Press Release

**CAPITAL RAISING REPOSITIONS MCKAY
TO BENEFIT FROM IMPROVING MARKETS**

McKay Securities PLC, the only Real Estate Investment Trust (REIT) focused entirely on the South East and London office and industrial markets, today announces its results for the year ended 31st March 2014.

Highlights

- £86.71m of capital raised by way of a Firm Placing, Placing and Open Offer of 45,879,179 shares at £1.89 per share in February 2014
- £45.4m of capital raising proceeds invested predominately in acquisitions and portfolio refurbishments
- Total Shareholder Return of 54.7%

- IFRS profit before tax of £38.29m (2013: £1.75m)
- Adjusted profit before tax of £3.16m (2013: £5.42m)

- EPRA Net Asset Value of 227p per share (2013: 238p)
- NNNAV of 203p per share (2013: £154p)
- Loan to value ratio of 14.7% (2013: 44.4%)

- Property portfolio valuation up 10.2% (£23.61m) to £254.55m

- Final dividend up 1.7% to 5.9pps (2013: 5.8pps)
- Total dividend for the year 8.6pps (2013: 8.5pps)

David Thomas, Chairman of McKay said,

"I am pleased to report on a year of substantial progress for McKay, during which we secured significant additional financial resources to enhance our position as the only REIT entirely focused on the improving office and industrial markets of South East England and London.

The Group is uniquely placed to benefit from these improving markets where this recovery looks set to continue with increasing occupier demand and a limited supply of quality floor space. The successful Capital Raising has enhanced our potential to benefit from these positive trends and we have a clear focus on delivering our strategic aim of expansion in these chosen markets."

Date: 28th May 2014
For further information contact:

McKay Securities PLC
Simon Perkins, Managing Director
Giles Salmon, Finance Director
0118 950 2333

Broker Profile
Simon Courtenay
Tamsin Shephard
020 7448 3244

Details of the programme for the payment of the final dividend on the Ordinary Shares is as follows:

Ex dividend date	4th June 2014
Record Date for the final dividend	6th June 2014
Report and Financial Statements dispatched to Shareholders with Notice of AGM	18th June 2014
Annual General Meeting to be held at 12 noon at The Royal Thames Yacht Club, 60 Knightsbridge, London SW1	17th July 2014
Final dividend paid	31st July 2014

A final dividend per share of 5.9 pence is recommended by the Board making a total dividend for the year of 8.6 pence per share (2013 – 8.5 pence). The final dividend will be paid as an Ordinary Dividend.

CHAIRMAN'S STATEMENT

I am pleased to report on a year of substantial progress for McKay, during which we secured significant additional financial resources to enhance our position as the only REIT entirely focused on the improving office and industrial markets of South East England and London.

For a number of years we have reported that building obsolescence and a constrained development pipeline has been creating a bottleneck in the supply of quality business space in our core South East and London markets that would accelerate rental and capital growth once occupier demand increased. As the year progressed, this proved to be the case with rental and capital values increasing across all our markets.

To benefit from these positive trends, £86.71 million of capital was raised in February 2014 by way of a Firm Placing, Placing and Open Offer of 45,879,174 New Ordinary Shares at £1.89 per share (the Capital Raising). The Capital Raising, which doubled our issued share capital, was over-subscribed due to the strong support of new and existing shareholders, with the offer price being only 1% below the share price at the time.

As a consequence, shareholders' funds increased over the period by £117.30 million to £189.24 million primarily as a result of the Capital Raising and a £23.61 million (10.2%) valuation surplus. The external valuation increased the capital value of the portfolio to £254.55 million (March 2013: £212.94 million) and the estimated rental value (ERV) of the portfolio increased by 4.4% on a like for like basis to £18.94 million pa (March 2013: £16.77 million pa). Based on the increased number of shares in issue, NAV per share (EPRA) reduced by 4.6% to £2.27 (March 2013: £2.38), reflecting the issue price of the new shares.

Profit before tax for the period increased significantly to £38.29 million (March 2013: £1.75 million), due primarily to a £18.03 million improvement in the value of interest rate hedging instruments and the valuation surplus.

Adjusted profit before tax, which excludes these unrealised movements, reduced to £3.16 million (March 2013: £5.42 million), mainly due to a £1.59 million reduction in net income from the portfolio. This was anticipated at the end of last year when I informed shareholders that although the successful disposal of 100 Bothwell Street, Glasgow had released funds for reinvestment, there would be an impact on earnings. This income is being replaced as the sale proceeds are recycled and recent acquisitions have contracted rents totalling £2.86 million pa.

Having focused our portfolio on the well established markets of South East England and London and ensured that properties were managed to capture future growth, improving market conditions have provided us with scope to adopt a more expansive approach. The Capital Raising added to this impetus and provided us with significant financial headroom to grow the portfolio with further acquisitions, as well as accelerating returns from portfolio refurbishment and development projects, while retaining reasonable levels of gearing.

Four properties were acquired during the period at a cost of £16.50 million. We have added to this with two further properties since the year end at a cost of £26.50 million. The properties purchased during the year include a prime redevelopment site on London Road, Redhill. This was acquired off market, and provides a well priced addition to our development programme. Since the year end we were pleased to secure The Mille building, located in a very prominent position adjacent to the elevated section of the M4 motorway in Brentford, and an office refurbishment opportunity close to Reading Station, set to benefit from the major station regeneration project and the extension of Crossrail. These were all in line with our business model of acquiring properties providing a range of opportunities to add to the total portfolio return through active management, refurbishment and development.

Encouraging progress has also been made with current refurbishment projects including the upgrading of our office properties at Wilson Street, EC2, 329 Bracknell (formerly Doncastle House), and Switchback Office Park, Maidenhead. In all cases, the works are on programme and full marketing will commence on completion of the schemes in the early summer. The ERV of these properties has increased by 27.6% over the period to £1.51 million pa, showing the combined benefit of capital investment and positive market movements. In addition, a 25 year pre-let has been signed at Strawberry Hill House, Newbury for the conversion of the building from office use to a medical centre.

The Capital Raising has given us the opportunity to consider the early implementation of our office development projects at London Road, Redhill (47,000 sq ft) and at 30-32 Lombard Street, EC3 (58,000 sq ft). Both schemes provide the potential to deliver high quality buildings into markets with limited occupier choice and improving occupier demand. Consultant teams have been instructed to progress detailed design and to obtain the necessary approvals to allow development, and commencement of both schemes will be kept under review as this work progresses.

To date we have invested £45.41 million of the Capital Raising proceeds. With Balance Sheet gearing reduced to 17.8% at the year end (March 2013: 84.2%), we anticipate being able to draw on the balance of the funds and our banking facilities more extensively in the coming year for further acquisitions and portfolio projects. The investment of proceeds has been encouraging to date and future profits will be enhanced as the benefit of investment in new properties and projects is realised. The total shareholder return of 54.7% for the year reflects the success of our strategy over the period and compares favourably with the FTSE 350 Real Estate Index return of 27.4%.

The Board

On May 1st, we were pleased to welcome Richard Grainger to the Board as an independent non-executive Director. Richard's extensive knowledge of property finance and the listed real estate sector gained as head of Close Brothers Corporate Finance and subsequently as Chairman of Safestore will enable him to make a valuable contribution to the Board.

Dividend

The Board is encouraged by the pace of progress of its committed strategy, and whilst we are working towards a fully covered dividend, we intend to maintain a progressive dividend policy.

