# McKAY SECURITIES PLC ANNOUNCES HALF YEAR RESULTS

McKay Securities PLC, a REIT (Real Estate Investment Trust) focussed on developing and investing in commercial property in the South East, has announced its results for the half year to 30th September 2010.

Highlights

Financial performance

- NAV (EPRA) 231pps (31st March 2010: 234pps)
- NAV (Basic) 163pps (31st March 2010: 195pps)
- Net debt £90.21m (30th September 2009: £108.34m)
- Property portfolio valuation £205.82m (31st March 2010: £205.95m)
- Adjusted profit before tax £2.52m (30th September 2009: £4.12m)
- Interest rate derivative fair value decline of £14.14m to a negative £36.67m (31st March 2010: £22.53m negative)
- Interim dividend of 2.7p declared (30th September 2009: 2.7p)

Portfolio activity

- 67% tenant retention at lease break / expiry
- Total portfolio void reduced from 11.6% to 10.3% (31st March 2010)
- Portfolio market rental value (excluding disposals) up 0.6% to £17.50m (31st March 2010: £17.40m)
- Loan to value ratio 43.8% (30th September 2009: 49.8%)

David Thomas, Chairman of McKay said,

***"We have seen a period of relative market stability. During this time, we have achieved a number of important lettings and further reduced the void level of our portfolio. We anticipate more investment opportunities in 2011, and have not yet reinvested sale proceeds from disposals made last year. This has resulted in lower rental income and a reduced level of adjusted profit before tax.***

***Over the medium term, our South East and central London markets are likely to prove more resilient than other regions and with a portfolio of good quality buildings in these locations, the Group is well placed to benefit as occupational markets recover.***

***Despite the business climate remaining challenging, the prospects for a more active approach to development and the potential for acquisitions are kept under constant review. This approach emphasises our core values and remains unchanged."***

-ends-

Date: 24th November 2010

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MCKAY SECURITIES PLC
INTERIM RESULTS
24TH NOVEMBER 2010
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Details of the programme for the payment of the interim dividend are as follows:

| | |
|---|---|
| Ex-dividend date | 1st December 2010 |
| Record date | 3rd December 2010 |
| Interim dividend payment | 13th January 2011 |

The Directors have declared an interim dividend of 2.7 pence per share, (2009 – 2.7 pence per share), which will be paid as a Property Income Distribution (PID).

## CHAIRMAN'S STATEMENT

### Results for the six month period to 30th September 2010.

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 £2.52 million, compared with £4.12 million for the six month period to 30th September 2009. Earnings per share (EPRA) was 6.56 pence (2009 – 9.01 pence).

The external valuation of the Group's property portfolio at 30th September 2010 was £205.82 million, representing a 0.41% reduction (£0.86 million) in book value for the half year period. The Group's interest rate hedging instruments declined in value by a further £14.14 million to a negative value of £36.67 million. With the inclusion of these unrealised movements, the Group reported a loss before tax of £12.12 million (2009 - £1.85 million profit).

Net asset value per share (EPRA) was 231 pence, a reduction of 1.3% from 234 pence reported at 31st March 2010. Basic net asset value per share reduced from 195 pence to 163 pence mainly on account of the negative movement in the interest rate hedging instruments.

The Board has declared an interim dividend of 2.7 pence per share (2009 – 2.7 pence).

### Review

The property market has been more stable over the period than at any point since the end of 2007 and our continued focus on generating and maintaining income from the Group's existing portfolio of high quality properties has been productive. This has been supported by an improvement in sentiment across the office and industrial markets of the South East and central London, which continue to be the focus of the Group's activities. Capital values of prime property, which remain in demand from a wide variety of investors, improved during the period in central London and remained steady elsewhere. Although these opportunities remain in short supply, capital growth has been tempered by investor caution over the pace of the economic recovery. As we anticipated earlier in the year, values for secondary assets outside central London, with short income streams requiring capital expenditure, have continued to fall over the period in response to the low level of rental values now being established. Encouragingly, the pace of decline in rental values has slowed, and the third calendar quarter of 2010 has seen an increase in the quantity of space let across all of the Group's markets compared with the first two quarters of the year.

My statement in June noted that property disposals made in the last financial year had strengthened the Group's balance sheet, but as a consequence would result in lower earnings in subsequent periods as a result of the reduced level of income. In the absence of acquisitions, the results for the period reflect this, and adjusted profit before tax for the half year was £2.52 million, compared with £4.12 million for the corresponding period in 2009. Of the £1.60 million difference, income from those properties sold accounted for £1.14 million and the Group's interest charge increased by £0.35 million to £2.90 million (30th September 2009 - £2.25 million), as a result of costs associated with the Group's interest rate hedging position. A review of future finance costs taking into account the Group's hedging instruments is set out in the Finance section below.

The continuation of abnormally low interest rates has had a negative effect on the value of the Group's hedging instruments over the period. The market value of these instruments is calculated at the end of each period against longer term interest rates, which over the last six months fell by close to 1%. Accounting standards require these market movements to be included in the Consolidated Statement of Comprehensive Income, which has resulted in the large adverse unrealised movement in headline profit and the loss before tax reported for this period.

