properties which increased in value by 2.6% overall, due to a combination of lettings and yield shift. The South East office portfolio declined in value by 1.8% and Glasgow by 2.2% due mainly to the valuation assumptions applied to those properties with approaching lease breaks or expiries. The industrial portfolio was up by 0.2%. The portfolio market rental value increased by 0.2% to £17.57 million. These compare with an increase of 0.6% in the capital value and 0.2% in the rental value of the IPD Monthly Index (All Property).

At 30th September 2011, the initial yield of the portfolio was 6.8% (March 2011: 6.9%) increasing to 7.1% (March 2011: 7.4%) on contracted rents once letting incentives expire. The true equivalent yield was 7.7% (March 2011: 7.8%).

Finance

The Group continues to benefit from four favourable banking facilities totalling £155.00 million. The first facility (£45.00 million) will expire in February 2016. Compliance has been maintained with all covenants over the period, maintaining low margins, flexible terms and no near term refinancing risk.

Net debt at 30th September 2011 was £95.60 million (30th September 2010: £90.21 million). The ratio of drawn debt to portfolio value (LTV) was 47.2% (30th September 2010: 43.8%), and the gearing ratio to shareholders' funds, adjusted in accordance with banking covenants, was 91.6% (30th September 2010: 83.2%).

Financial hedging instruments remain in place to protect the Group against high interest rates in respect of a notional sum of £105.00 million, reduced from £155.00 million in February 2011. The mark to market value of these instruments declined in value by

£16.72 million over the period to a negative value of £34.20 million. The Group is currently hedged at 106%, however purchases and anticipated capital expenditure on portfolio properties will see this reduce. The hedging position and the associated implications for the business remain under regular review.

The Group's average cost of debt for the period reduced to 5.4% (2010: 5.9%), reflecting the lower rates negotiated in the restructuring of the hedging instruments in February 2011.

Dividend

The Board is pleased to declare an interim dividend of 2.7 pence per share, which remains unchanged from the same period last year. This will be paid as a Property Income Distribution (PID) on 12th January 2012 to shareholders on the register on 2nd December 2011.

Future Prospects

At the beginning of the year there were encouraging signs that occupier markets were benefitting from a return of economic confidence, particularly in the South East and London, although since the summer this confidence has been eroded by the European debt crisis.

In what could prove to be a more challenging occupier market, growth in capital and rental values will increasingly be generated by those with the skills and finance to implement management and refurbishment initiatives, in the most resilient markets. Having continued to protect our stable financial base, and with detailed knowledge of our diverse occupier markets, we remain confident of the prospects to release value from an encouraging range of portfolio opportunities.



D.O. Thomas
Chairman

23rd November 2011

Responsibility Statement of the Directors

Six months to 30th September 2011

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU;
- the interim management report includes a fair review of the information required by:
 - (a) DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - (b) DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

S.C. Perkins
Managing Director

G.P. Salmon
Finance Director

23rd November 2011

Independent Review Report to McKay Securities PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30th September 2011 which comprises Consolidated Statement of Comprehensive Income, Group Balance Sheet, Group Cash Flow Statement, Consolidated Statement of Changes in Equity and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30th September 2011 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