The Board is therefore recommending that the final dividend is increased by 1.7% to 5.9 pence per share (2013: 5.8 pence). This will be paid as an ordinary dividend and will take the total dividend for the year to 8.6 pence (2013: 8.5 pence).

Future Prospects

The Group is uniquely placed to benefit from the improving markets of South East England and London where this recovery looks set to continue with increasing occupier demand and a limited supply of quality floor space. The successful Capital Raising has enhanced our potential to benefit from these positive trends and we have a clear focus on delivering our strategic aim of expansion in these chosen markets.

The attraction of our markets to competing investors has become increasingly evident, but a positive start has been made to investing the proceeds. Growth in adjusted profits will be driven by the performance of these and future acquisitions and the pace at which portfolio projects are let.

D.O. Thomas
Chairman
28th May 2014

PROPERTY & FINANCIAL REVIEW

Overview

With four acquisitions over the year, the portfolio increased to 37 properties at 31st March 2014, valued at £254.55 million. It totalled 1.28 million sq ft with 173 tenants. The portfolio is located entirely within the markets identified in the Group's strategy, being South East England (64.8%) and London (35.2%).

Contracted rental income from the portfolio (net of ground rents) at the year end increased to £16.38 million pa (March 2013: £15.92 million pa). The rental value of the portfolio (ERV), as estimated by the Group's valuer at 31st March 2014, increased to £18.94 million pa (March 2013: £16.77 million pa).

54.7% of contracted rental income was payable at the year end by tenants with a net worth in excess of £15 million (source: Dun and Bradstreet). This was similar to last year, reflecting the strength and diversity of our occupier base.

The weighted average lease term of the portfolio reduced marginally to 5.7 years and 4.6 years (March 2013: 6.0 years and 5.1 years) to the earlier of lease break and expiry.

As a result of improving rental values and current refurbishment projects, the reversionary potential of the portfolio increased to £2.56 million pa (March 2013: £0.85 million pa).

Market Review

Continued economic recovery and improving sentiment has been of benefit to rental and capital values across all our markets over the period.

The IPD Monthly Index, which measures returns from £35.88 billion of property from all sectors across the UK, recorded capital growth of 6.8%, rental value growth of 1.2%, and a total return of 14.0%. Our portfolio performance of 10.2%, 4.4% and 15.6% respectively, highlights the out-performance of our office and industrial markets of South East England and London, and supports our strategy of investing in these resilient sectors. This was a more positive result generally than in recent years and reflects the improvement in the markets seen on the ground.

The demand for modern business space within those markets continued to recover over the period, driven by business expansion and building obsolescence. The choice of quality business space for tenants remains limited, as development has been constrained through the downturn, and an increasing volume of office stock is being converted to residential and other alternative uses. As a result, rental values look set to increase further as supply constraints become more acute.

The pace and extent of growth in office rents within central London has begun to ripple out, particularly into areas such as Hammersmith, Chiswick, Richmond and Wimbledon, where relative rents have been low for some time. Limited supply and further infrastructure improvements are likely to see this trend spread further over time.

Speed and ease of access from central London to our markets west of London will improve significantly when Crossrail becomes operational from 2018 onwards. It was recently announced that the line will extend beyond Maidenhead to Reading, which will add to the benefit of some £800 million being spent on rail and platform upgrades. These improvements, with the prospect of direct rail access from the West to Heathrow in 2021, will enhance the attractiveness of the region to occupiers and the prospects for rental growth.

Within our South East office markets, which account for 45.5% of the portfolio (by value), take up in 2013 totalled 2.49 million sq ft (source: Strutt & Parker). This was the highest level of lettings since 2007, and a substantial 79.5% increase on 2012. A number of larger transactions contributed to the result, but it was underpinned by characteristics typical of these markets; a diverse range of occupiers, generally deal sizes of 20,000 sq ft – 40,000 sq ft, and predominantly good quality, existing buildings.

Occupier demand in these markets at the end of March 2014 totalled 3.25 million sq ft, with an additional 0.37 million sq ft in solicitors' hands. This level of demand was 11.0% up on the position at the end of December 2013, and 0.41 million sq ft of deals completed in the first quarter of the year was similar to the final quarter last year (0.48 million sq ft).

The supply of new office space to meet this steadily improving occupier demand has reduced by 24.3% over the last three years to 2.43 million sq ft. 16 of the 21 centres monitored by Strutt & Parker on our behalf have a vacancy rate of less than 5.0% of new office space, and the overall vacancy rate for new space is historically low at 2.8%. The vacancy rate including refurbished and other grade A space is still low at 7.9%, having seen a 10.9% reduction over the same period.

The floor space available within the development pipeline has picked up during the year in response to improving demand and rental values, but not to a level that will change materially the supply constraints in the majority of these centres.

47.1% of the office buildings within the South East office segment of the IPD Annual Index (source: IPD) are now over 24 years old. As a result, building obsolescence will be an increasingly important driver of occupier demand, particularly with around 880 lease breaks and expiries accounting for close to 19.00 million sq ft of potential demand over the next three years (source: Strutt & Parker).

Portfolio Activity

Improving rental values and investor demand helped generate income and capital gains from acquisitions and initiatives implemented during the year and in prior periods. As a result, in absolute terms, the portfolio increased in value over the period from £212.94 million to £254.55 million, and the portfolio rental value (ERV) from £16.77 million pa to £18.94 million pa.

The first acquisition during the period, made off market in May 2013, was a freehold property with significant redevelopment potential on London Road, Redhill for £2.30 million. Redhill is a well established southern M25 office location on the main railway line between central London and Gatwick, and the site is in a prime, central location within the town.

In July 2013 we purchased the freehold of Columbia House, Farnborough for £2.90 million. The annual rent from this good quality 40,460 sq ft warehouse is £0.34 million, which generates an attractive yield of 11.1%. This is a modern well specified building close to the M3 motorway. The intention of increasing value by renewing the lease with the existing tenant at lease expiry in May 2015 is making good progress.

In January 2014 the freehold of One Crown Square, Woking was purchased for £6.00 million, providing an initial yield of 9.3% from a rental of £0.59 million pa. This multi-let office property, totalling 51,500 sq ft, is located in central Woking and was purchased with the intention of enhancing value by improving rents from a low base of £11.60 psf, and to explore a more comprehensive refurbishment or redevelopment in the medium term. A number of productive management initiatives have been put in place and recent lettings have already achieved £15.00 psf.

The final purchase during the year was the freehold acquisition of Ashcombe House, Leatherhead for £4.36 million. This is an attractive town centre office building totalling 17,340 sq ft let to four tenants, generating a yield of 7.4% from a rent of £0.34 million pa. Low average rental values in the recently refurbished building of £19.63 psf provide scope for improvement through management of lease breaks and expiries over the next few years.

Shortly after the year end we purchased The Mille, Brentford for £19.3 million. The building, which consists of 96,650 sq ft office floor space over 11 floors, is located in a highly prominent location on the south side of the elevated section of the M4 motorway. It was extensively refurbished in 1985, and has subsequently undergone a rolling programme of further refurbishment. It is let off low rents ranging from £13.50 psf to £20.00 psf. The purchase includes a site next to the property, let separately as a car rental facility and a stand alone advertising tower. Total income from the building and this separate element at purchase was £1.57 million pa, generating a yield of 7.7%.

This acquisition provides an exciting opportunity to benefit from the increasing rental values that have been spreading from the West End to neighbouring Hammersmith and Chiswick. We also intend to capitalise on the prominence of the location by improving the level of income generated from the advertising displays, and will investigate a major refurbishment or redevelopment to take full advantage of the image and branding opportunities from such a visible location.