Across the Group's markets, and particularly outside central London, occupiers have continued to look for cost effective solutions in a challenging corporate environment, increasing the importance of owning good lettable buildings. The overall level of occupier take up has increased this year compared with 2009, which looks to be the low point of the current cycle. Within the Western Corridor, office demand over the period has been concentrated in towns along the M4 Motorway, where the completion of four large transactions has significantly improved take up levels. The supply of Grade A floor space in a number of these centres continues to reduce and the increasing mismatch between supply and demand is beginning to put upward pressure on rental values, although this varies considerably between centres.

Compared with the same period last year, gross rents received (including surrender premiums) from retained properties within the portfolio improved by £0.33 million to £8.40 million, and total contracted rent (net of ground rents) increased by 2.12% to £16.49 million. Our tenants have generally proved resilient to date; in excess of 90% of rents continued to be paid within seven days of the due date and 66% of total contracted rents are paid by tenants with a net worth in excess of £15 million. There were two business failures during the period, and one other tenant put into administration shortly after the end of the period; the combined income from these three tenants represented 2.5% of contracted rental income from the portfolio.

During the period, thirteen open market lettings were completed at a total annual contracted rent of £0.65 million. The most significant of these were achieved at 30/32 Lombard Street, EC3 and Portsoken House, EC3, which represented two of the largest portfolio voids at the beginning of the period. At 30/32 Lombard Street, the ground, first and sixth floors were let at a combined contracted rent of £134,750 pa, resulting in the building being fully occupied. To protect the Group's flexibility for future redevelopment, the terms agreed maintained the ability to gain possession at the end of 2012. Rental values for the best new schemes in the City of London continue to increase. As a result, the prospects for the Group's redevelopment of 30/32 Lombard Street, which will replace the existing 30,000 sq ft building with a top quality 60,000 sq ft office headquarters in a first class location in the heart of the City, continue to improve.

At Portsoken House, 15,060 sq was let to a single tenant at a contracted rent of £284,360 pa. When leases expired in the building at the end of 2008 tenants were retained in 20,000 sq ft and the remaining 24,500 sq ft was upgraded along with the reception and common areas. The quality of refurbishment attracted the tenant, and there is encouraging interest in the remaining 9,440 sq ft of vacant refurbished space.

Where the Group's properties had a lease expiry or break clause, a high level of tenant retention was maintained with 67% remaining in occupation. The passing rent of the largest building vacated, Eastgate House, Fleet (13,984 sq ft) was £268,250 pa, where the occupier exercised a break clause to consolidate elsewhere. A refurbishment of this building will complete in February 2011, improving the quality of the asset and the chances of securing an early new letting.

These open market lettings and tenant retentions were achieved at, or in excess of rental assumptions, excluding those at 30/32 Lombard Street where the rents achieved were lower but reflected savings on refurbishment costs and the retention of development flexibility.

The total portfolio void was reduced by the lettings achieved from 11.6% (by rental value) to 7.4%, but as a result of break clauses and lease expiries ended the period at 10.3% (£1.82 million pa). Three of the Group's vacant properties at Fleet, Poyle and Maidenhead account for half this void, and a proactive approach to marketing these and smaller void properties will be maintained.

We continue to appraise earnings enhancing acquisition opportunities with the potential for capital gain through active management, refurbishment or development. However, no acquisitions were made during the period as we considered that the risks associated with the uncertain occupier market were not sufficiently reflected in market values. There are also signs that lending banks are coming to terms with their distressed loan books, and we anticipate that an increasingly hard line to reduce their exposure will result in more stock coming to the market. It took six years in the early 1990's for banks to reduce their exposure, and with that in mind we will remain selective.

**Valuation**

The independent valuation of the Group's property portfolio as at 30th September 2010 totalled £205.82 million, representing a 0.4% (£0.86 million) reduction in book value, disregarding the SIC 15 lease incentive accounting adjustment of £0.12 million. The best performing properties were those where lettings took place over the period, with Portsoken House, EC3 and 30/32 Lombard Street, EC3 increasing by 10.7% and 11.8% respectively. Gains within the portfolio were offset by the negative impact of void and re-letting assumptions on properties with potential letting risk. These portfolio movements compare with an increase of 2.4% in the IPD Monthly Index (All Property). The City and West End office segments had a significant influence on this with increases of 7.6% and 6.2% respectively, where demand from overseas investors and rental growth prospects both had a positive effect on values.

At 30th September 2010, the initial yield of the portfolio was 6.9% (March 2010 – 7.0%) increasing to 7.6% (March 2010 – 7.5%) on contracted rents once letting incentives expire. The true equivalent yield was 7.8% (March 2010 – 7.8%).

**Finance**

The Group continues to have access to banking facilities totalling £185.00 million, of which £155.00 million is secured for at least 5 years. 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 2010 was £90.21 million (September 2009 - £108.34 million), with the reduction due to the disposal of investment properties in the second half of last year. The ratio of net debt to portfolio value (LTV) was 43.8% (September 2009 – 49.8%), and the gearing ratio to shareholder's funds, adjusted in accordance with banking covenants, was 83.2% (September 2009 – 108.5%).

