

# Press Release



## McKAY SECURITIES PLC ANNOUNCES FULL YEAR RESULTS

3<sup>rd</sup> June 2010

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 year ended 31 March 2010.

### HIGHLIGHTS

- **Net asset value and performance**

- Shareholders' funds increased by 12.8% to £89.16m (2009: £79.07m)
- EPRA NAV increased by 4.9% to 234p (2009: 223p)
- Property portfolio valuation increased by 3.5% to £205.95m

- **Results and final dividend**

- Pre-tax profit £15.38m (2009: £100.86m loss)
- Adjusted pre-tax profit £5.93m (2009: £9.31m)
- Final dividend of 5.5p declared. Total dividend for the year 8.2p for the year to 31<sup>st</sup> March 2010.

- **Portfolio activity**

- 66% of leases renewed at expiry
- 94% of tenant break clauses not exercised
- Net proceeds of £27.33m realised from 3 disposals, including Lotus Park, Staines
- Net debt reduced to £88.96m (2009: £115.42m)
- Loan to value ratio 43.2% (2009: 51.5%)

Simon Perkins, Managing Director of McKay said,

***“ We are the only REIT focused on the office and industrial markets in the South East. Despite the challenging market, we have maintained the quality of our portfolio and our strong financial platform. We have no near term re-financing risk and an LTV of 43%. This gives us a solid foundation from which we can add to the portfolio as the market improves. We have maintained our strategy of managing every property in our portfolio proactively. We are delighted to report a high level of tenant retentions and interest from new tenants.***

***Looking forward, we remain confident that the long-term prospects for our markets remain strong. There is an emerging shortfall in the supply of good quality floor space within the South East office sector. Our unique position within this market, leaves the Group well placed to benefit from a supply led recovery.”***

-ends-

Date: 3<sup>rd</sup> June 2010

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

Ex dividend date	9 <sup>th</sup> June 2010
Record Date for the final dividend	11 <sup>th</sup> June 2010
Report and Financial Statements dispatched to Shareholders with Notice of AGM	24 <sup>th</sup> June 2010
Annual General Meeting to be held at 12 noon at The Royal Thames Yacht Club, 60 Knightsbridge, London SW1	22 <sup>nd</sup> July 2010
Final dividend paid	5 <sup>th</sup> August 2010

A final dividend per share of 5.5 pence is recommended by the Board making a total dividend for the year of 8.2 pence per share (2009 – 14.2 pence per share). The 5.5 pence per share will be paid as a Property Income Distribution (PID), making the total PID for the year 8.2 pence per share (2009 – 14.2 pence). This is the minimum level of distribution required under REIT rules, representing 90% of the Group’s rental income profits.

## **CHAIRMAN'S STATEMENT**

**Shareholders' funds increased by 12.8% to £89.16 million at the end of the period (2009 - £79.07 million). EPRA net asset value per share increased 4.9% to 234 pence (2009 – 223 pence).**

**The external valuation of the Group's property portfolio at 31<sup>st</sup> March 2010 totalled £205.95 million, representing a 3.5% (£7.06 million) increase in book value for the twelve month period to 31<sup>st</sup> March 2010 and a 6.1% (£11.75 million) increase since 30<sup>th</sup> September 2009.**

**Profit before tax for the year, incorporating the valuation gain for the period and profit on the sale of investment properties of £0.24 million, was £15.38 million (2009 - £100.86 million loss). Adjusted profit before tax, which excludes these and other non recurring items, was £5.93 million (2009 - £9.31 million).**

**The Board has recommended a final dividend of 5.5 pence per share (2009 – 9.5 pence per share) payable on 5<sup>th</sup> August 2010.**

### **Review of the Year**

I am pleased to report on a resilient performance throughout a challenging year, during which the Group's portfolio has performed well, the balance sheet has been strengthened and favourable long term financing remains intact.

It was encouraging to start the year with the pace of decline in capital values continuing to slow as an increasing number of investors returned to the commercial property market. Driven by demand from institutional investors for a limited supply of properties offering secure long term income, values for prime properties, then improved during the second half of the year as the low interest rate environment accentuated the income appeal of property as an asset class.

Take up of office floor space by occupiers for the year in the South East office market to the west of London, which accounts for 43% of the Group's portfolio value, was 1.2 million sq ft; well below the

five year average of 2.4 million sq ft. After a decline in rental values over the period, a floor is now being established as occupiers are increasingly attracted to the value on offer, as indicated by the recent pick up in enquires reported to us.

The Group's strategy of cyclical development and active management of quality assets in established locations has so far proved robust. Tenant failure has been limited, rents continued to be paid promptly, and voids remained below those recorded by the IPD Index. At the year end, the portfolio provided a resilient income stream and the Group's top ten properties in particular provided a solid base for the future.

By retaining a high quality portfolio through the downturn, the Group has benefited from the rally in commercial property values with a 3.5% valuation surplus contributing to a 12.8% increase in shareholders' funds for the year. Total Shareholder Return for the twelve month period was 54.9%. Profit before tax, which includes the valuation surplus and a profit of £0.24 million on the sale of three investment properties, totalled £15.38 million. This compares with a £100.86 million loss last year when the Group's property portfolio and interest rate hedging instruments declined in value by £103.29 million.

The three priorities that have dominated the Group's strategy over the year have been the further strengthening of the balance sheet, protection and retention of our competitive financing and successful management of the Group's portfolio. These will remain our priorities as there continue to be many hurdles in the path of recovery for current and prospective tenants, trading through the deepest recession in a generation.

Consistent with this approach, the net proceeds of £27.33 million realised from the successful disposal of three properties have not yet been reinvested. This has helped strengthen the Group's financial position at the year end; net debt has reduced over the year to £88.96 million (2009 - £115.42 million), the loan to value ratio stands at 43.2% and undrawn banking facilities totalling £95.40 million remain available on unamended low margins.