Stephen Bligh for and on behalf of KPMG Audit Plc

Chartered Accountants
Arlington Business Park
Theale
Reading RG7 4SD

23rd November 2011

Consolidated Statement of Comprehensive Income

Six months to 30th September 2011

	Notes	6 months to 30th September 2011 (Unaudited) £'000	6 months to 30th September 2010 (Unaudited) £'000	12 months to 31st March 2011 (Audited) £'000
Gross rents and service charges receivable		9,451	9,550	19,054
Surrender premiums received		–	467	582
Direct property outgoings		(2,577)	(2,496)	(4,893)
Net rental income from investment properties	3	6,874	7,521	14,743
Administration costs		(1,647)	(1,725)	(3,470)
Operating profit before investment property disposals and revaluation movements		5,227	5,796	11,273
Profit on disposal of investment properties		–	11	11
Profit on disposal of listed investments		–	–	31
Movement in revaluation of investment properties	7	263	(972)	271
Operating profit		5,490	4,835	11,586
Net finance costs – finance costs	6	(19,561)	(17,040)	(6,668)
– finance income	6	15	15	20
		(19,546)	(17,025)	(6,648)
Share of results of associated undertaking		71	68	(441)
(Loss)/profit before taxation		(13,985)	(12,122)	4,497
Taxation	4	–	–	–
(Loss)/profit for the period		(13,985)	(12,122)	4,497
Other comprehensive income:				
Actuarial movement on defined benefit pension scheme		–	–	(122)
Total comprehensive (loss)/income for the period		(13,985)	(12,122)	4,375
(Loss)/earnings per share	5			
Basic		(30.48)p	(26.46)p	9.81p
Diluted		(30.48)p	(26.59)p	9.54p

Adjusted earnings per share figures are shown in note 5.

Group Balance Sheet

As at 30th September 2011

	Notes	As at 30th September 2011 (Unaudited) £'000	As at 30th September 2010 (Unaudited) £'000	As at 31st March 2011 (Audited) £'000
Non-current assets				
Investment properties	7	208,347	204,630	207,430
Plant and equipment		15	14	13
Investments		1,885	2,372	1,814
		<u>210,247</u>	<u>207,016</u>	<u>209,257</u>
Current assets				
Trade and other receivables		5,925	7,157	5,979
Cash and cash equivalents		3,096	2,837	2,519
		<u>9,021</u>	<u>9,994</u>	<u>8,498</u>
Total assets		<u>219,268</u>	<u>217,010</u>	<u>217,755</u>
Current liabilities				
Loans and other borrowings		–	(13,000)	–
Trade and other payables		(7,545)	(8,942)	(7,293)
Finance lease liabilities		(286)	(286)	(286)
Interest rate derivatives	8	(3,795)	(4,068)	(3,591)
		<u>(11,626)</u>	<u>(26,296)</u>	<u>(11,170)</u>
Non-current liabilities				
Loans and other borrowings		(98,348)	(78,177)	(97,313)
Pension fund liabilities		(1,047)	(1,093)	(1,090)
Finance lease liabilities		(4,122)	(4,123)	(4,123)
Interest rate derivatives	8	(30,402)	(32,606)	(13,888)
		<u>(133,919)</u>	<u>(115,999)</u>	<u>(116,414)</u>
Total liabilities		<u>(145,545)</u>	<u>(142,295)</u>	<u>(127,584)</u>
Net assets		<u>73,723</u>	<u>74,715</u>	<u>90,171</u>
Equity				
Called up share capital		9,176	9,176	9,176
Share premium account		2,478	2,478	2,478
Capital reserve		49,792	49,889	49,792
Revaluation reserve		11,069	10,024	10,780
Retained earnings		1,208	3,148	17,945
Total equity		<u>73,723</u>	<u>74,715</u>	<u>90,171</u>
Net asset value per share	10	161p	163p	197p
EPRA net asset value per share	10	224p	231p	223p

Group Cash Flow Statement

Six months to 30th September 2011

	6 months to 30th September 2011 (Unaudited) £'000	6 months to 30th September 2010 (Unaudited) £'000	12 months to 31st March 2011 (Audited) £'000
Operating activities			
(Loss)/profit before tax	(13,985)	(12,122)	4,497
Adjustments for:			
Depreciation	4	4	8
Other non-cash movements	293	396	721
Profit on disposal of investment properties	—	(11)	(11)
Profit on disposal of listed investments	—	—	(31)
Movement in revaluation of investment properties	(263)	972	(271)
Net finance costs	19,546	17,025	6,649
Share of profit of associate undertaking	(71)	(68)	441
Cash flow from operations before changes in working capital	5,524	6,196	12,003
Decrease/(increase) in debtors	10	(926)	323
Increase/(decrease) in creditors	469	304	(761)
Cash generated from operations	6,003	5,574	11,565
Interest paid	(3,055)	(2,196)	(11,636)
Interest received	15	15	18
Cash flows from operating activities	2,963	3,393	(53)
Investing activities			
Sale of investment properties	—	11	11
Sale of listed investments	—	—	35
Dividends from sundry investments	—	1	1
Dividends from associated undertaking	—	—	45
Purchase and development of investment properties	(809)	(724)	(2,534)
Purchase of other fixed assets	(8)	(2)	(5)
Cash flows from investing activities	(817)	(714)	(2,447)
Financing activities			
Increase in borrowings	1,000	2,000	8,100
Equity dividends paid	(2,569)	(2,519)	(3,758)
Cash flows from financing activities	(1,569)	(519)	4,342
Net increase in cash and cash equivalents	577	2,160	1,842
Cash and cash equivalents at the beginning of the period	2,519	677	677
Cash and cash equivalents at end of period	3,096	2,837	2,519