Financial hedging instruments remain in place to protect the Group against high interest rates in respect of a notional sum of £155.00 million. The Group first entered into such instruments in 2003, and maintained a programme of renewing and amending the terms of the instruments through to 2008, when interest rates were close to 5%, prior to the rapid and unprecedented drop to the current 0.5% base rate. The terms secured for the current instruments have allowed the Group to maintain a low weighted average cost of debt, which increased for the current period to 5.9% (30th September 2009 – 4.1%), reflecting the negative effect of lower interest rates on the hedging structures. However, the weighted average rate of the instruments will increase from the current level of 3.3% to 4.7% as contracted swap rates revert to higher levels from Spring 2011 onwards. Payments between the counterparties are based on the difference between the swap rates and three month libor. Therefore, the current three month libor rate indicates that there is likely to be a further significant increase in cash payments at that time, and a correspondingly higher finance cost to the Group.

As forward swap rates continued to fall over the period, the mark to market value of these instruments as at 30th September 2010 declined in value by a further £14.14 million to a negative value of £36.67 million. When financial markets begin to assume higher forward rates, there will be an increase in the value of these instruments, reversing the negative movements seen to date. Market expectations of future interest rate rises continue to be deferred. At present there is no consensus on how long the current low interest rate environment will prevail and therefore, the extent to which the cost of the hedging instruments will impact on earnings and dividend cover next year and in subsequent periods. We will continue to keep the alternatives available to us under review with our advisors.

**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 13th January 2011 to shareholders on the register on 3rd December 2010.

**Future Prospects**

After a period of relative market stability and an increase in the letting volumes achieved by the Group, continued recovery in occupier demand is needed for sustained growth in rental and capital values. It is likely that the cuts in Government expenditure will slow the pace of this recovery, although it will take some time for the full impact to be known. The Group's South East and central London markets are likely to prove more resilient than in other regions. Although future earnings will reflect the potentially adverse effect of the Group's hedging instruments on finance costs, with a portfolio of good quality buildings within these markets, the Group is well placed to benefit as occupational markets recover.

Our proactive approach to the retention of income from our tenants and the generation of new income from existing properties will remain our focus. Despite the business climate remaining challenging, the prospects for a more active approach to development and for acquisitions are kept under constant review. This approach emphasises our core values which remain unchanged.

D.O. Thomas
Chairman
24th November 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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| | Notes | 6 months to 30th September 2010 (Unaudited) £'000 | 6 months to 30th September 2009 (Unaudited) £'000 | 12 months to 31st March 2010 (Audited) £'000 |
|---|---|---|---|---|
| Gross rents and service charges receivable | | 9,550 | 10,726 | 19,988 |
| Surrender premiums received | | 467 | - | 221 |
| Direct property outgoings | | (2,496) | (2,381) | (4,611) |
| Net rental income from investment properties | 3 | 7,521 | 8,345 | 15,598 |
| Administration costs | | (1,725) | (1,761) | (4,155) |
| Operating profit before investment property disposals and revaluation movements | | 5,796 | 6,584 | 11,443 |
| Profit on disposal of investment properties | | 11 | 1 | 236 |
| Movement in revaluation of investment properties | 7 | (972) | (5,050) | 6,739 |
| Operating profit | | 4,835 | 1,535 | 18,418 |
| Net finance costs – finance costs | 6 | (2,899) | (2,550) | (5,497) |
| – finance income | 6 | 15 | 14 | 24 |
| Fair value (losses)/gains on derivatives | 8 | (14,141) | 2,801 | 2,296 |
| | | (17,025) | 265 | (3,177) |
| Share of results of associated undertaking | | 68 | 53 | 141 |
| (Loss)/profit before taxation | | (12,122) | 1,853 | 15,382 |
| Taxation | 4 | - | - | - |
| (Loss)/profit for the period | | (12,122) | 1,853 | 15,382 |
| Other comprehensive income: | | | | |
| Actuarial movement on defined benefit pension Scheme | | - | - | (101) |
| Total comprehensive (loss)/income for the period | | (12,122) | 1,853 | 15,281 |
| (Loss)/earnings per share | 5 | | | |
| Basic | | (26.46)p | 4.05p | 33.59p |
| Diluted | | (26.59)p | 4.05p | 33.17p |