A consequence of deferring the reinvestment of sale proceeds from property disposals is a reduced level of income from the portfolio. Despite continued success in the letting of void properties and the retention of the majority of those tenants with a lease expiry or break clause, net rental income from the portfolio for the year reduced by £3.10 million to £15.60 million. This was mainly due to the loss of £1.90 million of income from the properties disposed of compared with their contribution in

2009, and the loss of £1.03 million of income from planned refurbishment opportunities. Primarily as a result of this overall reduction in income, the Group's adjusted profit before tax for the period of £5.93 million was £3.38 million lower than last year (2009 - £9.31 million).

Success in generating income from new lettings and retaining existing tenants, despite challenging market conditions, has helped maintain a low portfolio void which increased slightly to 11.6% (by rental value) (2009 – 10.4%). Fourteen open market lettings were completed at a total contracted rent of £0.44 million pa, which was slightly ahead of rents assumed at valuation. Larger lettings included the recently refurbished 9<sup>th</sup> and 10<sup>th</sup> floors of Corinthian House, Croydon and three new lettings at the Oakwood Trade Park, Crawley. In addition, 80% of tenants with a lease expiry or break clause were retained, maintaining contracted rental income of £1.93 million pa.

Interest payable reduced by £0.84 million to £5.50 million. This was mainly due to a reduction of £26.46 million in net debt over the period, as a result of disposals, retained profit and continued low interest rates. Included within administrative costs for the period is an increase in professional fees associated with raising the Group's profile with the City. This has already been of benefit to the Group and will continue to enhance investor awareness of the future potential of the business. In addition, £0.29 million of the increase in administration costs constituted non-cash accounting treatment in respect of share options and pension payments, and £0.37 million was the cost of the partial achievement of performance targets within the Annual Bonus Scheme.

We continue to closely monitor and improve our detailed knowledge of the supply and demand characteristics of our principal South East regional market area. An increasing number of centres are experiencing Grade A office vacancy of below 5%, and we have identified significant potential demand from occupiers with lease expiries over the next three years in ageing and, in many cases, obsolete buildings. There is a limited amount of new development activity on site and in the pipeline and, although some refurbishment is anticipated, a shortage of good quality supply is anticipated over the next two years. This supply shortfall will assist an increase in rental values as existing Grade A stock is taken up by recovering tenant demand.

No acquisitions were made during the period, but many opportunities were and continue to be appraised. We will remain opportunity led in our search for acquisitions in key centres that have the potential to generate value from our development and management skills as markets improve. At present, the risks associated with the weak occupier market are not sufficiently reflected in market values, but we anticipate an increasing number of opportunities appearing as the cycle progresses.

Development prospects already in the portfolio include the potential redevelopment of 30-32 Lombard Street, EC3 (36,140 sq ft). The expiry of existing leases would permit implementation of the existing planning consent for a top quality headquarters development of 60,000 sq ft to commence at the end of 2012. The City of London has begun to see an upward movement in rents as a result of supply shortages at the top end of the market. This has improved the scheme's viability, although further signs of rental growth is needed before the scheme would be sufficiently profitable to justify a speculative start on site.

### **Dividend**

The Board has recommended a final dividend of 5.5 pence per share (2009 – 9.5 pence per share). This will be paid as a Property Income Distribution (PID) on 5<sup>th</sup> August 2010 to those on the register at the close of business on 11<sup>th</sup> June 2010, taking the total dividend for the year, all paid as a PID, to 8.2 pence per share (2009 – 14.2 pence per share).

The reduced level of dividend recommended by the Board takes into account the impact of property disposals on the level of earnings from the portfolio and uncertainty over the pace of economic recovery. As noted at the half year stage, it is the Board's intention to re-base the dividend this year to establish a sustainable level of distribution to shareholders on the basis that occupier markets begin to improve, whilst continuing to meet the REIT regulations.

### **Future Prospects**

The Group has further strengthened its balance sheet during the year and has a sustainable level of gearing with no near term refinancing risk. Its portfolio, which is anchored by high quality properties developed internally and occupied by a variety of high net worth companies, will provide a sound base from which to grow. In the short term, the property disposals made this year will see a further reduction in earnings next year, and the pace of income generation from portfolio lettings remains dependent on a sustained recovery in occupier demand. Investor demand should remain for prime properties with limited income risk, but this is less likely to generate ongoing capital gains than an active approach to income generation; one of the Group's strengths.

Looking beyond the short term, fundamental shortfalls in the supply of good quality floor space within the South East office market and our unique position within this market, leave the Group well placed to benefit from a supply led recovery.

The outlook is far from clear and we face another challenging year. Although we will continue to appraise new acquisition opportunities and look to position the portfolio for future growth, we will protect our strong position with a patient and selective approach, adopting a more expansive strategy as occupier market conditions improve.

D.O. Thomas  
Chairman

3<sup>rd</sup> June 2010

## **PROPERTY & FINANCIAL REVIEW**

### **Overview**

The Group continues to be the only REIT (Real Estate Investment Trust) specialising in the office and industrial markets of South East England and central London. Its strategy is to add to portfolio scale and value at the appropriate point in the cycle by refurbishment and development, whilst actively managing the recurring income stream from its current portfolio to underpin Group profits. Selective sales are made to recycle capital into new projects and to maintain a sustainable level of gearing.

After an active period of development leading up to the severe downturn in the property market in 2007, when five major projects were completed at a cost of £39.04 million, conditions have not been appropriate to commit capital to development projects. Although the Group is one of a small number of property companies with the funding and skills to carry out development in these markets, the focus over the period has been to manage its portfolio of existing properties and monitor the market for investment opportunities with income and capital growth potential.