Since the year end, we have also announced the off market acquisition of the freehold of 9 Greyfriars Road, Reading for £5.80 million. The building consists of a 38,200 sq ft office building, close to Reading Station. It was recently vacated, and a full refurbishment is planned to commence in the autumn.

These acquisitions provide a variety of opportunities to generate returns in the future and have added to the potential that already exists within our portfolio. The only disposal over the period was of the former Convent at Pinehurst Park, Farnborough for £1.24 million. This was in excess of the estimate made at the time of purchase in July 2012 of £0.85 million due to the receipt of planning consent for conversion to residential use and improvement in the housing market. The small deficit on sale of £0.12 million reflected disposal costs following revaluation.

The release of value from current portfolio projects has made good progress, benefiting from market gains. These projects include the refurbishment of office space at 329 Bracknell (33,600 sq ft), Switchback Office Park, Maidenhead (16,700 sq ft) and 66 Wilson Street, EC2 (12,300 sq ft). Works to improve and re-position these properties are due to complete in early summer. Full marketing is to commence shortly. At Strawberry Hill House, Newbury (15,200 sq ft) two local medical practices have entered into a pre-let at a rent of £0.26 million pa; double the current ERV. This is conditional on the receipt of planning consent and conversion of the building from office use to a medical centre. On completion of the works, programmed for 2015, the practices will enter into a 25 year government backed lease.

Beyond the current schemes, the portfolio contains many potential opportunities, which are becoming more attractive as the market recovers. The two most significant projects within the current pipeline are the office development schemes on London Road, Redhill and on Lombard Street, EC3.

Since acquisition of the Redhill site earlier in the year, the redundant 1970's office block has been demolished and the site is being prepared for redevelopment. Planning consent for 14 residential apartments on the rear part of the site has been obtained, and the freehold disposal of this part is due to complete shortly for £0.98 million. This is 10.3% over the value assumed at purchase. The sale proceeds will reduce the cost of the balance of the site, adding to the viability of the office scheme that is being worked up. Planning consent has been obtained for a high quality, headquarters building totalling 47,000 sq ft, which will be well placed to benefit from numerous lease expiries in the local market area in 2016/2017 and we will decide on a speculative start on completion of detailed design work in the summer.

In addition, detailed design is now being progressed in respect of the redevelopment of 30-32 Lombard Street, London, EC3. Planning consent exists for the replacement of the existing 35,820 sq ft building with a top quality 58,000 sq ft office building in this core central London location. Rental values in the City have been increasing and market conditions look set to improve with a low vacancy rate and healthy levels of demand. The work being undertaken is to establish a programme for development and allow a possible start on site later in the year.

Once let, these two new buildings will make a significant contribution to portfolio income, generating a combined net increase in contracted rents of £3.50 million pa.

Within the portfolio, a total of 13 open market lettings were completed over 48,040 sq ft. The combined contracted rental value of £0.76 million pa was 1.4% ahead of ERV and represented encouraging progress across all markets. In particular, five lettings at Switchback Office Park, Maidenhead highlighted the recovery in this market. The final unit under refurbishment will be marketed to achieve a higher rent, which will further improve the value of this asset, which increased by 36.3% over the period. In addition to these lettings, an unconditional agreement for lease was completed in respect of Pegasus Two, Crawley (12,730 sq ft) for a 10 year unbroken lease, at a rental of £0.27 million pa. The lease completed shortly after the year end, and leaves the three office buildings, developed by the Group at Pegasus Place (50,790 sq ft), fully occupied.

Continued in-house property management and rent collection ensures a close relationship with our 173 tenants. This assisted with the retention of rents totalling £1.38 million pa from 16 out of 30 tenants at lease break and expiry. Rents achieved were generally in line with ERV.

The most significant lease renewal was at Sopwith Drive, Weybridge (62,800 sq ft) where the tenant entered into a ten year lease at an increased rental of £0.58 million pa. The rental uplift of 3.2%, combined with an extended lease term, contributed to a 51.0% increase in the value of this property over the period.

Our target of securing at least 90% of rents demanded within seven days was exceeded at each quarter, and the resilient nature of the portfolio was illustrated by no tenant failure or bad debt.

At the year end, the total portfolio occupancy rate was 85.9% (by rental value). This was lower than the 91.4% reported at 31st March 2013, mainly due to the more active refurbishment programme and, in particular, vacancies at 329 Bracknell, and 66 Wilson Street, EC2. The five largest portfolio voids, which include these two properties, account for 58.2% of the vacant ERV of £2.67 million pa across 165,900 sq ft. The letting of these refurbished properties along with other portfolio voids, will add substantially to future earnings and value.

Valuation

The external valuation of the Group's property portfolio at 31st March 2014 totalled £254.55 million, representing a valuation surplus for the period of 10.2% (£23.61 million). Of this, 3.9% was secured in the first half and 6.3% in the second half.

The portfolio initial yield was 5.3% (2013: 5.9%) increasing to 6.1% (2013: 7.1%) on the expiry of letting incentives. At ERV, the reversionary yield was 7.0% (2013: 7.5%) and the equivalent yield was 6.7% (2013: 7.2%). This shift to lower yields reflects the improvement seen over the period in capital values, as investor demand has increased.

A valuation surplus was secured across all segments of the portfolio held over the period, with a 13.1% increase in London offices, 9.6% increase in South East offices and 9.7% in South East industrial. The total surplus outperformed the IPD Monthly Index surplus of 6.8%, and segments were broadly in line with IPD returns of 12.8% and 17.4% for City and mid-town / West End, 11.7% for South East offices, and 10.5% for South East industrials.

These surpluses were due to a yield shift of circa 50 bps across the portfolio as a whole which added to gains from refurbishment, lettings and other management initiatives.

Our active approach to securing gains from the portfolio helped secure a total portfolio return of 15.6%, outperforming the IPD total return of 14.0%.

Finance

Total Shareholder Return for the period of 54.7% was primarily a result of the share price increasing over the period from £1.45 to £2.08. This compares to a FTSE all share total return of 8.8% and a FTSE 350 Real Estate Index total return of 27.4%.

Share price gains over the period reflected improving sentiment in our markets and the improved prospects for the Group following the receipt of gross proceeds of £86.71 million from the Firm Placing, Placing and Open Offer (the Capital Raising) completed on 19th February 2014. A total of 45,879,174 new ordinary shares were issued at an Offer Price of £1.89 per share, which was 1% below the market price of the shares at the time. This has taken the total number of ordinary shares in issue to 91,758,348, improving liquidity. The transaction, which was oversubscribed, has strengthened our financial position and provided funds for acquisitions and portfolio projects.

Income Statement

The £2.26 million reduction in adjusted profit before tax to £3.16 million (31st March 2013: £5.42 million) was due primarily to a reduced level of rental income following disposals at the end of last year along with a small increase in administration costs and landlord's property costs. These non-recoverable costs were mainly in respect of vacant properties and ongoing or proposed refurbishment and development schemes.

Rental income, whilst £1.41 million lower than the previous year, benefited from increased contributions from Switchback, Maidenhead and Pegasus Place, Crawley as a result of lettings prior to and during the period. This was supplemented by income from acquisitions made during the period. However, these gains were offset by the loss of £1.69 million of income contributed by 100 Bothwell Street, Glasgow prior to disposal at the end of the last financial year.

Profit before tax (IFRS) totalled £38.29 million. This was significantly higher than the previous year (31st March 2013: £1.75 million) due to a £18.03 million positive movement in the value of interest rate hedging instruments, and a substantial valuation surplus of £22.92 million (including SIC15) secured during the year.