Adjusted earnings per share figures are shown in note 5

GROUP BALANCE SHEET

| | Notes | As at 30th September 2010 (Unaudited) £'000 | As at 30th September 2009 (Unaudited) £'000 | As at 31st March 2010 (Audited) £'000 |
|---|---|---|---|---|
| Non-current assets | | | | |
| Investment properties | 7 | 204,630 | 215,428 | 204,896 |
| Plant and equipment | | 14 | 25 | 16 |
| Investments | | 2,372 | 2,260 | 2,304 |
| | | 207,016 | 217,713 | 207,216 |
| Current assets | | | | |
| Trade and other receivables | | 7,157 | 7,170 | 6,313 |
| Cash and cash equivalents | | 2,837 | 2,791 | 677 |
| | | 9,994 | 9,961 | 6,990 |
| Total assets | | 217,010 | 227,674 | 214,206 |
| Current liabilities | | | | |
| Loans and other borrowings | | (13,000) | - | (13,000) |
| Trade and other payables | | (8,942) | (8,530) | (7,869) |
| Finance lease liabilities | | (286) | (286) | (286) |
| Interest rate derivatives | 8 | (4,068) | (3,648) | (3,297) |
| | | (26,296) | (12,464) | (24,452) |
| Non-current liabilities | | | | |
| Loans and other borrowings | | (78,177) | (110,604) | (76,141) |
| Pension fund liabilities | | (1,093) | (1,003) | (1,096) |
| Finance lease liabilities | | (4,123) | (4,123) | (4,123) |
| Interest rate derivatives | 8 | (32,606) | (18,379) | (19,235) |
| | | (115,999) | (134,109) | (100,595) |
| Total liabilities | | (142,295) | (146,573) | (125,047) |
| Net assets | | 74,715 | 81,101 | 89,159 |
| Equity | | | | |
| Called up share capital | | 9,176 | 9,159 | 9,159 |
| Share premium account | | 2,478 | 2,495 | 2,495 |
| Capital reserve | | 49,889 | 61,191 | 49,878 |
| Revaluation reserve | | 10,024 | (12,601) | 10,996 |
| Retained earnings | | 3,148 | 20,857 | 16,631 |
| Total equity | | 74,715 | 81,101 | 89,159 |
| Net asset value per share | 10 | 163p | 177p | 195p |
| EPRA net asset value per share | 10 | 231p | 218p | 234p |

GROUP CASH FLOW STATEMENT

| | 6 months to 30th September 2010 (Unaudited) £'000 | 6 months to 30th September 2009 (Unaudited) £'000 | 12 months to 31st March 2010 (Audited) £'000 |
|---|---|---|---|
| Operating activities | | | |
| (Loss)/profit before tax | (12,122) | 1,853 | 15,382 |
| Adjustments for: | | | |
| Depreciation | 4 | 11 | 22 |
| Other non-cash movements | 396 | 372 | 639 |
| Profit on disposal of investment properties | (11) | (1) | (236) |
| Movement in revaluation of investment properties | 972 | 5,050 | (6,739) |
| Net finance costs | 17,025 | (265) | 3,177 |
| Share of profit of associate undertaking | (68) | (53) | (141) |
| Cash flow from operations before changes in working capital | 6,196 | 6,967 | 12,104 |
| Increase in debtors | (926) | (529) | (275) |
| Increase in creditors | 304 | 455 | 63 |
| Cash generated from operations | 5,574 | 6,893 | 11,892 |
| Interest paid | (2,196) | (1,637) | (5,055) |
| Interest received | 15 | 14 | 24 |
| Corporation tax paid | - | (1) | - |
| Cash flows from operating activities | 3,393 | 5,269 | 6,861 |
| Investing activities | | | |
| Sale of investment properties | 11 | 3,826 | 27,331 |
| Dividends from sundry investments | 1 | 1 | 1 |
| Dividends from associated undertaking | - | - | 45 |
| Purchase and development of investment properties | (724) | (1,983) | (2,150) |
| Purchase of other fixed assets | (2) | (2) | (4) |
| Cash flows from investing activities | (714) | 1,842 | 25,223 |
| Financing activities | | | |
| Increase/(decrease) in borrowings | 2,000 | (5,530) | (27,031) |
| Equity dividends paid | (2,519) | - | (5,586) |
| Cash flows from financing activities | (519) | (5,530) | (32,617) |
| Net increase/(decrease) in cash and cash equivalents | 2,160 | 1,581 | (533) |
| Cash and cash equivalents at beginning of period | 677 | 1,210 | 1,210 |
| Cash and cash equivalents at end of period | 2,837 | 2,791 | 677 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to equity holders of the parent company | | | | | |
|---|---|---|---|---|---|---|
| | Share capital £'000 | Share premium £'000 | Revaluation reserve £'000 | Capital reserve £'000 | Retained earnings £'000 | Total equity £'000 |
| At 1st April 2009 | 9,159 | 2,495 | (6,676) | 60,315 | 13,772 | 79,065 |
| Profit for the year | - | - | - | - | 15,382 | 15,382 |
| Other comprehensive income: | | | | | | |
| Transfer surplus on revaluation of properties | - | - | 6,739 | - | (6,739) | - |
| Transfer share of surplus on revaluation of properties in associated undertaking | - | - | 55 | - | (55) | - |
| Transfer on disposal of investment properties | - | - | 10,642 | (10,437) | (205) | - |
| SIC 15 historic valuation transfer | - | - | 236 | - | (236) | - |
| Actuarial loss on defined benefit pension scheme | - | - | - | - | (101) | (101) |
| Total comprehensive income for the year | - | - | 17,672 | (10,437) | 8,046 | 15,281 |
| Dividends paid in year | - | - | - | - | (5,586) | (5,586) |
| Fair value of share based payments | - | - | - | - | 399 | 399 |
| At 31st March 2010 | 9,159 | 2,495 | 10,996 | 49,878 | 16,631 | 89,159 |
| Loss for the period | - | - | - | - | (12,122) | (12,122) |
| Other comprehensive income: | | | | | | |
| Transfer deficit on revaluation of properties | - | - | (972) | - | 972 | - |
| Transfer on disposal of Investment properties | - | - | - | 11 | (11) | - |
| Total comprehensive loss for the period | - | - | (972) | 11 | (11,161) | (12,122) |
| Dividends paid in period | - | - | - | - | (2,519) | (2,519) |
| Fair value of share based payments | - | - | - | - | 197 | 197 |
| Exercise of share options | 17 | (17) | - | - | - | - |
| At 30th September 2010 | 9,176 | 2,478 | 10,024 | 49,889 | 3,148 | 74,715 |

1 Principal accounting policies

Basis of preparation
The accounting policies used for the audited financial statements at 31st March 2010 have been used in the preparation of these condensed interim financial statements.