Consolidated Statement of Changes in Equity

Six months to 30th September 2011

	Attributable to equity holders of the parent company					Total equity £'000
	Share capital £'000	Share premium £'000	Revaluation reserve £'000	Capital reserve £'000	Retained earnings £'000	
At 1st April 2010	9,159	2,495	10,996	49,878	16,631	89,159
Profit for the year	–	–	–	–	4,497	4,497
Other comprehensive income:						
Transfer surplus on revaluation of properties	–	–	271	–	(271)	–
Transfer share of deficit on revaluation of properties in associated undertaking	–	–	(566)	–	566	–
Transfer on disposal of investment properties	–	–	79	(86)	7	–
Actuarial loss on defined benefit pension scheme	–	–	–	–	(122)	(122)
Total comprehensive income for the year	–	–	10,780	49,792	21,308	93,534
Dividends paid in year	–	–	–	–	(3,758)	(3,758)
Fair value of share based payments	–	–	–	–	395	395
Exercise of performance share plan awards	17	(17)	–	–	–	–
At 31st March 2011	9,176	2,478	10,780	49,792	17,945	90,171
Loss for the period	–	–	–	–	(13,985)	(13,985)
Other comprehensive income:						
Transfer surplus on revaluation of properties	–	–	289	–	(289)	–
Total comprehensive loss for the period	–	–	289	–	(14,274)	(13,985)
Dividends paid in period	–	–	–	–	(2,569)	(2,569)
Fair value of share based payments	–	–	–	–	106	106
At 30th September 2011	9,176	2,478	11,069	49,792	1,208	73,723

Notes to the Financial Statements

Six months to 30th September 2011

1 Accounting policies

Basis of preparation

This condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union.

As required by the Disclosure and Transparency Rules of the Financial Services Authority, the financial statements have been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31st March 2011.

The comparative figures for the financial year ended 31st March 2011 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matter to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

The Board approved the unaudited interim financial statements on 23rd November 2011.

Identification of business risks

The Group's principal risks and uncertainties are consistent with those noted in the Annual Report for the year ended 31st March 2011. The Directors consider that the significant areas of judgment made by management that have significant effect on the Group's performance and estimates with a significant risk of material adjustment in the second half of the year are unchanged from those identified in the Annual Report for the year ended 31st March 2011.

Going concern

The Interim Report has been prepared on a going concern basis, which assumes the Group will be able to meet its liabilities as they fall due, for the foreseeable future. The Directors have prepared cash flow forecasts which show that the cash generated from operating activities will provide sufficient cash headroom for the foreseeable future.

The Group does not have any significant borrowing facilities expiring in the next 12 months. The Group is in full compliance with its borrowing covenants at 30th September 2011.

2 Adjusted profit before tax

Adjusted profit before tax is the Group's preferred measure to provide a clearer picture of recurring profits from core rental activities before tax, adjusted as set out below.