Cost management remains a high priority. Whilst the underlying cost base has been stable, administration costs of £3.95 million increased (March 2013: £3.46 million) mainly as a result of bonus provision which increased by £0.36 million to £0.46 million as set out in more detail within the Remuneration Report.

Interest for the year of £5.68 million was similar to the prior year of £5.63 million. However, the Group's weighted average cost of debt increased from 5.09% to 5.98%, reflecting the cost of interest rate hedging instruments relative to a reduced level of debt.

The Group does not hedge account its interest rate derivatives and therefore includes the movement in fair value in the Consolidated Statement of Comprehensive Income.

Balance Sheet

Shareholder's funds increased from £71.93 million to £189.24 million over the period, predominately due to receipt of £82.24 million of funds from the Capital Raising. The funds raised have initially been used to reduce bank borrowing. This has reduced gearing levels and strengthened the balance sheet position.

The issue of new shares has had an impact on the like for like comparison of the movement of NAV per share over the period, due to the difference between the issue price and the prior year number. As a result, EPRA NAV per share at the year end of 227 pence reduced by 4.6% over the period on a like for like basis (March 2013: 238 pence).

NNNAV per share increased by 31.8% to 203 pence (March 2013: 154 pence) and basic NAV per share increased by 31.2% to 206 pence (March 2013: 157 pence). These improvements were predominantly due to the valuation gain and the improvement in the mark to market value of interest rate hedging instruments.

Drawn debt at the end of the period was £37.50 million (March 2013: £94.50 million). The gearing ratio of drawn debt to portfolio value (LTV) as at 31st March 2014 was 14.7% (March 2013: 44.4%). The ratio of aggregate net borrowings to tangible net worth, as per the banking covenants, was 17.8% (March 2013: 84.2%).

Net cash outflow from operating activities was £3.08 million (March 2013: Inflow £4.36 million) and interest cover based on adjusted profit plus finance costs as a ratio to finance costs was 1.5x (March 2013: 1.9x). The Group maintained £155.00 million of banking facilities through the year and view these as an integral part of the capital structure going forward. The average weighted unexpired term to loan maturity was 2.7 years (March 2013: 3.7 years).

Protection against future increases in interest rates is provided by financial hedging instruments. At the year end, £80.00 million (March 2013: £105.00 million) of such instruments were in place. If bank borrowing facilities were fully drawn, hedging cover would be 51.6% (March 2013: 67.7%). During the year the Group executed the early termination of £25.00 million of financial hedging instruments at a cost of £5.66 million. This brought forward payment from January 2016 and better aligned the Group's hedging instruments to anticipated levels of debt.

The forward interest rate curve improved over the year which reduced the negative mark to market valuation of the hedging instruments to £22.56 million (March 2013: negative £40.59 million or £32.74 million on a comparable basis excluding the £25.00 million termination). The Group closely monitors the market for these instruments and regularly reviews the suitability and strategic options for these products. Although the mark to market valuation is negative, this represents a non cash timing difference.

As a REIT, the Group is tax exempt in respect of capital gains and all qualifying rental income, which includes the majority of the Group's activities. Any residual income has been offset by relevant costs, and there is therefore no tax charge for the period (March 2013: nil).

The Group is required to distribute at least 90% of rental income profits arising each financial year by way of a Property Income Distribution (PID). Subject to exemptions, this is paid after deduction of withholding tax, at present 20%. The final dividend, to be paid in July 2014, will be paid as an ordinary dividend.

Defined Benefit Pension Scheme

Under the application of accounting standard IAS19, the Group's pension deficit has reduced from £2.22 million to £1.69 million. The Group's annual contribution to the Scheme of £0.25 million, which includes part payment towards the deficit over a 7 year recovery plan, is not affected by the reduction in the deficit and will only be reconsidered in conjunction with the Scheme advisors after the triennial valuation due later in 2014. The reduction in the deficit is in the main due to revised spousal assumptions, thereby reducing the deemed liabilities of the Scheme. The Scheme was closed to new entrants in the 1980's, and now consists of six pensioners and no active members.

Financial Risks

The main financial risks to the Group are compliance with financial covenants on bank borrowing, major tenant default, lack of liquidity, interest rate hedging instruments and future interest rate costs on bank borrowings. The first of the Group's four standalone facilities, which are all on pre-recession low margins, is not due for renewal until February 2016. The future interest cost applicable to new facilities will be dependant on rates available at the time, but are likely to be higher.

Compliance with bank covenants is closely monitored by the Board which regularly reviews various forecast models to help its financial planning. Throughout the period the Group complied with all such covenants and retains significant headroom should there be an overall decline in capital values.

Tenant default is monitored using Dun & Bradstreet checks for new tenants together with on-going credit checks and internal credit control. Together with close management of rental income and suppliers, this ensures that the Group's ability to generate income to meet its commitments is monitored. The Board receives regular information on rental arrears and rent collection activities.

Liquidity risk is managed through a mixture of short and long term bank facilities that ensure sufficient funds are available to cover potential liabilities arising against projected cash flows, particularly tenant default.

S.C. Perkins
G.P. Salmon
28th May 2014

The summary of the consolidated results of McKay Securities PLC and its subsidiary undertakings (the "Group") for the year ending 31st March 2014 are as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31st March 2014

	Notes	2014 £'000	2013 £'000
Gross rents and service charges receivable	2	**16,897**	20,053
Direct property outgoings		**(4,110)**	(5,680)
Net rental income from investment properties	2	**12,787**	14,373
Administration costs	3	**(3,946)**	(3,463)
Operating profit before gains on investment properties		**8,841**	10,910
(Loss)/Profit on disposal of investment properties		**(124)**	1,101
Revaluation of investment properties	8	**22,917**	3,410
Operating profit		**31,634**	15,421
Net finance costs - finance costs	5	**6,651**	(11,859)
- finance income	5	**5**	12
Share of (loss)/profit of associated undertaking		**-**	(1,829)
Profit before taxation		**38,290**	1,745
Taxation	6	**-**	-
Profit for the year		**38,290**	1,745
Other comprehensive income:			
Actuarial movement on defined benefit pension scheme		**372**	(488)
Total comprehensive income for the year		**38,662**	1,257
Earnings per share	7		
Basic		**75.03p**	3.80p
Diluted		**72.95p**	3.70p

Adjusted earnings per share figures are shown in note 7.

		2014 £'000	2013 £'000
Dividends			
Previous year's final dividend of 5.8p (2013: 5.7p) paid during the year		**2,661**	2,615
Interim dividend of 2.7p (2013: 2.7p) paid during the year		**1,239**	1,239
Proposed final dividend of 5.9p (2013: 5.8p)		**5,414**	2,661

The total comprehensive income for the year is all attributable to the equity holders of the parent company.