The portfolio as at 31<sup>st</sup> March 2010 consisted of 31 properties totalling 1.18 million sq ft, valued at £205.95 million with an average lot size of £6.64 million. 78% of this value was invested in the office sector, with the balance mainly in the South East industrial sector. Gross rental income for the year was £17.12 million, and net income from investment properties was £15.60 million. The portfolio had 129 occupiers and annual contracted rents totalled £16.67 million pa. These occupiers represented a diverse range of business sectors, the largest of which was financial and business services, which accounted for 31% of annual contracted rents. 61% of annual contracted rents was payable by tenants with the highest Dun and Bradstreet credit rating (5A - net worth in excess of £35.00 million) and 66% was payable by tenants with a net worth in excess of £15.00 million (credit rating 5A and 4A). The weighted average lease term of the portfolio was 6.8 years, and 5.9 years to the earlier of break or expiry. The portfolio void (by market rental value) was 11.6% (31<sup>st</sup> March 2009 – 10.4%) consisting of a total of 151,500 sq ft in 14 vacant units with a combined rental value of £2.06 million.

The top 10 properties by rental value accounted for 66% of annual contracted rents and 65% of the total portfolio value. 87% of annual contracted rents in respect of these properties was payable by tenants with a 5A credit rating and the weighted average lease term was 8.3 years, and 7.4 years to the earlier of break or expiry.

Total Portfolio Return for the period was 10.2% (2009: minus19.6%). This out-performed the South East office segment of the IPD Monthly Index (8.9%), but under-performed the Index as a whole (16.3%). The retail segment of the Index, which accounted for half the index by value, achieved a total return of 19.2%, which had a weighted effect.

### **Market Review**

At the end of the last financial year, the pace in the decline of capital values of all sectors of UK commercial real estate had slowed. Values continued to fall until August 2009, by which time the IPD Monthly Index (South East Offices) had recorded a capital fall of 43% from the peak in spring 2007. Since last August, values have increased as a range of investors returned to the market, including institutional investors who competed for a limited supply of quality assets. This interest generated a strong market for the best quality assets, but with bank finance remaining limited and concerns over the strength of the occupational market, investment volumes for secondary properties with income risk and imminent capital expenditure remained low. At the year end, the decline in the IPD Monthly Index (South East offices) from the spring 2007 peak to 31<sup>st</sup> March 2010 had recovered to 40%, compared with a 32% fall in the capital value of the Group's properties held over the same period.

In the three year period leading up to the 2007 peak in the market, £5.67 billion in total was invested in the South East office sector. Over half was in the Group's preferred lot size of sub £30.00 million. It is likely that many of these transactions will be in breach of bank covenants due to the fall in capital values, but lenders to date have been prepared to vary the terms of loans rather than create a market of distressed assets, as seen in the 1990's. As these positions unwind, there are likely to be more opportunities for the Group to consider. The Group's market knowledge and experience of development and improvement costs will be key to stock selection in this market.

Over the period, the decline in active occupier demand for office and industrial property which we reported last year has continued, resulting in low annual levels of take up. Occupiers have

remained cost conscious, headline rental values have fallen and letting incentives have increased as landlords have competed to secure income. Across the South East there is not a consistent market rent as the characteristics of each centre differ considerably. However, in those centres where the supply is more limited, rental values have generally found a floor.

Supply characteristics also vary significantly across the different centres. The supply of new Grade A office buildings is less than 5% of the total office stock of 85.5 million sq ft, and there are only two development projects on site across the whole of the market which are due to complete shortly. Many office centres in the Group's market benefited from considerable growth and development in the 1980's and 1990's. Lease commitments made at that time are now beginning to expire. With no schemes due to commence imminently and 64% of offices within the IPD index in excess of 15 years old, those occupiers seeking modern accommodation will have limited choice. Any consequent pick up in demand is likely to help generate rental growth to a level that will improve development prospects.

### **Portfolio Activity**

The Group has continued to manage its way through the downturn by positioning itself with a reduced level of gearing, principally from three property disposals. Two mature smaller properties with income risk at Thatcham and Petersfield were bought by private investors. A more substantial sale at Lotus Park, Staines to an institutional investor completed in October 2009. The intention at this property had been to implement a second phase of refurbishment in March 2013, when income of £1.16 pa million was due to expire, but the price achieved captured the potential gains achievable on refurbishment for no risk. Sales realised net proceeds of £27.33 million, and a net profit over 31<sup>st</sup> March 2009 book value of £0.24 million.

These properties contributed net rental income this year of £1.26 million compared with £2.40 million last year, as the disposals completed mid way through the year. The disposals have reduced net rental income this year by £1.14 million and will reduce net rental income for the year to 31<sup>st</sup> March 2011 by a further £1.26 million.

The quality of many of the Group's properties has attracted unsolicited market interest. However, until the outlook for occupational markets is clearer, the sale of properties with secure income will be limited in order to avoid reducing shareholder income returns and to retain the potential for growth as market conditions improve.

Having completed and let all major development and refurbishment projects before the downturn in occupier markets, the Group has no development exposure. It does however continue to undertake smaller planned refurbishment projects within the portfolio to enhance value and letting potential. Prospects for development are kept under review, and once market conditions are more favourable, development schemes will be brought forward. The most significant scheme within the Group's development pipeline is the potential redevelopment of 30/32 Lombard Street, EC3, where planning consent exists to redevelop the 36,140 sq ft 1960's building with a top quality office scheme of 60,000 sq ft. As the viability of this scheme improves with increasing rental values in the City, income and development flexibility is being retained and there is encouraging interest in a significant proportion of the remaining 10,550 sq ft of vacant office space.

Whilst the development programme has been halted, portfolio management has been successful in limiting the number of void properties and ensuring those that do exist stand the best chance of letting in challenging market conditions. 26 lease renewals and open market lettings were completed over the period, at a total contracted rental value of £1.25 million pa. 66% of tenants were retained at lease renewal, accounting for twelve of these lettings. It was also encouraging to retain 94% of tenants who had the ability to exercise break clauses over the period. This high success rate reflects the benefit of a close working relationship with occupiers and the Group's active approach to portfolio management.