	6 months to 30th September 2011 (Unaudited) £'000	6 months to 30th September 2010 (Unaudited) £'000	12 months to 31st March 2011 (Audited) £'000
(Loss)/profit before tax	(13,985)	(12,122)	4,497
Surrender premiums received	–	(467)	(582)
Change in fair value of derivatives	16,717	14,141	(5,053)
Movement in revaluation of investment properties	(263)	972	(271)
Derivative contract cancellation costs	–	–	5,928
Profit on disposal of investment properties	–	(11)	(11)
Profit on disposal of listed investments	–	–	(31)
Associated undertaking disposals, revaluation movement and taxation	33	11	625
Adjusted profit before tax	<u>2,502</u>	<u>2,524</u>	<u>5,102</u>

3 Net rental income from investment properties

	6 months to 30th September 2011 (Unaudited) £'000	6 months to 30th September 2010 (Unaudited) £'000	12 months to 31st March 2011 (Audited) £'000
Gross rents receivable	7,857	7,813	15,664
SIC 15 adjustment	(212)	116	(5)
Gross rental income	<u>7,645</u>	<u>7,929</u>	<u>15,659</u>
Service charges receivable	1,806	1,621	3,395
	<u>9,451</u>	<u>9,550</u>	<u>19,054</u>
Surrender premiums received	–	467	582
Direct property outgoings	(2,577)	(2,496)	(4,893)
	<u>6,874</u>	<u>7,521</u>	<u>14,743</u>

Rent receivable under the terms of the leases is adjusted, in accordance with SIC 15, for the effect of any incentives given.

Notes to the Financial Statements

Six months to 30th September 2011

4 Taxation

	6 months to 30th September 2011 (Unaudited) £'000	6 months to 30th September 2010 (Unaudited) £'000	12 months to 31st March 2011 (Audited) £'000
Total tax in the Statement of Comprehensive Income	–	–	–
Reconciliation to effective rate of tax:			
(Loss)/profit before taxation	(13,985)	(12,122)	4,497
Tax (credit)/charge at full rate of 26% (2011 – 28%)	(3,636)	(3,394)	1,259
Effects of:			
REIT tax exemption	2,947	3,411	(841)
Permanent differences	705	–	(299)
Other timing differences	2	2	4
Associated undertaking	(18)	(19)	(123)
Tax for period (as above)	–	–	–

5 Earnings per share

	6 months to 30th September 2011 p	6 months to 30th September 2010 p	12 months to 31st March 2011 p
Basic (loss)/earnings per share	(30.48)	(26.46)	9.81
Derivative contract cancellation costs	–	–	12.93
Change in fair value of derivatives	36.43	30.86	(11.02)
Movement in revaluation of investment properties	(0.57)	2.12	(0.59)
Surrender premium received	–	(1.02)	(1.27)
Profit on disposal of investment properties	–	(0.02)	(0.02)
Profit on disposal of listed investments	–	–	(0.07)
Associated undertaking disposals and revaluation movement	–	0.02	1.36
Adjusted earnings per share	5.38	5.50	11.13

5 Earnings per share continued

Basic (loss)/earnings per share on ordinary shares is calculated on the loss in the half year of £13,985,000 (2010: loss £12,122,000) and 45,879,174 (2010: 45,816,698) shares, being the weighted average number of ordinary shares in issue during the period.

	6 months to 30th September 2011	6 months to 30th September 2010	
Weighted average number of ordinary shares in issue	45,879,174	45,816,698	
Number of shares under option	3,684,848	3,514,354	
Number of shares that would have been issued at fair value	(2,243,475)	(3,745,224)	
Diluted weighted average number of ordinary shares in issue	<u>47,320,547</u>	<u>45,585,828</u>	
	6 months to 30th September 2011	6 months to 30th September 2010	12 months to 31st March 2011
	p	p	p
Diluted (loss)/earnings per share	(30.48)	(26.59)	9.54
Effect of dilutive potential ordinary shares under option	0.92	–	–
Derivative contract cancellation costs	–	–	12.58
Change in fair value of derivatives	35.33	31.02	(10.72)
Movement in revaluation of investment properties	(0.55)	2.13	(0.58)
Surrender premium received	–	(1.02)	(1.24)
Profit on disposal of investment properties	–	(0.02)	(0.02)
Profit on disposal of listed investments	–	–	(0.07)
Associated undertaking disposals and revaluation movement	–	0.02	1.33
Adjusted diluted earnings per share	<u>5.22</u>	<u>5.54</u>	<u>10.82</u>
EPRA earnings per share	<u>5.22</u>	<u>6.56</u>	<u>12.06</u>