GROUP BALANCE SHEET
As at 31st March 2014

	Notes	2014 £'000	2013 £'000
Non-current assets			
Investment properties	8	**252,645**	211,768
Plant and equipment		**13**	24
Investments		**-**	-
		252,658	211,792
Current assets			
Trade and other receivables	9	**6,952**	5,834
Cash and cash equivalents		**2,100**	2,893
Total assets		**261,710**	220,519
Current liabilities			
Trade and other payables	10	**(6,555)**	(7,163)
Finance lease liabilities		**(286)**	(286)
Interest rate derivatives	10	**(3,510)**	(4,196)
		(10,351)	(11,645)
Non-current liabilities			
Loans and other borrowings	10	**(37,266)**	(94,209)
Pension fund liabilities		**(1,690)**	(2,219)
Finance lease liabilities		**(4,121)**	(4,122)
Interest rate derivatives	10	**(19,047)**	(36,391)
		(62,124)	(136,941)
Total liabilities		**(72,475)**	(148,586)
Net assets		**189,235**	71,933
Equity			
Called up share capital	12	**18,352**	9,176
Share premium account		**75,541**	2,478
Other retained reserves		**57,988**	45,965
Revaluation reserve		**37,354**	14,314
Total Equity		**189,235**	71,933
Net asset value per share	11	**206p**	157p
EPRA net asset value per share	11	**227p**	238p

These financial statements were approved by the Board of Directors on 28th May 2014 and were signed on its behalf by D.O. Thomas and S.C. Perkins.

GROUP CASH FLOW STATEMENT
For the year ended 31st March 2014

	2014 £'000	2013 £'000
Operating activities		
Profit before tax	**38,290**	1,745
Adjustments for:		
Depreciation	**15**	16
Other non-cash movements	**731**	815
Loss/(Profit) on disposal of investment properties	**124**	(1,101)
Movement in revaluation of investment properties	**(22,917)**	(3,410)
Net finance costs	**(6,656)**	11,847
Share of the results of associate undertaking	**-**	1,829
Cash flow from operations before changes in working Capital	**9,587**	11,741
Increase in debtors	**(1,001)**	(532)
Decrease in creditors	**(795)**	(1,289)
Cash generated from operations	**7,791**	9,920
Interest paid	**(11,596)**	(5,574)
Interest received	**5**	12
Cash flows from operating activities	**(3,800)**	4,358
Investing activities		
Proceed from sale of investment properties	**1,116**	16,525
Dividends from associated undertaking	**-**	45
Purchase and development of investment properties	**(19,406)**	(10,750)
Purchase of other fixed assets	**(7)**	(17)
Cash flows from investing activities	**(18,297)**	5,803
Financing activities		
Proceeds from issue of share capital	**86,712**	-
Costs associated with issue of share capital	**(4,473)**	-
Decrease in borrowings	**(57,035)**	(5,998)
Equity dividends paid	**(3,900)**	(3,854)
Cash flows from financing activities	**21,304**	(9,852)
Net (decrease)/increase in cash and cash equivalents	**(793)**	309
Cash and cash equivalents at the beginning of the year	**2,893**	2,584
Cash and cash equivalents at the end of the year	**2,100**	2,893

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31st March 2014

	Attributable to equity holders of the parent company				
	Share capital £'000	Share premium £'000	Revaluation reserve £'000	Total distributable reserve £'000	Total equity £'000
At 1st April 2012	9,176	2,478	10,965	51,541	74,160
Profit for the year	-	-	-	1,745	1,745
Other comprehensive income:					
Transfer surplus on revaluation of properties	-	-	3,410	(3,410)	-
Transfer of share of surplus on revaluation of properties in associated undertaking	-	-	22	(22)	-
Transfer on disposal of investment Properties	-	-	(83)	83	-
Past service cost on defined benefit pension scheme	-	-	-	(120)	(120)
Actuarial loss on defined benefit pension scheme	-	-	-	(368)	(368)
Total comprehensive profit for the year	-	-	3,349	(2,092)	1,257
Dividends paid in year	-	-	-	(3,854)	(3,854)
Fair value of share based payments	-	-	-	370	370
At 31st March 2013	9,176	2,478	14,314	45,965	71,933
Profit for the year	-	-	-	38,290	38,290
Other comprehensive income:					
Transfer surplus on revaluation of properties	-	-	22,917	(22,917)	-
Transfer share of surplus on revaluation of properties in associated undertaking	-	-	204	(204)	-
Transfer on disposal of investment Properties	-	-	(81)	81	-
Actuarial gain on defined benefit pension scheme	-	-	-	372	372
Total comprehensive profit for the year	-	-	23,040	15,622	38,662
Share issue on capital raising	9,176	77,536	-	-	86,712
Costs associated with share issue	-	(4,473)	-	-	(4,473)
Dividends paid in year	-	-	-	(3,900)	(3,900)
Fair value of share based payments	-	-	-	301	301
At 31st March 2014	**18,352**	**75,541**	**37,354**	**57,988**	**189,235**

Notes forming part of the Group Financial Statements

1. The financial information set out in the final results announcement does not constitute the Group's statutory accounts for the year ended 31st March 2014 or 2013, but is derived from those accounts. The statutory accounts for the period ended 31st March 2014 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The statutory accounts for the year ended 31st March 2013 have been delivered to the Registrar of Companies. The auditors have reported on the accounts for both the years ended 31st March 2014 and 2013; their reports were (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 in respect of the accounts for 2013 and 2014.

Accounting policies

Basis of preparation

The Group and Parent Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and therefore comply with Article 4 of the EU IAS Regulation.

In accordance with Section 408 Companies Act 2006 a separate Statement of Comprehensive Income for McKay Securities PLC (the Company) is not presented. The profit for the year after tax of the Company is £32,641,000 (2013: loss £1,782,000).

During the financial year, the following accounting standards and guidelines were adopted by the Company, none of these had any material impact on the financial statements:

IAS 1R – Presentation of Financial Statements;

IFRS 13 – Fair Value Measurement. This was implemented during the year, resulting in the BCVA and additional fair value disclosures;

IAS 19R – Employee Benefits. No material impact.

None of the new standards or amendments to existing standards or interpretations, which are endorsed but not yet effective, have been adopted, or are expected to have any material impact on the financial statements.

The financial statements are prepared on a going concern basis.

Significant judgements and estimates
In the process of preparing the Group's financial statements management is required to make judgements, estimates and assumptions when applying accounting policies that may affect the reported amounts of revenues, expenses, assets and liabilities. Any judgements, estimates and associated assumptions used in the preparation of the financial statements are based on management's best information at the time, however actual outcomes may differ from estimates used. Not all accounting policies require estimates and assumptions, however management consider them significant in applying to valuations, for which qualified external advisors are used, of investment properties, financial instruments, share-based payments and defined benefit pension obligations and are disclosed in the applicable policies and notes below.

Basis of consolidation

The consolidated financial statements of the Company and its subsidiaries (the Group) have been prepared on a historical cost basis, except for investment property and derivative financial instruments measured at fair value through the Statement of Comprehensive Income. 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.

Intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in preparing the consolidated financial statements.

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. Investment in associates is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associate, less any distributions received.

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, reflecting market conditions, is determined at each reporting date by independent external valuers and any gain or loss arising from a change in value is recognised in the Statement of Comprehensive Income and transferred to the revaluation reserve in the balance sheet. 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.

Properties purchased are recognised on legal completion in the accounting period and measured initially at cost including transaction costs. 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. 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.

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, and added to the cost of the property. Interest capitalised is calculated on development outgoings, including material refurbishments to investment property, 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. When an existing investment property is redeveloped for continued future use as an investment property it remains an investment property whilst in development.

Properties held under long leases where the Group has substantially all the risks and benefits of ownership are accounted for as finance leases and carried at the lower of fair value or present value of future minimum lease payments. 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.

Plant and equipment
Plant and equipment is stated at cost less accumulated depreciation. Depreciation is provided 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.

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 an impairment provision has been made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote. Trade and other payables are recognised at invoice cost.

Interest bearing loans and borrowings
All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. Subsequent to initial recognition, loans and borrowings are measured at amortised cost using the effective interest rate method.