All voids have been actively marketed and are presented in good condition in established markets with minimal capital expenditure required. The three largest void properties at Portsoken House, EC3; The McKay Trading Estate, Poyle, and Switchback Office Park, Maidenhead account for 50% of the void rental value. Refurbishment of 24,500 sq ft of office space and common areas at Portsoken House and 6,800 sq ft building at Switchback Office Park were completed earlier in the year. The properties were formally launched to the market in September. Since then tenant demand has been limited, although the remaining vacant retail unit on the ground floor at Portsoken House was let. At Poyle, units 1-3 and 8 are being marketed, and have been attracting occupier interest. With some additional refurbishment works, it is hoped that these units will benefit from the increasing volume of air freight, being located immediately to the West of Heathrow.

In respect of other small voids, unit 7 at The Three Acre Estate, Folkestone was vacated in the second half of the year. Occupier interest has been encouraging, attracted by the flexible retail planning consent achieved by the Group.

New lettings that have helped maintain a low void level were completed at Oakwood Trade Park, Crawley, where three units totalling 12,800 sq ft were let at a combined contracted rent of £102,000 pa. The new occupiers added to the improving mix of trade counter operators at the Park and have maintained the repositioning from low value warehouse uses. Lease terms were also renegotiated on two units during the period leaving two empty units at the year end.

At Corinthian House, Croydon the 9<sup>th</sup> and 10<sup>th</sup> floors (7,275 sq ft) were let at the beginning of the year at a contracted rent of £140,775 pa. This followed refurbishment of the floors and common parts of the building completed in 2008. When the property was acquired in 2006, the intention was to retain income ahead of a possible redevelopment in the medium term once the Croydon Gateway site opposite the building had been developed. Planning consent for the Gateway scheme has been obtained, although market conditions have delayed implementation.

Elsewhere smaller lettings have been important in keeping void costs down and collectively maintaining income levels.

The impact of the recession on the ability of occupiers to meet their rental obligations has to date been limited. Over the period there were two business failures with a combined rental commitment of £108,800 pa; both units have been re-let with no loss of rent. Tenants paying rent on a monthly rather than quarterly basis remain below 1% of annual contracted rents, and in excess of 90% of rents were paid within 7 days of each quarter day. The Group continues to collect its own rents as it provides direct awareness of any payment difficulties, which are likely to increase if economic conditions take a protracted time to improve.

## **Valuation**

The independent external valuation of the Group's property portfolio as at 31<sup>st</sup> March 2010 totalled £205.95 million, representing a 3.5% (£7.06 million) increase in book value for the 12 month period, disregarding SIC 15 lease incentive accounting adjustments. A surplus of £11.75 million (6.1%) in the second half of the year reflected the recovery in capital values referred to above, after a deficit in the first half of the year of £4.69 million. The best performing properties were those with long leases and strong covenants, and where income levels have been maintained through active management. Vacant properties and those with short term income were marked down further, but provide potential for gains when re-let. The valuation gain of 3.5% for the year compares

favourably with a decrease in value of the IPD Monthly Index (South East offices) of -0.2%. The Index increased by 7.6% for all property, reflecting a 10.6% gain in retail capital values.

At the valuation date, the portfolio initial yield was 7.0% (2009: 7.6%), increasing to 7.5% (2009 – 8.2%) on the expiry of letting incentives. The true equivalent yield was 7.8% (2009: 8.9%) being the average income return reflecting future expenditure and rental movements, with rent paid quarterly in advance.

## **Finance**

As at 31<sup>st</sup> March 2010, the Group's net debt was £88.96 million (2009 - £115.42 million). The reduced level of debt was primarily due to sale proceeds from the disposal of three investment properties, with the net disinvestment in the portfolio totalling £25.25 million (2009 – £11.43 million disinvestment).

The ratio of net debt to portfolio value (LTV) as at 31<sup>st</sup> March 2010 was 43.2% (2009 – 51.5%), and the gearing ratio to shareholders' funds was 99.8% (2009: 146.0%). Net cash flow from operating activities was £6.86 million (2009 - £5.18 million) and interest cover based on adjusted profit before tax plus finance costs as a ratio to finance costs, was 2.1x (2009 – 2.5x).

Banking facilities available to the Group totalled £185.00 million at the year end (2009 - £185.00 million). £30.00 million expires in March 2011, and the balance continues until at least February 2016. The average weighted unexpired term to maturity was 5.7 years (2009 – 6.7 years).

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 tax charge on residual income has been offset by deductible costs.

The Group is also 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 of 5.5 pence per share will be paid as a PID to meet this minimum distribution requirement. After deduction of withholding tax, the net receipt will be 4.4 pence per share.

The main financial risks to the Group are compliance with financial covenants on bank borrowing, tenant default, liquidity and interest rate movements on bank borrowings.

Compliance with financial covenants is closely monitored by the Board with the use of scenario analysis to help its financial planning. Throughout the period the Group complied with all such covenants and retains significant headroom should there be a further decline in capital values. This headroom improved over the period due to the increase in the value of the Group's portfolio and the sale of investment properties.

Tenant default is monitored using Dun & Bradstreet checks for new tenants together with ongoing credit checks and internal credit control. This, together with close management of rental income and suppliers, ensures the Group's ability to generate income to meet its commitments.

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

Protection against interest rate risk is provided by financial hedging instruments. At the year end, £155.00 million (2009 - £155.00 million) of such instruments were in place, extending to at least 2014. If bank borrowing facilities were fully drawn, hedging cover would be 83.8% (2009 – 83.8%). The mark to market valuation of these facilities improved by £2.30 million to a negative value of £22.53 million (2009 - £24.83 million). The weighted average cost of borrowing increased marginally for the year to 4.9% (2009 - 4.4%) as the cost of the financial hedging instruments was applied to a lower level of debt. As well as providing future protection, £130 million of the hedging facilities are on terms that have enabled the Group to benefit from a floor in hedging levels closer to the current historically low LIBOR borrowing rates. These facilities revert to fixed levels in 2011, at which point on current interest rate projections, the weighted cost of borrowing will increase, unless the terms are renegotiated beforehand. 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.