The comparative figures for the financial year ended 31st March 2010 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 matters 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 interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Basis of consolidation
The consolidated financial statements incorporate the results of the Company and its subsidiary companies for the six months to 30th September 2010. Subsidiary companies are those entities under the control of the Company. Control means the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Associates
An associate is an undertaking over which the Group has significant influence, but not control over the financial and operating policies. The Group's share of the total recognised gains and losses of associates is included in the consolidated financial statements on an equity accounted basis. Investments in associates are carried in the balance sheet at cost as adjusted by the post-acquisition changes in the Group's share of the net assets of the associate.

Derivative financial instruments
The Group uses derivative financial instruments, such as interest rate swaps, to manage its exposure to interest rate risk. The differences between the interest payable by the Group and the interest payable to the Group by the swap counterparties are dealt with on an accruals basis.

The instruments are stated at fair value at the balance sheet date which is the estimated amount that the Group would receive or pay to terminate the instruments. The Group has not applied hedge accounting for any financial instrument in place and any movement in fair value is reported in the Statement of Comprehensive Income.

Properties
The Group's properties are held as investments to earn rental income and for capital appreciation and are stated at fair value at the balance sheet date. The value, based on market values, is determined at each reporting date by independent external valuers and any gain or loss arising from a change in fair value is recognised in the Statement of Comprehensive Income and transferred to the revaluation reserve in the balance sheet.

Properties purchased are recognised on legal completion in the accounting period. Sales of properties are recognised on unconditional exchange of contracts in the accounting period when the significant risks and rewards of ownership have been transferred.

When an existing investment property is redeveloped for continued future use as an investment property it remains an investment property whilst in development.

Subsequent expenditure on investment properties is capitalised only when it increases the future economic benefits associated with the property. All other expenditure is charged to the Statement of Comprehensive Income.

Interest and other outgoings less rental income relating to investment properties in the course of development are capitalised, before tax relief, and added to the cost of the property. Interest capitalised is calculated on development expenditure, including material refurbishments to investment properties, using the weighted average cost of general Group borrowings for the year.

A property ceases to be treated as being in the course of development when substantially all the activities that are necessary to prepare the property for use are completed.

The Group's investment properties held on long leases are accounted for as finance leases and carried at fair value. The present value of the future minimum lease payments is recognised as a liability with a corresponding asset added to the carrying value of the leasehold property. The minimum lease payments are apportioned between finance charges in the Statement of Comprehensive Income and the reduction of the balance sheet liability. Contingent rents are charged as an expense in the Statement of Comprehensive Income in the period incurred.

Any accrued rent receivable recognised as a separate asset in accordance with the Group's accounting policy on lease incentives is deducted from the external valuation.

Gains and losses arising on the disposal of investment properties are recognised in the Statement of Comprehensive Income, being the difference between net sale proceeds and the carrying value of the property. These gains and losses are then allocated to the capital reserve in the Statement of Changes in Equity.

Plant and equipment

Plant and equipment assets are depreciated on a straight line basis at rates calculated to write off the cost less estimated residual value over their useful lives, which are estimated to be between 3 and 5 years.

Impairment

The carrying amounts of the Group's and Company's assets, other than investment property measured at fair value and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. Assets subject to impairment losses are stated at their estimated recoverable amount, being the greater of the net selling price or value-in-use, the loss being recognised in the Statement of Comprehensive Income.

Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognised initially at fair value, which is the fair value of the consideration received. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost using the effective interest rate method.

Rental income

Rental income receivable under operating leases from investment properties is recognised in the Statement of Comprehensive Income on a straight line basis over the term of the lease.

The Group treats the aggregate value of incentives given to lessees as a reduction of rental income over the lease term in accordance with SIC 15 "Operating Leases – Incentives".

Surrender premiums received from outgoing tenants prior to the expiry of their lease are included in income from investment properties.

Borrowing costs

Interest on overdrafts and other bank borrowing is recognised in the Statement of Comprehensive Income in the period during which it is incurred, except for interest capitalised in accordance with the Group's policy on properties under development (see Properties above). The interest expense component of finance lease payments is recognised in the Statement of Comprehensive Income over the lease term. Facility arrangement costs are recognised in the Statement of Comprehensive Income over the facility term.

Interest received on short term deposits is recognised in the Statement of Comprehensive Income as it accrues.

Cash and cash equivalents
Cash comprises cash at bank and short term deposits held on call. Cash equivalents comprise investments with minimal risk to changes in value that are readily convertible into cash with an original maturity of three months or less.