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

Segmental analysis
All of the Group's revenue is derived from the ownership of investment properties located in South East England and central London. The management team works within a single structure which includes the executive directors acting as chief operating decision maker. Responsibilities are not defined by type or location, each property being managed individually and reported on for the Group as a whole directly to the Board of Directors. Properties under development generate no revenue and are treated as investment properties in the portfolio. The directors therefore consider there to be only one reporting segment.

Revenue
The Group has entered into commercial property leases on its investment property portfolio. The Directors consider, based on the terms and conditions, the significant risks and rewards of ownership of the properties are retained and therefore account for the leases as operating leases. Rental income receivable under operating leases less initial direct costs on arranging the leases is recognised on a straight line basis over the non-cancellable term of the lease.

The aggregate value of incentives for lessees to enter into lease agreements, usually in the form of rent free periods or capital contributions, is recognised over the lease term or to tenant option to break as a reduction of rental income.

Premiums received from tenants to terminate leases are recognised as income from investment properties when they arise.

Service charges and other such receipts arising from expenses recharged to tenants, with the Group acting as principal, are recognised in the period that the expense can be contractually recovered and included gross in income from investment properties.

Interest received on short term deposits is recognised in finance income as it accrues.

Borrowing costs
Interest on borrowings, including interest on finance leases, 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). Costs incurred on putting in place borrowing facilities are recognised in finance costs over the term of the facility.

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 interest payable by the Group and interest payable to the Group by the swap counterparties are dealt with on an accruals basis.

At each reporting date the instruments are stated at fair value in the balance sheet which is the estimated amount that the Group would receive or pay to terminate the instruments based on the current interest rate yield structure. The Group has not applied hedge accounting for any financial instrument in place and any movement in fair value is recognised in the Statement of Comprehensive Income.

Share-based payments
The Group operates two equity-settled share-based performance plans outlined in the Directors Remuneration Report under which directors and employees are able to acquire shares in the Company. The fair value cost benefit of the employee services received for the options granted is recognised over the vesting period in employee costs within administration expenses with a corresponding amount recognised in equity. The charge is measured using valuation models and assumptions with adjustment for when non-market conditions are not expected to be met.

Post employment benefits
The Group operates two pension schemes. The defined benefit scheme is based on final pensionable pay and has been closed to new entrants since 1989. The assets of the scheme are held separately from those of the Group and are measured at fair value, the scheme obligations being calculated at discounted present value, with any net surplus or deficit recognised in the Group balance sheet. 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. Actuarial gains and losses on scheme liabilities are recognised in equity through the Statement of Comprehensive Income.

The Group contributes to 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.

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

Current tax is the expected tax liability on the results for the year adjusted for items that are not taxable or deductable, or taxable and deductable in other periods, together with any adjustment in respect of previous years calculated using tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be paid or recovered on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The Group uses the balance sheet liability method, without discounting, calculated using tax rates and laws enacted or substantively enacted at the balance sheet date expected to apply when the liability is settled or asset is realised. Tax liabilities are recognised for all taxable temporary differences and tax assets to the extent that future taxable profits will be available against which the asset can be utilised.

The Group converted to REIT status on 1 April 2007 and as a consequence substantially all the Group's activities as a property rental business are exempt from tax, including rental profits and gains on rental property disposals.

2. Net rental income from investment properties

	2014	2013
	£'000	£'000
Gross rents receivable	**14,003**	15,779
SIC 15 adjustment (spreading of rental incentives)	**680**	318
Gross rental income	**14,683**	16,097
Service charges receivable	**2,214**	3,956
	16,897	20,053
Direct property outgoings	**(4,110)**	(5,680)
	12,787	14,373

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

3. Administration costs

	2014	2013
	£'000	£'000
Group		
Directors' - remuneration	**917**	887
- bonus	**312**	48
Staff - costs	**472**	562
- bonus	**154**	25
National Insurance	**237**	211
Pension costs	**347**	353
Share based payment accounting charge	**266**	315
	2,705	2,400
Depreciation	**15**	16
Office costs	**561**	418
Legal and professional fees	**615**	625
General expenses	**50**	4
	3,946	3,463

The average number of persons employed by the Group and Company during the year was 14 (2013: 13).

	2014	2013
	£'000	£'000
	--------	--------
Employee costs		
Salaries	**1,855**	1,521
Social security costs	**237**	211
Pension costs – defined benefit scheme	**95**	144
- defined contributions	**252**	209
Share based payment accounting charge	**266**	315
	--------	--------
	2,705	2,400
	--------	--------

	2014	2013
Fees paid to auditors	**£'000**	£'000
Statutory audit services	**-------**	-------
McKay Securities PLC audit	**73**	69
Subsidiary audits	**4**	4
Assurance services		
Interim review	**17**	17
Service charge audits	**6**	6
Non-audit services		
Assistance in relation to Capital Raising	**125**	-
Taxation Services		
Corporation tax compliance	**29**	44
VAT advice	**1**	-
	-----	-----
	255	140
Future services – contracted fees		
XBRL tagging	**4**	4

Amounts paid to the Company's auditors in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

4. 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.

	2014	2013
	£'000	£'000
	-------	-------
Profit before tax	**38,290**	1,745
Change in fair value of derivatives	**(18,029)**	6,216
Movement in revaluation of investment properties	**(22,917)**	(3,410)
Loss/(profit) on disposal of investment properties	**124**	(1,101)
Derivative contract cancellation costs	**5,690**	-
Associated undertaking disposals and revaluation movement	**-**	1,968
	---------	---------
Adjusted profit before tax	**3,158**	5,418
	---------	---------

5. Net finance costs

	2014 £'000	2013 £'000
Interest on bank overdraft and loans	**5,508**	5,363
Derivative contract cancellation costs	**5,690**	-
Finance lease interest on leasehold property obligations	**285**	285
Finance arrangement costs	**92**	83
Fair value (gain)/loss on derivatives	**(18,029)**	6,216
Capitalised interest	**(197)**	(88)
	(6,651)	11,859
Interest receivable	**(5)**	(12)
	(6,656)	11,847

6. Taxation

	2014 £'000	2013 £'000
Current tax	**-**	-
Adjustments in respect of prior periods	**-**	-
Total tax in the Statement of Comprehensive Income	**-**	-

Reconciliation to effective rate of tax:

	2014 £'000	2013 £'000
Profit on ordinary activities before tax	**38,290**	1,745
Tax charge on profit at 23% (2013 – 24%)	**8,807**	419
Effects of:		
REIT tax exemption	**(7,513)**	(1,219)
Permanent differences	**(1,295)**	384
Other timing differences	**1**	1
Associated undertaking	**-**	415
Tax for period (as above)	**-**	-

7. Earnings per share

	2014 p	2013 p
Basic earnings per share	**75.03**	3.80
Change in fair value of derivatives	**(24.18)**	13.55
Movement in revaluation of investment properties	**(44.90)**	(7.43)
Profit on disposal of investment properties	**0.24**	(2.40)
Associated undertaking disposals and revaluation movement	**-**	4.29
Adjusted earnings per share	**6.19**	11.81

Basic earnings per share on ordinary shares is calculated on the profit in the year of £38,290,000 (2013: £1,745,000) and 51,032,725 (2013: 45,879,174) shares, being the weighted average number of ordinary shares in issue during the period.