Diluted (loss)/earnings per share is calculated on the same loss after tax and on the weighted average diluted number of shares in issue during the period of 47,320,547 (2010: 45,585,828) shares, which takes into account the number of potential ordinary shares under option. No account has been taken in diluted loss per share of potential ordinary shares in the period under review where their conversion to ordinary shares has decreased the loss per share but is included to arrive at adjusted diluted earnings per share.

Adjusted earnings per share excludes the after tax effect of profit from the disposal of investment properties, surrender premiums received, the change in the fair value of derivatives and the movement in revaluation of investment properties. The EPRA measure includes all of these adjustments except for surrender premiums which are added back.

Notes to the Financial Statements

Six months to 30th September 2011

6 Net finance costs

	6 months to 30th September 2011 (Unaudited) £'000	6 months to 30th September 2010 (Unaudited) £'000	12 months to 31st March 2011 (Audited) £'000
Interest on bank overdraft and loans	2,665	2,720	5,436
Derivative contract cancellation costs	–	–	5,928
Finance lease interest on leasehold property obligations	143	143	285
Finance arrangement costs	36	36	72
Fair value losses/(gains) on derivatives	16,717	14,141	(5,053)
	19,561	17,040	6,668
Interest receivable	(15)	(15)	(20)
	19,546	17,025	6,648

7 Investment Properties

	6 months to 30th September 2011 (Unaudited) £'000	6 months to 30th September 2010 (Unaudited) £'000	12 months to 31st March 2011 (Audited) £'000
At 1st April 2011	207,430	204,896	204,896
Additions – development	674	726	2,303
Revaluation surplus/(deficit)	51	(856)	267
Adjustment for rents recognised in advance under SIC 15	212	(116)	4
Amortisation of grossed up headlease liabilities	(20)	(20)	(40)
At 30th September 2011	208,347	204,630	207,430
Adjustment for grossing up of headlease liabilities	(3,926)	(3,966)	(3,946)
Adjustment for rents recognised in advance under SIC 15	4,824	5,156	5,036
Adjusted valuation at 30th September 2011	209,245	205,820	208,520

In accordance with the Group's accounting policy on properties there was an external valuation at 30th September 2011. This valuation was carried out in England by Mellersh and Harding, Chartered Surveyors and Valuers, and in Scotland (100 Bothwell Street, Glasgow) by CB Richard Ellis, Chartered Surveyors and Valuers, in accordance with the Appraisal and Valuation Standards of RICS, on an open market basis.

8 Interest rate derivatives

The Group adopts a policy of ensuring that its exposure to interest rate fluctuations is mitigated by the use of financial instruments. Participating swaps and interest rate swaps have been entered into to achieve this purpose. The swaps mature over the next 27 years.

Each of the swaps contains a counter party bank credit break. If such a break were exercised payment would be made between the parties dependant on the market value at the time. The first of these arise in January 2016.

Each of the swaps contains an optional termination date for the counter party bank which if triggered would not require payment between the parties. The first of these arise in September 2014.

The Group restructured the derivatives in February 2011.

The Group does not hold or issue derivative financial instruments for trading purposes.

	Hedged amount £'000	Current rate	Time to first break/ termination years	Fair value £'000
As at 30th September 2011 (Unaudited)				
Interest rate swaps	75,000	¹ 4.80%	3.00	(26,429)
Interest rate swaps	25,000	² 3.00%	4.29	(6,255)
Interest rate swaps	5,000	4.65%	6.25	(1,513)
				<u>(34,197)</u>
As at 30th September 2010 (Unaudited)				
Interest rate swaps	25,000	4.12%		(5,355)
Interest rate caps	130,000	5.00%		108
Interest rate floors	130,000	3.06%		(3,014)
Forward start interest rate swaps	115,000	4.86%		(28,413)
				<u>(36,674)</u>
As at 31st March 2011 (Audited)				
Interest rate swaps	75,000	4.80%	3.50	(14,202)
Interest rate swaps	25,000	3.00%	4.79	(2,581)
Interest rate swaps	5,000	4.65%	6.75	(696)
				<u>(17,479)</u>