Trade and other receivables and payables
Trade and other receivables are recognised at invoice cost, unless there is an impairment provision if there is evidence that the Group will not be able to collect in full. Trade and other payables are recognised at invoice cost.

Performance Share Plan
The Group operates a performance share plan under which Directors and employees are able to acquire shares in the Company.

The fair value of the nil cost awards is derived from a Monte Carlo valuation model which also factors in the expected share price volatility and that of comparator companies, and takes account of the TSR performance conditions. The valuation is spread over the vesting period of three years, with adjustment when non-market conditions are not expected to be met.

Share option scheme
The Group operates a share option scheme under which Directors and employees are able to acquire shares in the Company. The option exercise price is equal to the mid-market price of the underlying shares at the date of the grant.

The fair value of the benefit of the options awarded is recognised in the Statement of Comprehensive Income over the vesting period of the award by reference to a binomial option pricing model, adjusted only for the number of shares expected to vest.

Post employment benefits
The Group operates a defined benefit pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Group, being externally invested.

The Group’s net liability in respect of the defined benefit scheme is recognised in the balance sheet. Actuarial gains and losses arising in respect of the Group’s liabilities are recognised in the period they occurred directly into equity, through the Statement of Comprehensive Income. The liabilities of the defined benefit pension scheme are measured at the present value while scheme assets are measured at their fair value. Current service cost and interest on scheme liabilities less the expected return on scheme assets are recognised as an expense in the Statement of Comprehensive Income.

The Group also contributes to certain eligible employees’ defined contribution personal pension plans and does not accept any responsibility for the benefits gained from these plans. The contributions are recognised as an expense in the Statement of Comprehensive Income as incurred but the Group does not recognise any gains or losses arising from movements in the value of the personal pension plans.

Reserves
The revaluation reserve represents the surpluses and deficits arising on revaluation of the Group’s properties. This reserve comprises unrealised profits and losses and is not available for distribution until realised through sale.

The capital reserve represents realised gains arising from the sale of properties and is available for distribution.

Taxation

The tax charge in the Statement of Comprehensive Income comprises current and deferred tax except to the extent that it relates to items recognised directly in reserves, in which case the related tax is recognised in reserves.

Current tax is based on the taxable income for the year and any adjustment to tax payable in respect of previous years. Taxable income may exclude income and expenses in the Statement of Comprehensive Income that are taxable or deductible in other years and items that are never taxable or deductible. The tax rate is that enacted or substantially enacted at the balance sheet date.

From 1st April 2007, the Group converted to REIT status and no corporation tax is payable on qualifying property income.

Deferred tax is recognised using the balance sheet liability method, without discounting, on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base used for taxation purposes.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that future taxable profits will be available against which the asset can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill not deductible for tax purposes, or from the initial recognition of other assets and liabilities that affect neither accounting nor taxable profit. Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that there will be future taxable profits against which the asset can be utilised. Deferred tax is calculated at the rate enacted or expected to apply in the period when the liability is settled or the asset realised.

From 1st April 2007, no deferred tax is recognised on properties covered by the REIT regime. All deferred tax liabilities relating to properties in the REIT were released to the Statement of Comprehensive Income on 31st March 2007.

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 activities before tax, adjusted for the items below.

| | 6 months to 30th September 2010 (Unaudited) £'000 | 6 months to 30th September 2009 (Unaudited) £'000 | 12 months to 31st March 2010 (Audited) £'000 |
|---|---|---|---|
| (Loss)/profit before tax | (12,122) | 1,853 | 15,382 |
| Surrender premiums received | (467) | - | (221) |
| Change in fair value of derivatives | 14,141 | (2,801) | (2,296) |
| Movement in revaluation of investment properties | 972 | 5,050 | (6,739) |
| Profit on disposal of investment properties | (11) | (1) | (236) |
| Associated undertakings' disposals, revaluation movement and taxation | 11 | 22 | 38 |
| Adjusted profit before tax | 2,524 | 4,123 | 5,928 |

3 Net rental income from investment properties

| | 6 months to 30th September 2010 (Unaudited) £'000 | 6 months to 30th September 2009 (Unaudited) £'000 | 12 months to 31st March 2010 (Audited) £'000 |
|---|---|---|---|
| Gross rents receivable | 7,813 | 8,859 | 16,796 |
| SIC15 adjustment | 116 | 357 | 321 |
| Gross rental income | 7,929 | 9,216 | 17,117 |
| Service charges receivable | 1,621 | 1,510 | 2,871 |
| | 9,550 | 10,726 | 19,988 |
| Surrender premiums received | 467 | - | 221 |
| Direct property outgoings | (2,496) | (2,381) | (4,611) |
| | 7,521 | 8,345 | 15,598 |

The Group engages in only one class of business activity, being property investment and development.

Rent receivable under the terms of the leases is adjusted, in accordance with SIC15, for the effect of any incentives given.