	2014 Number of shares	2013 Number of shares
Weighted average number of ordinary shares in issue	**51,032,725**	45,879,174
Number of shares under option	**2,481,741**	3,210,063
Number of shares that would have been issued at fair value	**(1,030,583)**	(1,916,859)
Diluted weighted average number of ordinary shares in issue	**52,483,883**	47,172,378

	2014 p	2013 p
Basic earnings per share	**75.03**	3.80
Effect of dilutive potential ordinary shares under option	**(2.08)**	(0.10)
Change in fair value of derivatives	**(23.51)**	13.18
Movement in revaluation of investment properties	**(43.66)**	(7.23)
Profit on disposal of investment properties	**0.24**	(2.33)
Associated undertaking disposals and revaluation movement	**-**	4.17
Adjusted diluted earnings per share	**6.02**	11.49
EPRA earnings per share	**6.02**	11.49

Diluted earnings per share is calculated on the same profit after tax and on the weighted average diluted number of shares in issue during the year of 52,483,883 (2013: 47,172,378) shares, which takes into account the number of potential ordinary shares under option.

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.

8. Investment Properties

	Freehold £'000	Group Long Leasehold £'000	Total £'000
Valuation			
At 1st April 2012	181,724	31,503	213,227
Additions – acquisition	7,761	-	7,761
– development	2,729	105	2,834
Revaluation surplus	2,695	1,069	3,764
Adjustment for rents recognised in advance under SIC 15	(417)	63	(354)
Disposals	(15,424)	-	(15,424)
Amortisation of grossed up headlease liabilities	-	(40)	(40)
Book value as at 31st March 2013	**179,068**	**32,700**	**211,768**
Adjustment for grossing up of headlease liabilities	-	(3,865)	(3.865)
Adjustment for rents recognised in advance under SIC 15	4,742	290	5,032
Valuation as at 31st March 2013	**183,810**	**29,125**	**212,935**

	Freehold £'000	Group Long Leasehold £'000	Total £'000
At 1st April 2013	179,068	32,700	211,768
Additions – acquisition	16,340	-	16,340
– development	2,836	64	2,900
Revaluation surplus	19,113	4,502	23,615
Adjustment for rents recognised in advance under SIC 15	(813)	115	(698)
Disposals	(1,240)	-	(1,240)
Amortisation of grossed up headlease liabilities	-	(40)	(40)
Book value as at 31st March 2014	**215,304**	**37,341**	**252,645**
Adjustment for grossing up of headlease liabilities	-	(3,825)	(3,825)
Adjustment for rents recognised in advance under SIC 15	5,556	174	5,730
Valuation at 31st March 2014	**220,860**	**33,690**	**254,550**

In accordance with the Group's accounting policy on properties there was an external valuation at 31st March 2014. These valuations were carried out by Mellersh and Harding, Chartered Surveyors and Valuers. All valuations were carried out in accordance with the Appraisal and Valuation Standards of RICS, on an open market basis.

The historical cost of properties stated at valuation is approximately £205 million (2013: £187 million).

Investment property valuation method and assumptions

The fair value of the property portfolio has been determined using income capitalisation techniques, whereby contracted and market rental values are capitalised with a market capitalisation rate. The resulting valuations are cross-checked against the equivalent yields and the fair market values per share foot derived from comparable recent market transactions at arm's length terms.

These techniques are consistent with the principles in IFRS 13 Fair Value Measurement and use significant unobservable inputs such that the fair value measurement of each property within the portfolio has been classified as Level 3 in the fair value hierarchy. There were no transfers in or out of Level 3 for investment properties during the year.

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to £22.9 million (2013: £3.4 million) and are presented in the Group income statement in the line item 'Revaluation of investment properties'.

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the Group's property portfolio, together with the impact of significant movements in these inputs on the fair value measurement, are show below:

	London Offices	South East Offices	South East Industrial	Residential
Valuation technique[1]	Income Capitalisation	Income Capitalisation	Income Capitalisation	Market Approach
Fair value	£83,385,000	£112,110,000	£52,480,000	£5,900,000
ERV (per sq ft pa) - average	£29.30	£17.00	£7.70	n/a
ERV (per sq ft pa) - range	£7.50-£45.00	£3.00-£25.50	£3.00-£12.50	n/a
True equivalent yield - average	5.9%	8.0%	8.1%	n/a
True equivalent yield - range	5.3%-6.7%	0%-11.7%	6.9%-10.0%	n/a
Capital value per sq ft	n/a	n/a	n/a	£2,810

[1]For properties under development, the fair value is calculated by estimating the fair value of the completed property using the income capitalisation technique less estimated costs to completion and a risk premium.

Definitions for ERV and true equivalent yield are provided in the glossary at the end of this document. A decrease in the estimated rental value would decrease the fair value of an investment property. A decrease in the true equivalent yield would increase the fair value of an investment property.

9. Trade and other receivables

	2014 £'000	2013 £'000
Trade receivables	**33**	20
SIC 15 lease incentives	**5,731**	5,032
Other debtors and prepayments	**1,188**	782
	6,952	5,834

All the above debtors are receivable within one year except for lease incentives of £4,808,000 (2013: £4,168,000), accrued in accordance with SIC 15. The carrying amounts are a reasonable approximation of the fair values estimated as the present value of future cash flows.

Group trade receivables that were past due but not impaired are as follows:	2014 £'000	2013 £'000
Less than three months due	**25**	20
Between three and six months due	**-**	-
Between six and twelve months due	**8**	-
	33	20

The Group holds no collateral in respect of these receivables.

10. Liabilities

	2014 £'000	2013 £'000
Trade and other payables		
Rent received in advance	**2,964**	3,090
Other taxation and social security costs	**822**	1,422
Other creditors and accruals	**2,769**	2,651
	6,555	7,163

The fair value of current liabilities is estimated as the present value of future cash flows which approximate their carrying amounts due to the short term maturities.

Creditor days for the Group were 9 days (2013: 9 days).

Loans and other borrowings
The analysis of bank loans which are secured on certain of the freehold and leasehold properties of the Group is as follows:

	2014 £'000	2013 £'000
Secured bank loans repayable at stated dates between 2016 and 2017 at variable rates	**37,500**	94,500
Bank facility fees	**(234)**	(291)
	37,266	94,209

The bank loans are secured against land and buildings with a carrying amount of £206,750,000 (2013: £184,970,000).

Repayable in:	2014 £'000	2013 £'000
Less than 1 year	**-**	-
1-2 years	**8,678**	-
2-5 years	**28,588**	94,209
5-10 years	**-**	-
	37,266	94,209

Borrowing facilities
The Group has various undrawn committed borrowing facilities. The facilities available in respect of which all conditions precedent had been met were as follows:

	2014 £'000	2013 £'000
Expiring in less than 1 year	**-**	-
Expiring in 1-2 years	**38,300**	-
Expiring in 2 – 5 years	**79,200**	60,500
Expiring in 5 - 10 years	**-**	-
	117,500	60,500

Liquidity risk
Liquidity risk is managed through committed bank facilities that ensure sufficient funds are available to cover potential liabilities arising against projected cash flows. The Group's facilities are revolving, allowing the Group to apply cash surpluses to temporarily reduce debt.

Exposure to credit and interest rate risks arise in the normal course of the Group's business. Derivative financial instruments are used to reduce exposure to interest rate fluctuations.

Credit risk
Credit evaluations are performed on all tenants looking to enter into lease or pre-lease agreements with the Group. Credit risk is managed by tenants paying rent in advance. Outstanding tenants' receivables are regularly monitored.

At the balance sheet date there were no significant concentrations of credit risk, except for the low risk lease commitments which were either government departments or held a top credit rating. The maximum exposure to credit risk is represented by the carrying amount of each financial asset including derivative financial instruments on the balance sheet.

The Group has no exposure to currency risks.