Simon Perkins  
Alan Childs

3<sup>rd</sup> June 2010

The summary of the consolidated results of McKay Securities PLC and its subsidiary undertakings (the "Group") for the year ending 31<sup>st</sup> March 2010 are as follows:

<b>CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME</b>		<b>2010</b>	<b>2009</b>
<b><u>For the year ended 31<sup>st</sup> March 2010</u></b>		<b>£'000</b>	<b>£'000</b>
	Notes		
<b>Gross rents and service charges receivable</b>	2	<b>19,988</b>	23,544
Surrender premiums received		<b>221</b>	61
Direct property outgoings		<b>(4,611)</b>	(4,905)
		-----	-----
<b>Net rental income from investment properties</b>	2	<b>15,598</b>	18,700
Administration costs	3	<b>(4,155)</b>	(3,276)
		-----	-----
<b>Operating profit before gains on investment properties</b>		<b>11,443</b>	15,424
Profit/(loss) on disposal of investment properties		<b>236</b>	(2,909)
Movement on revaluation of investment properties	8	<b>6,739</b>	(80,713)
		-----	-----
<b>Operating profit/(loss)</b>		<b>18,418</b>	(68,198)
Net finance costs - finance costs	5	<b>(3,201)</b>	(30,014)
- finance income	5	<b>24</b>	68
		<b>(3,177)</b>	(29,946)
Share of results of associated undertaking		<b>141</b>	(2,717)
		-----	-----
<b>Profit/(loss) before taxation</b>		<b>15,382</b>	(100,861)
Taxation – credit for the year	6	<b>-</b>	1
		-----	-----
<b>Profit/(loss) for the year</b>		<b>15,382</b>	(100,860)
		-----	-----
Other comprehensive income:			
Actuarial movement on defined benefit pension scheme		<b>(101)</b>	(662)
		-----	-----
<b>Total comprehensive income for the year</b>		<b>15,281</b>	(101,522)
		-----	-----
<b>Earnings per share</b>	7		
Basic		<b>33.59p</b>	(220.26)p
Diluted		<b>33.17p</b>	(220.26)p
Adjusted earnings per share figures are shown in note 7.			
<b>Dividends</b>			
Previous year's final dividend of 9.5p (2008 – 9.6p) paid during the year		<b>4,350</b>	4,396
Interim dividend of 2.7p (2009 – 4.7p) paid during the year		<b>1,236</b>	2,152
Proposed final dividend of 5.5p (2009 – 9.5p)		<b>2,519</b>	4,350
The total comprehensive income for the year is all attributable to the equity holders of the parent company.			

**GROUP BALANCE SHEET**  
**At 31<sup>st</sup> March 2010**

	Notes	2010 £'000	2009 £'000
<b>Non-current assets</b>			
Investment properties	8	204,896	222,338
Plant and equipment		16	34
Investments		2,304	2,207
		207,216	224,579
<b>Current assets</b>			
Trade and other receivables	9	6,313	6,839
Cash and cash equivalents		677	1,210
		6,990	8,049
<b>Total assets</b>		214,206	232,628
<b>Current liabilities</b>			
Loans and other borrowings	10	(13,000)	-
Trade and other payables	10	(7,869)	(7,166)
Finance lease liabilities		(286)	(286)
Interest rate derivatives	10	(3,297)	(2,225)
		(24,452)	(9,677)
<b>Non-current liabilities</b>			
Loans and other borrowings	10	(76,141)	(116,099)
Pension fund liabilities		(1,096)	(1,060)
Finance lease liabilities		(4,123)	(4,124)
Interest rate derivatives	10	(19,235)	(22,603)
		(100,595)	(143,886)
<b>Total liabilities</b>		(125,047)	(153,563)
<b>Net assets</b>		89,159	79,065
<b>Equity</b>			
Called up share capital		9,159	9,159
Share premium account		2,495	2,495
Capital reserves		49,878	60,315
Revaluation reserve		10,996	(6,676)
Retained earnings		16,631	13,772
<b>Total Equity</b>		89,159	79,065
<b>Net asset value per share</b>	11	195p	173p
<b>EPRA net asset value per share</b>	11	234p	223p

**GROUP CASH FLOW STATEMENT**  
**For the year ended 31<sup>st</sup> March 2010**

	<b>2010</b>	2009
	<b>£'000</b>	£'000
<b>Operating activities</b>		
Profit/(loss) before tax	15,382	(100,861)
Adjustments for:		
Depreciation	22	29
Other non-cash movements	639	675
(Profit)/loss on disposals of investment properties	(236)	2,909
Movement in revaluation of investment properties	(6,739)	80,713
Net finance costs	3,177	29,946
Share of (profit)/loss of associate undertaking	(141)	2,717
	-----	-----
<b>Cash flow from operations before changes in working capital</b>	<b>12,104</b>	<b>16,128</b>
Increase in debtors	(275)	(1,331)
Increase/(decrease) in creditors	63	(442)
	-----	-----
<b>Cash generated from operations</b>	<b>11,892</b>	<b>14,355</b>
Interest paid	(5,055)	(5,807)
Interest received	24	102
Corporation tax paid	-	(3,467)
	-----	-----
<b>Cash flows from operating activities</b>	<b>6,861</b>	<b>5,183</b>
	-----	-----
<b>Investing activities</b>		
Sale of investment properties	27,331	19,291
Dividends from sundry investments	1	2
Dividends from associated undertaking	45	135
Purchase and development of investment properties	(2,150)	(10,167)
Purchase of other fixed assets	(4)	(11)
Purchase of sundry investments	-	(4)
	-----	-----
<b>Cash flows from investing activities</b>	<b>25,223</b>	<b>9,246</b>
	-----	-----
<b>Financing activities</b>		
Decrease in borrowings	(27,031)	(11,784)
Equity dividends paid	(5,586)	(6,548)
	-----	-----
<b>Cash flows from financing activities</b>	<b>(32,617)</b>	<b>(18,332)</b>
	-----	-----
<b>Net decrease in cash and cash equivalents</b>	<b>(533)</b>	<b>(3,903)</b>
Cash and cash equivalents at the beginning of the year	1,210	5,113
	-----	-----
<b>Cash and cash equivalents at the end of the year</b>	<b>677</b>	<b>1,210</b>
	-----	-----