4 Taxation

| | 6 months to 30th September 2010 (Unaudited) £'000 | 6 months to 30th September 2009 (Unaudited) £'000 | 12 months to 31st March 2010 (Audited) £'000 |
|---|---|---|---|
| Total tax in the Statement of Comprehensive Income | - | - | - |
| Reconciliation of standard rate of tax to effective rate of tax: | | | |
| (Loss)/profit before taxation | (12,122) | 1,853 | 15,382 |
| Tax(credit)/ charge at full rate of 28% (2010 – 28%) | (3,394) | 519 | 4,307 |
| Effects of: | | | |
| REIT tax exemption | 3,411 | (505) | (4,234) |
| Permanent differences | - | - | (116) |
| Other timing differences | 2 | 1 | 4 |
| Associated company | (19) | (15) | 39 |
| Tax for period (as above) | - | - | - |

5 Earnings per share

| | 6 months to 30th September 2010 | 6 months to 30th September 2009 | 12 months to 31st March 2010 |
|---|---|---|---|
| | p | p | p |
| Basic (loss)/earnings per share | (26.46) | 4.05 | 33.59 |
| Change in fair value of derivatives | 30.86 | (6.12) | (5.01) |
| Movement in revaluation of investment properties | 2.12 | 11.03 | (14.72) |
| Surrender premium received | (1.02) | - | (0.48) |
| Profit on disposal of investment properties | (0.02) | - | (0.51) |
| Associated undertaking disposals and revaluation movement | 0.02 | - | 0.08 |
| Adjusted earnings per share | 5.50 | 8.96 | 12.95 |

Basic (loss)/earnings per share on ordinary shares is calculated on the loss in the half year of £12,122,000 (2009 – profit: £1,853,000) and 45,816,698 (2009 – 45,792,655) shares, being the weighted average number of ordinary shares in issue during the period.

| | 6 months to 30th September 2010 | 6 months to 30th September 2009 |
|---|---|---|
| Weighted number of ordinary shares in issue | 45,816,698 | 45,792,655 |
| Number of shares under option | 3,514,354 | 3,050,769 |
| Number of shares that would have been issued at fair value | (3,745,224) | (3,348,964) |
| Diluted weighted average number of ordinary shares in issue | 45,585,828 | 45,494,460 |

| | 6 months to 30th September 2010 | 6 months to 30th September 2009 | 12 months to 31st March 2010 |
|---|---|---|---|
| | p | p | p |
| Diluted (loss)/earnings per share | (26.59) | 4.05 | 33.17 |
| Effect of dilutive potential ordinary shares under option | - | 0.02 | - |
| Change in fair value of derivatives | 31.02 | (6.16) | (4.95) |
| Movement in revaluation of investment properties | 2.13 | 11.10 | (14.53) |
| Surrender premium received | (1.02) | - | (0.47) |
| Profit on disposal of investment properties | (0.02) | - | (0.51) |
| Associated undertaking disposals and revaluation movement | 0.02 | - | 0.08 |
| Adjusted diluted earnings per share | 5.54 | 9.01 | 12.79 |
| EPRA earnings per share | 6.56 | 9.01 | 13.26 |

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 45,585,828 (2009 – 45,494,460) shares, which takes into account the number of potential ordinary shares under option. No account has been taken in diluted earnings per share of potential ordinary shares in 2009 where their conversion to ordinary shares would increase the earnings per share but is included to arrive at adjusted diluted loss 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.

6 Net Finance costs

| | 6 months to 30th September 2010 (Unaudited) £'000 | 6 months to 30th September 2009 (Unaudited) £'000 | 12 months to 31st March 2010 (Audited) £'000 |
|---|---|---|---|
| Interest on bank overdraft and loans | (2,720) | (2,372) | (5,139) |
| Finance lease interest on leasehold property obligations | (143) | (143) | (285) |
| Finance arrangement costs | (36) | (35) | (73) |
| Finance costs | (2,899) | (2,550) | (5,497) |
| Interest receivable | 15 | 14 | 24 |
| Fair value (losses)/gains on derivatives | (14,141) | 2,801 | 2,296 |
| | (17,025) | 265 | (3,177) |

7 Investment properties

| | 6 months to 30th September 2010 (Unaudited) £'000 | 6 months to 30th September 2009 (Unaudited) £'000 | 12 months to 31st March 2010 (Audited) £'000 |
|---|---|---|---|
| At 1st April 2010 | 204,896 | 222,338 | 222,338 |
| Additions - development | 726 | 1,834 | 1,905 |
| Revaluation (deficit)/surplus | (856) | (4,693) | 7,060 |
| Adjustment for rents recognised in advance under SIC15 | (116) | (357) | (85) |
| Disposals | - | (3,674) | (26,282) |
| Amortisation of grossed up headlease liabilities | (20) | (20) | (40) |
| At 30th September 2010 | 204,630 | 215,428 | 204,896 |
| Adjustment for grossing up of headlease liabilities | (3,966) | (4,006) | (3,986) |
| Adjustment for rents recognised in advance under SIC15 | 5,156 | 5,973 | 5,040 |
| Adjusted valuation at 30th September 2010 | 205,820 | 217,395 | 205,950 |

In accordance with the Group's accounting policy on properties there was an external valuation at 30th September 2010. This valuation was carried out in England by Mellersh & 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 31 years, subject to counterparty bank break options from 2014, and have swap rates ranging from 3.99% to 5.17% and collars of 3.00% to 5%. Provision is made within the terms of the financial instruments for the counterparty bank to terminate the instruments by invoking credit breaks in 2016/2017. If such a credit break were exercised, a payment would be made between the parties dependent on market value at that time. The instruments also provide the counterparty bank with additional break options. Should these breaks be exercised, there would be no payment liability on the Group. The Group does not hold or issue derivative financial instruments for trading purposes.