Interest rate risk
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 26 years and have swap rates ranging from 4.31% to 5.17%. Provision is made within the terms of the financial instruments for the counterparty bank to terminate the instruments by invoking credit breaks, the first of which is in 2016. 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 from 2014. 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.

A 25 basis points change in interest rate levels would increase or decrease the Group's annual profit and equity by £106,000 (2013: £26,000). This sensitivity has been calculated by applying the interest rate change to the variable rate borrowings, net of interest rate swaps, at the year end. The comparative figure for 2013 was also based on a 25 basis points change in interest rates. The 25 basis points change being used shows how the profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at the year end.

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. Interest rate swaps have been entered into to achieve this purpose.

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

As at 31st March 2014	Amount £'000	Maturity	[2]Next credit break	[3]Next call option
Interest rate swaps	**75,000**	**Sept 2023**	**Sept 2022**	**Sept 2014**
Interest rate swaps	**5,000**	**Dec 2032**	**[5]Dec 2017**	**Dec 2019**
	80,000			

	Amount £'000	Rate	Fair value Before BCVA £'000	[4]BCVA £'000	Fair Value £'000
Interest rate swaps	**75,000**	**5.17%**	**(23,217)**	**1,904**	**(21,313)**
Interest rate swaps	**5,000**	**4.65%**	**(1,316)**	**72**	**(1,244)**
	80,000		**(24,533)**	**1,976**	**(22,557)**
As at 31st March 2013					
Interest rate swaps	75,000	4.80%	(30,896)		(30,896)
Interest rate swaps	[1]25,000	3.00%	(7,845)		(7,845)
Interest rate swaps	5,000	4.65%	(1,846)		(1,846)
	105,000		(40,587)		(40,587)

[1] The £25 million interest rate swap was terminated on 26th March 2014 at a cost of £5.7 million.
[2] Credit breaks are triggered by the bank and require the prevailing mark to market value to be paid or received.
[3] Call options are triggered by the bank and require no payment by either party.
[4] BCVA – Bilateral Credit Valuation Adjustment is now required by IFRS 13 to be incorporated in the mark to market valuations. This is applicable to the Group Financial Statements reported from 30th September 2013. No restatement of comparative information is required.
[5] The counterparty bank has given notice this break will be exercised.

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

	2014 £'000	2013 £'000
Current	**(3,510)**	(4,196)
Non-current	**(19,047)**	(36,391)
	(22,557)	(40,587)

	2014	2013
Weighted average cost of borrowing	**5.98%**	5.09%

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 13. 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.

The Group had a surplus of hedging instruments over drawn loans and other borrowings at 31st March 2014 of £42,500,000 (2013: surplus £10,500,000).

In both 2014 and 2013 there was no difference between the book value and the fair value of all the other financial assets and liabilities of the Group.

11. Net asset value per share

	2014			2013		
	Net Assets	**Shares**	**Net asset value per share**	Net Assets	Shares	Net asset Value per share
	£'000	**'000**	**P**	£'000	'000	p
Basic	**189,235**	**91,578**	**206**	71,933	45,879	157
Number of shares under option	**1,986**	**2,477**	**(3)**	2,645	2,467	(3)
Diluted/EPRA NNNAV	**191,221**	**94,235**	**203**	74,578	48,346	154
Adjustment to fair value of derivatives	**22,557**	**-**	**24**	40,587	-	84
EPRA NAV	**213,778**	**94,235**	**227**	115,165	48,346	238

12. Called up share capital

	2014		2013	
Ordinary shares in issue	**Authorised £**	**Number of Shares**	Authorised £	Number of shares
At 1st April 2013	**9,175,835**	**45,879,174**	9,175,835	45,879,174
Issued under capital raising[1]	**9,175,835**	**45,879,174**	-	-
At 31st March 2014	**18,351,670**	**91,758,348**	9,175,835	45,879,174

[1] Capital raising was via a firm placing, placing and open offer at £1.89

.

The Report and Financial Statements will be posted to Shareholders on 18th June 2014 with copies available from the Group's registered office at 20 Greyfriars Road, Reading, RG1 1NL from the same date, and from the Group's website www.mckaysecurities.plc.uk

Glossary

Adjusted EPS
Earnings per share based on profits and adjusted to exclude certain items as set out in note 7.

Adjusted profit before tax
Profit before tax adjusted to exclude certain non-recurring items as set out in note 4.

Book value
The amount at which assets and liabilities are reported in the accounts.

Contracted rent
Rent payable under the terms of a lease, less ground rent, with no allowance for the value of incentives granted at lease commencement.

Diluted figures
Reported amount adjusted to include the effects of potential shares issuable under employee share schemes.

Dun and Bradstreet
Provider of business information and risk management insight.

Earnings per share (EPS)
Profit after taxation attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year.

EPRA
Standard calculation methods for adjusted EPS and NAV as set out by the European Public Real Estate Association (EPRA) in their Best Practice and Policy Recommendations.

Estimated Rental Value (ERV)
The valuers estimated amount for which floor space should let on the date of valuation on appropriate lease terms net of ground rents payable. Also known as MRV.

Industrial property
Term used to include light industrial, industrial and distribution warehouse property falling within classes B1c, B2 and B8 of the Town & Country Planning Use Classes Order. The terms do not include retail warehousing, falling within class A1 of the Order.

Initial yield
Net rents payable at the valuation date expressed as a percentage of the value of property assets after allowing for notional purchasers' costs.

Interest cover
The number of times Group net interest payable is covered by underlying profit before interest and taxation.

Interest rate swap
A financial instrument where two parties agree to exchange an interest rate obligation for a pre-determined amount of time.

IPD
Investment Property Databank. Leading provider of independent statistical analysis to the commercial property sector.

Loan to value
Drawn debt divided by the value of property assets.

Market rental value (MRV)
The valuers estimated amount for which floor space should let on the date of valuation on appropriate lease terms net of ground rents payable. Also known as ERV.

Net asset value (NAV) per share
Total equity divided by the number of ordinary shares in issue at the period end.

Net debt
Total borrowings less cash credit balances.

Property Income Distribution (PID)
PID dividend payments are taxable as letting income in the hands of shareholders who pay tax. They are paid after deduction of withholding tax at the basic rate.

REIT (Real Estate Investment Trust)
A tax efficient structure for the management of property. It must be publicly quoted with 75% of its profits and assets derived from a qualifying property rental business which is exempt from tax on income and gains.

Rental value growth
Increase in rental value, as determined at the valuation date, over the period on a like-for-like basis.

Reversion
Potential uplift in rent value to market rent, as determined at the valuation date, likely to arise from a rent review, lease renewal or letting.

RPIX
Retail Prices Index excluding mortgage interest.

Shareholders' funds
Total equity of the Group.

SIC 15
The IFRS treatment in respect of letting incentives. It requires the Group to offset the value of incentives granted to lessees against the total rent due over the length of the lease, or to a break clause if earlier.

Stamp duty land tax
Government tax levied on certain legal transactions including the purchase of property.

Total shareholder return
The growth in the value of an Ordinary share plus dividends reinvested during the year expressed as a percentage of the share price at the beginning of the year.

True equivalent yield
The constant capitalisation rate, which, if applied to all cash flows from an investment property, including current net reversions and such items as voids and expenditure, equates to the market value having taken into account notional purchasers costs and assuming rents paid quarterly in advance.

Weighted average unexpired lease term (WAULT)
The average lease term remaining to expiry across the portfolio weighted by rental income. This is also disclosed assuming all break clauses are exercised at the earliest date.