¹rate steps up to 5.17% from 28th March 2014

²rate steps up to 4.31% from 9th April 2013

Notes to the Financial Statements

Six months to 30th September 2011

8 Interest rate derivatives continued

The fair value of interest rate derivatives has been split between current and non-current liabilities according to the expected timing of cashflows as follows:

	As at 30th September 2011 (Unaudited) £'000	As at 30th September 2010 (Unaudited) £'000	As at 31st March 2011 (Audited) £'000
Current	(3,795)	(4,068)	(3,591)
Non-current	(30,402)	(32,606)	(13,888)
	<u>(34,197)</u>	<u>(36,674)</u>	<u>(17,479)</u>

The Group does not hedge account its interest rate derivatives and states them at fair value in the balance sheet based on quotations from the Group's banks, any movement passing through the Statement of Comprehensive Income. All financial liabilities are classed as level 2 in accordance with the fair value hierarchy stated in IFRS 7. The fair value of these level 2 contracts are estimated by discounting expected future cash flows using current market interest rates and yield curve over the remaining term of the instrument.

There are no liabilities at maturity and no material unrecognised gains or losses.

In both 2011 and 2010 there was no difference between the book value and the fair value of all the other financial assets and liabilities of the Group and Company.

9 Dividends

	6 months to 30th September 2011 (Unaudited) £'000	6 months to 30th September 2010 (Unaudited) £'000	12 months to 31st March 2011 (Audited) £'000
Final dividend			
Year ended 31st March 2011	2,569	–	–
Year ended 31st March 2010	–	2,519	2,519
Interim dividend			
Year ended 31st March 2011	–	–	1,239
	<u>2,569</u>	<u>2,519</u>	<u>3,758</u>

The final dividend of 5.6 pence per share (£2,569,000) for the year ended 31st March 2011 was paid on 4th August 2011.

The Directors have declared an interim dividend of 2.7 pence per share (2010: 2.7 pence per share).

Since becoming a REIT, the Group is required to distribute at least 90% of qualifying income profits each year as a Property Income Distribution (PID), and the interim dividend of 2.7 pence per share will be paid as part of this distribution. Further REIT information is available on the Company's website.

10 Net asset value per share

	30th September 2011			30th September 2010			31st March 2011		
	Net assets £'000	Shares '000	Net asset value per share p	Net assets £'000	Shares '000	Net asset value per share p	Net assets £'000	Shares '000	Net asset value per share p
Basic	73,723	45,879	161	74,715	45,879	163	90,171	45,879	197
Number of shares under option	2,840	3,646	(6)	3,429	3,756	(6)	2,872	3,592	(9)
Diluted	76,563	49,525	155	78,144	49,635	157	93,043	49,471	188
Adjustment for fair value of derivatives	34,197	–	69	36,674	–	74	17,479	–	35
EPRA NAV	110,760	49,525	224	114,818	49,635	231	110,522	49,471	223
Adjustment for fair value of derivatives	(34,197)	–	(69)	(36,674)	–	(74)	(17,479)	–	(35)
EPRA NNAV	76,563	49,525	155	78,144	49,635	157	93,043	49,471	188

11 Disclaimer

The Interim Report of McKay Securities PLC for the six months to 30th September 2011 has been drawn up and presented for the purposes of complying with English law. If any issue were to arise in relation to any liability under or in connection with the Interim Report for the six months to 30th September 2011, it would also be determined in accordance with English law.

12 Interim report

The Interim Report is being posted to all shareholders on 2nd December 2011. 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.

McKay Securities PLC
20 Greyfriars Road, Reading
Berkshire RG1 1NL

T: 0118 950 2333
www.mckaysecurities.plc.uk