**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 1 <sup>st</sup> April 2008	9,159	2,495	84,047	56,326	34,876	186,903
Loss for the year	-	-	-	-	(100,860)	(100,860)
Other comprehensive income:						
Transfer deficit on revaluation of properties	-	-	(80,713)	-	80,713	-
Transfer share of deficit on revaluation of properties in associated undertaking	-	-	(3,038)	-	3,038	-
Transfer on disposal of investment properties	-	-	(6,972)	3,989	2,983	-
Actuarial loss on defined benefit pension scheme	-	-	-	-	(662)	(662)
	-----	-----	-----	-----	-----	-----
Total comprehensive income for the year	-	-	(90,723)	3,989	(14,788)	(101,522)
Dividends paid in year	-	-	-	-	(6,548)	(6,548)
Fair value of share based payments	-	-	-	-	232	232
	-----	-----	-----	-----	-----	-----
At 31 <sup>st</sup> March 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
	-----	-----	-----	-----	-----	-----
<b>At 31<sup>st</sup> March 2010</b>	<b>9,159</b>	<b>2,495</b>	<b>10,996</b>	<b>49,878</b>	<b>16,631</b>	<b>89,159</b>
	-----	-----	-----	-----	-----	-----

## **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 31<sup>st</sup> March 2010 or 2009, but is derived from those accounts. The statutory accounts for the period ended 31<sup>st</sup> March 2010 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The statutory accounts for the year ended 31<sup>st</sup> March 2009 have been delivered to the Registrar of Companies. The auditors have reported on the accounts for both the years ended 31<sup>st</sup> March 2010 and 2009; 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 237 (2) or (3) of the Companies Act 1985 in respect of the accounts for 2009 nor a statement under Section 498 (2) or (3) of the Companies Act 2006 in respect of the accounts for 2010.

### **Statement of accounting policies**

#### **Basis of preparation**

The Group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") and therefore comply with Article 4 of the EU IAS Regulation.

IAS 1 – (revised) 'Presentation of financial statements'. The Group has elected to present a single performance statement; a consolidated statement of comprehensive income. The consolidated financial statements have been prepared under the revised disclosure requirements.

IAS 40 – (amended) 'Investment Property'. IAS 40 has been amended to bring within its scope investment property under construction. Consequently such property is measured at fair value. The Group had previously accounted for investment properties in the course of development as investment properties, and consequently this amendment has not affected the Group's reporting.

IFRS 8 – Operating Segments became effective for the Group for the year ended 31<sup>st</sup> March 2010, replacing IAS 14. The Group is organised as a single reporting segment. Management information is produced quarterly for each property and for the Group as a whole. No data is provided to the Managing Director and the Board at any level between individual property and Group wide. Similarly, the Group's small management team is organised as a single structure. All the Group's revenues are derived from the ownership of investment properties. The Group's investment properties are located in South East England and central London, with the exception of a single property in Glasgow.

The Group is dependent for its working capital requirements on cash generated from operations, cash holdings of £677,000 as at 31 March 2010 and bank facilities of £185.0 million (of which £89.6 million was drawn at 31 March 2010). Facilities totalling £155.0 million are secured to at least 2016 and the earliest repayment date in respect of £30.0 million is March 2011. Of this £30.0 million, £13.0 million has been drawn and will be repaid from existing facilities. The Directors have prepared cash flow projections which show that the Group expects to be able to operate within these financing arrangements.

In evaluating the going concern assumption the Directors have considered various uncertainties, including the impact of further falls in property values and increased levels of tenant default. These uncertainties, and the finance position of the Group, are discussed in

more detail in the Property and Financial Review. The Directors have in particular considered the financial covenants contained within the Group's financing arrangements which it is required to comply with, the most significant of which are the loan to value covenants and Group gearing covenants where the Group, as at 31<sup>st</sup> March 2010, had headroom to accommodate further falls in the capital value of the Group's property portfolio of up to £50.0 million in the absence of further property disposals or other fund raising.

After considering these uncertainties and the financing position of the Group, the Directors consider it appropriate that the Annual Report is prepared on a going concern basis which assumes that the Group will be able to meet its liabilities as they fall due, for the foreseeable future.

### **Basis of consolidation**

The consolidated financial statements incorporate the results of the Company and its subsidiary companies for the year ended 31<sup>st</sup> March 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 income statement 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 1<sup>st</sup> 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 is realised.

From 1<sup>st</sup> 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 31<sup>st</sup> March 2007.

## **2. Net rental income from investment properties**

	<b>2010</b>	2009
	<b>£'000</b>	£'000
Gross rents receivable	<b>16,796</b>	19,173
SIC 15 adjustment	<b>321</b>	1,094

Gross rental income	17,117	20,267
Service charges receivable	2,871	3,277
	<b>19,988</b>	23,544
Surrender premium received	221	61
Direct property outgoings	(4,611)	(4,905)
	<b>15,598</b>	18,700

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

	2010 £'000	2009 £'000
<b>Group</b>		
Directors' - remuneration	888	1,064
- bonus	255	-
Staff – costs	662	641
- bonus	115	-
Redundancy	224	-
Pension costs	492	384
Share based payment accounting charge	399	232
	<b>3,035</b>	2,321
Depreciation	22	29
Office costs	481	438
Legal and professional fees	577	448
General expenses	40	40
	<b>4,155</b>	3,276

The average number of persons employed by the Group and Company (including Directors) during the year was 18 (2009 – 19).