| **As at 30th September 2010 (Unaudited)** | Hedged amount £'000 | Average rate | Average[1] maturity – years | Fair value £'000 | Fair value adjustment £'000 |
|---|---|---|---|---|---|
| Interest rate swaps | 25,000 | 4.12% | 4.25 | (5,355) | (2,314) |
| Interest rate caps | 130,000 | 5.00% | 1.08 | 108 | (166) |
| Interest rate floors | 130,000 | 3.06% | 1.08 | (3,014) | 766 |
| Forward start interest rate swaps | 115,000 | 4.86% | 5.86 | (28,413) | (12,437) |
| | | | | (36,674) | (14,141) |
| As at 30th September 2009 (Unaudited) | | | | | |
| Interest rate swaps | 25,000 | 4.12% | 5.25 | (3,021) | 320 |
| Interest rate caps | 130,000 | 5.00% | 2.08 | 563 | 272 |
| Interest rate floors | 130,000 | 3.06% | 2.08 | (4,296) | (512) |
| Forward start interest rate swaps | 115,000 | 4.86% | 6.86 | (15,273) | 2,721 |
| | | | | (22,027) | 2,801 |
| As at 31st March 2010 (Audited) | | | | | |
| Interest rate swaps | 25,000 | 4.12% | 4.75 | (3,040) | 301 |
| Interest rate caps | 130,000 | 5.00% | 1.58 | 275 | (16) |
| Interest rate floors | 130,000 | 3.06% | 1.58 | (3,791) | (7) |
| Forward start interest rate swaps | 115,000 | 4.86% | 6.36 | (15,976) | 2018 |
| | | | | (22,532) | 2,296 |

[1] to expiry or break whichever is the earlier

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 2010 (Unaudited) £'000 | As at 30th September 2009 (Unaudited) £'000 | As at 31st March 2010 (Audited) £'000 |
|---|---|---|---|
| Current | (4,068) | (3,648) | (3,297) |
| Non-current | (32,606) | (18,379) | (19,235) |
| | (36,674) | (22,027) | (22,532) |

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 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 2010 and 2009 there was no difference between the book value and the fair value of all the other financial assets and liabilities of the Group and the Company.

9 Dividends

| | 6 months to 30th September 2010 (Unaudited) £'000 | 6 months to 30th September 2009 (Unaudited) £'000 | 12 months to 31st March 2010 (Audited) £'000 |
|---|---|---|---|
| Final dividend | | | |
| Year ended 31st March 2010 | 2,519 | - | - |
| Year ended 31st March 2009 | - | - | 4,350 |
| Interim dividend | | | |
| Year ended 31st March 2010 | - | - | 1,236 |
| | ---------- | ---------- | ---------- |
| | 2,519 | - | 5,586 |
| | ---------- | ---------- | ---------- |

The final dividend of 5.5 pence per share (£2,519,000) for the year ended 31st March 2010 was paid on 5th August 2010.

The Directors have declared an interim dividend of 2.7 pence per share (2009 – 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 2010 | | | 30th September 2009 | | | 31st March 2010 | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 | 74,715 | 45,879 | 163 | 81,101 | 45,793 | 177 | 89,159 | 45,793 | 195 |
| Number of shares under option | 3,429 | 3,756 | (6) | 4,545 | 3,489 | (3) | 3,144 | 3,232 | (7) |
| | ----------- | -------- | ------ | ----------- | --------- | ----- | ---------- | --------- | ------ |
| Diluted | 78,144 | 49,635 | 157 | 85,646 | 49,282 | 174 | 92,303 | 49,025 | 188 |
| Adjustment for fair value of derivatives | 36,674 | _ | 74 | 22,027 | - | 44 | 22,532 | - | 46 |
| | --------- | --------- | ------- | ---------- | -------- | ------- | ----------- | --------- | ------ |
| EPRA NAV | 114,818 | 49,635 | 231 | 107,673 | 49,282 | 218 | 114,835 | 49,025 | 234 |
| Adjustment for fair value of derivatives | (36,674) | - | (74) | (22,027) | - | (44) | (22,532) | - | (46) |
| | ---------- | --------- | ------ | ---------- | -------- | ------ | ----------- | --------- | ------ |
| EPRA NNNAV | 78,144 | 49,635 | 157 | 85,646 | 49,282 | 174 | 92,303 | 49,025 | 188 |
| | ---------- | -------- | ------ | --------- | -------- | ------ | ----------- | --------- | ------ |

11 Disclaimer

The Interim Report of McKay Securities PLC for the six months to 30th September 2010 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 2010, it would also be determined in accordance with English law.

12 Interim Report

The Interim Report is being posted to all shareholders on 3rd December 2010. 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.

13 Identification of business risks

The risks facing the Group are broadly consistent with those outlined on page 24 of the 2010 Report and Financial Statements.

Responsibility Statement of the Directors

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

A S Childs
Finance Director

24th November 2010