	2010 £'000	2009 £'000
Employee costs		
Salaries	1,722	1,529
Redundancy	224	-
Social security costs	198	176
Pension costs – defined benefit scheme	264	158
- defined contributions	228	226
Share based payment accounting charge	399	232
	<b>3,035</b>	2,321

#### 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.

	2010 £'000	2009 £'000
Profit/(loss) before tax	15,382	(100,861)
Surrender premium received	(221)	(61)
Change in fair value of derivatives	(2,296)	23,675
Movement in revaluation of investment properties	(6,739)	80,713
(Profit)/loss on disposal of investment properties	(236)	2,909
Associated undertaking disposals and revaluation movement	38	2,940
	-----	-----
Adjusted profit before tax	5,928	9,315
	-----	-----

#### 5. Net finance costs

	2010 £'000	2009 £'000
Interest on bank overdraft and loans	5,139	5,987
Finance lease interest on leasehold property obligations	285	285
Finance arrangement costs	73	67
Fair value (profits)/losses on derivatives	(2,296)	23,675
	-----	-----
	3,201	30,014
Interest receivable	(24)	(68)
	-----	-----
	3,177	29,946
	-----	-----

#### 6. Taxation

	2010 £'000	2009 £'000
Current tax	-	-
Adjustments in respect of prior periods	-	(1)
	-----	-----
Total tax credit in the statement of comprehensive income	-	(1)
	-----	-----
<b>Reconciliation to effective rate of tax:</b>		
Profit/(loss) on ordinary activities before tax	15,382	(100,861)
	-----	-----
Tax charge/(credit) on profit/(loss) at 28% (2009 – 28%)	4,307	(28,241)
Effects of:		
REIT tax exemption	(4,234)	27,467
Permanent differences	(116)	10
Other timing differences	4	3

Associated undertaking	<b>39</b>	761
Adjustment to tax charge in respect of prior years	-	(1)
	-----	-----
Tax credit for period (as above)	-	(1)
	-----	-----

## 7. Earnings per share

	2010	2009
	p	p
Basic earnings/(loss) per share	<b>33.59</b>	(220.26)
Change in fair value of derivatives	<b>(5.01)</b>	51.70
Movement in revaluation of investment properties	<b>(14.72)</b>	176.26
Surrender premium received	<b>(0.48)</b>	(0.13)
(Profit)/loss on disposal of investment properties	<b>(0.51)</b>	6.35
Associated undertaking disposals and revaluation movement	<b>0.08</b>	6.42
	-----	-----
Adjusted earnings per share	<b>12.95</b>	20.34
	-----	-----

Basic earnings/(loss) per share on ordinary shares is calculated on the profit in the year of £15,382,000 (2009 – loss: £100,860,000) and 45,792,655 (2009 – 45,792,655) shares, being the weighted average number of ordinary shares in issue during the period.

	2010	2009
	Number of shares	Number of Shares
Weighted average number of ordinary shares in issue	<b>45,792,655</b>	45,792,655
Number of shares under option	<b>3,188,978</b>	2,369,681
Number of shares that would have been issued at fair value	<b>(2,611,110)</b>	(2,174,378)
	-----	-----
Diluted weighted average number of ordinary shares in issue	<b>46,370,523</b>	45,987,958
	-----	-----

	2010	2009
	p	p
<b>Basic and diluted earnings/(loss) per share</b>	<b>33.17</b>	(220.26)
Effect of dilutive potential ordinary shares under option	-	0.94
Change in fair value of derivatives	<b>(4.95)</b>	51.48
Movement in revaluation of investment properties	<b>(14.53)</b>	175.51
Surrender premium received	<b>(0.47)</b>	(0.13)
(Profit)/loss on disposal of investment properties	<b>(0.51)</b>	6.32
Associated undertaking disposals and revaluation movement	<b>0.08</b>	6.39
	-----	-----
<b>Adjusted diluted earnings per share</b>	<b>12.79</b>	20.25
	-----	-----
<b>EPRA earnings per share</b>	<b>13.26</b>	20.38
	-----	-----



As at 31 <sup>st</sup> March 2009	<b>199,987</b>	<b>22,351</b>	<b>222,338</b>	<b>174,717</b>
	-----	-----	-----	-----
Adjustment for grossing up of headlease liabilities	-	(4,026)	(4,026)	-
Adjustment for rents recognised in advance under SIC 15	5,728	40	5,768	5,728
	-----	-----	-----	-----
Valuation at 31 <sup>st</sup> March 2009	<b>205,715</b>	<b>18,365</b>	<b>224,080</b>	<b>180,445</b>
	-----	-----	-----	-----

In accordance with the Group's accounting policy on properties there was an external valuation at 31<sup>st</sup> March 2010. This valuation was carried out in England by Mellersh and Harding, Chartered Surveyors and Valuers, and in Scotland (100 Bothwell Street, Glasgow) by CB Richard Ellis, Chartered Surveyors and Valuers, in accordance with the Appraisal and Valuation Standards of RICS, on an open market basis.

The historical cost of properties stated at valuation is approximately £184 million (2009 - £221 million) for the Group and £140 million (2009 - £178 million) for the Company.

## 9. Trade and other receivables

	2010		2009	
	Group £'000	Company £'000	Group £'000	Company £'000
Trade receivables	56	56	38	16
Amounts due from subsidiary undertakings	-	20,684	-	19,169
SIC 15 lease incentives	5,040	4,970	5,768	5,728
Other debtors and prepayments	1,217	691	1,033	652
	-----	-----	-----	-----
	<b>6,313</b>	<b>26,401</b>	6,839	25,565
	-----	-----	-----	-----

All the above debtors are receivable within one year except for lease incentives of £4,594,000 (2009 - £5,332,000), 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.

	2010 £'000	2009 £'000
Group trade receivables that were past due but not impaired are as follows:		
Less than three months due	-	5
Between three and six months due	34	12
Between six and twelve months due	22	21
	---	---
	<b>56</b>	38
	---	---
The Group holds no collateral in respect of these receivables.		

## 10. Liabilities

	2010		2009	
	Group £'000	Company £'000	Group £'000	Company £'000
Trade and other payables				
Rent received in advance	3,399	2,627	3,911	3,118
Other taxation and social security costs	660	660	620	620
Amounts owed to subsidiary undertakings	-	10,845	-	9,688
Other creditors and accruals	3,810	2,193	2,635	1,940
	<b>7,869</b>	<b>16,325</b>	<b>7,166</b>	<b>15,366</b>

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

### 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:

	2010 £'000	2009 £'000
Group and Company		
Secured bank loans repayable at stated dates between 2011 and 2017 at variable rates	89,600	116,600
Bank facility fees	(459)	(501)
	<b>89,141</b>	<b>116,099</b>

The bank loans are secured against land and buildings with a carrying amount of £194,360,000 (2009 - £212,615,000).

Repayable in:	2010		2009	
	Group £'000	Company £,000	Group £'000	Company £'000
Less than 1 year	13,000	13,000	-	-
1-2 years	-	-	15,000	15,000
2-5 years	-	-	-	-
5-10 years	76,141	76,141	101,099	101,099
	<b>89,141</b>	<b>89,141</b>	<b>116,099</b>	<b>116,099</b>

### **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:

	<b>2010</b>	2009
	<b>£'000</b>	£'000
Expiring in less than 1 year	<b>17,000</b>	-
Expiring in 1 – 2 years	-	15,000
Expiring in 2 – 5 years	-	-
Expiring in 5 - 10 years	<b>78,400</b>	53,400
	-----	-----
	<b>95,400</b>	68,400
	-----	-----

### **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 a 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 on 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 32 years, subject to break options from 2014, and have swap rates ranging from 3.99% to 5.17% and collars of 3.00% to 5.00%. 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 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.

A 15 basis points change in interest rate levels would increase or decrease the Group's annual profit and equity by £98,000 (2009 - £384,000). The comparative figure for 2009 was based on a 100 basis points change in interest rates. The 15 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. This sensitivity has been calculated by applying the interest rate charge to the variable rate borrowings, net of interest rate swap, at the year end.

## Swaps for Group and Company

	Hedged amount £'000	Average rate	Average <sup>1</sup> maturity - years	Fair Value £'000	Fair Value Adjustment £'000
<b>As at 31<sup>st</sup> March 2010</b>					
Interest rate swaps	<b>25,000</b>	<b>4.12%</b>	<b>4.75</b>	<b>(3,040)</b>	<b>301</b>
Interest rate caps	<b>130,000</b>	<b>5.00%</b>	<b>1.58</b>	<b>275</b>	<b>(16)</b>
Interest rate floors	<b>130,000</b>	<b>3.06%</b>	<b>1.58</b>	<b>(3,791)</b>	<b>(7)</b>
Forward start interest rate swaps	<b>115,000</b>	<b>4.86%</b>	<b>6.36</b>	<b>(15,976)</b>	<b>2,018</b>
				<b>(22,532)</b>	<b>2,296</b>
<b>As at 31<sup>st</sup> March 2009</b>					
Interest rate swaps	<b>25,000</b>	<b>4.12%</b>	<b>5.75</b>	<b>(3,341)</b>	<b>(1,755)</b>
Interest rate caps	<b>130,000</b>	<b>5.00%</b>	<b>2.58</b>	<b>291</b>	<b>(282)</b>
Interest rate floors	<b>130,000</b>	<b>3.06%</b>	<b>2.58</b>	<b>(3,784)</b>	<b>(3,644)</b>
Forward start interest rate swaps	<b>115,000</b>	<b>4.86%</b>	<b>7.36</b>	<b>(17,994)</b>	<b>(17,994)</b>
				<b>(24,828)</b>	<b>(23,675)</b>

<sup>1</sup> to expiry or break, whichever is earlier

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:

	<b>2010</b> <b>£'000</b>	<b>2009</b> <b>£'000</b>
Current	<b>(3,297)</b>	<b>(2,225)</b>
Non-current	<b>(19,235)</b>	<b>(22,603)</b>
	<b>(22,532)</b>	<b>(24,828)</b>
	<b>2010</b>	<b>2009</b>
Weighted average cost of borrowing	<b>4.9%</b>	<b>4.4%</b>

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 IFRS7. 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 31<sup>st</sup> March 2010 of £65,859,000 (2009 - £38,901,000).

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 Company.

#### 11. Net asset value per share

	2010			2009		
	Net Asset	Shares	Net asset value per share	Net Assets	Shares	Net asset Value per share
	£'000	'000	p	£'000	'000	P
<b>Basic</b>	<b>89,159</b>	<b>45,793</b>	<b>195</b>	79,065	45,793	173
Number of shares under option	3,144	3,232	(7)	3,874	2,556	(1)
<b>Diluted</b>	<b>92,303</b>	<b>49,025</b>	<b>188</b>	82,939	48,349	172
Adjustment to fair value of derivatives	22,532	-	46	24,828	-	51
<b>EPRA NAV</b>	<b>114,835</b>	<b>49,025</b>	<b>234</b>	107,767	48,349	223
Adjustment to fair value of derivatives	(22,532)	-	(46)	(24,828)	-	(51)
<b>EPRA NNAV</b>	<b>92,303</b>	<b>49,025</b>	<b>188</b>	82,939	48,349	172

The Report and Financial Statements will be posted to Shareholders on 24<sup>th</sup> June 2010 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](http://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 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.

### **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.

### **Gearing (net)**

Total borrowings, including bank overdrafts, less short-term deposits and cash, at book value, as a percentage of shareholders' funds.

### **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 valuation 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**

Net debt divided by the value of property assets.

**Market rental value**

The estimated amount for which floor space should let on the date of valuation on appropriate lease terms net of ground rents payable, disregarding rent over market rent for leases with more than 10 years to expiry.

**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.

**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.

**Weighted average lease length**

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.