



MCKAY SECURITIES PLC  
INTERIM RESULTS  
27<sup>TH</sup> NOVEMBER 2008

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The Directors of McKay Securities PLC announce the results of the Group for the six months ended 30<sup>th</sup> September 2008.

Highlights

- \* Adjusted profit before tax up 12.0% to £4,551,000 {2007 - £4,062,000} – note 2
- \* Investment property income up 8.4% to £9,691,000 {2007 - £8,939,000} – note 3
- \* Diluted adjusted earnings per share up 17.6% to 10.28p {2007 – 8.74p} – note 5
- \* Loss before tax of (£21,793,000) {2007 – (£9,705,000)} including a valuation deficit of 7.6% (£24,824,000) {2007 – (£13,889,000)}
- \* Basic loss per share (47.59p) {2007 – (21.19p)}
- \* Net asset value per share 351p {2007 – 487p} – note 9
- \* Weighted average cost of borrowing of 5.0% {2007 – 5.9%}
- \* Net debt gearing of 87.0% {2007 – 55.7%}. Net debt gearing to portfolio value – 46.6% {2007 – 35.7%}.
- \* Interim dividend of 4.7 pence per share {2007 – 4.7 pence per share}

David Thomas, Chairman, commented:

Since I last reported in June in respect of the financial year to 31<sup>st</sup> March 2008, the performance of the UK economy has deteriorated and the commercial property sector has continued to experience tough market conditions. Despite this backdrop, the Group has had a strong first half at operating level, with adjusted profit before tax increasing by 12.0% to £4.55 million (2007 - £4.06 million) attributable primarily to growth in gross rental income, which increased by £.90 million (9.6%) to £10.32 million.

Although 2009 is looking tough, the Group has no major development projects, either completed and vacant, or under construction and this, combined with additional funds secured in November 2007, has strengthened the Group's ability to progress through these difficult market conditions.

For further information please contact:

McKay Securities PLC – 01189 502333

Simon Perkins (Managing Director)

Alan Childs (Finance Director)

[www.mckaysecurities.plc.uk](http://www.mckaysecurities.plc.uk)

Details of the programme for the payment of the interim dividend are as follows:

Ex-dividend date	3 <sup>rd</sup> December 2008
Record date	5 <sup>th</sup> December 2008
Interim dividend payment	8 <sup>th</sup> January 2009

The Directors have declared an interim dividend of 4.7 pence per share, (2007 – 4.7 pence per share), which will be paid as a Property Income Distribution (PID).

## CHAIRMAN'S STATEMENT

### Results for the six month period to 30th September 2008

Adjusted profit before tax, excluding non recurring profit on sales, surrender premiums and unrealised movements in the value of the Group's property portfolio and interest rate hedging instruments increased by 12.0% to £4.55 million, compared with £4.06 million for the corresponding period in 2007. Diluted earnings per share, adjusted on the same basis, increased by 17.6% to 10.28 pence (2007 – 8.74 pence).

The external valuation of the Group's property portfolio at 30<sup>th</sup> September 2008 totalled £300.02 million, representing a 7.6% reduction (£24.82 million) in book value for the half year period. With the inclusion of this revaluation deficit, the Group reported a loss before tax of £21.79 million.

Adjusted net asset value was 356 pence per share, a reduction of 13.4% from 411 pence per share at 31<sup>st</sup> March 2008.

The Board has declared a dividend of 4.7 pence per share (2007 – 4.7 pence) payable on 8<sup>th</sup> January 2009.

### Review

Since I last reported in June in respect of the financial year to 31<sup>st</sup> March 2008, the performance of the UK economy has deteriorated and the commercial property sector has continued to experience tough market conditions. Headline results incorporate further falls in the value of property assets as a consequence of reduced liquidity, the re-pricing of risk and latterly, uncertainty over both the resilience of rental values as occupier demand diminishes and the potential for increased tenant default.

Despite this backdrop, the Group has had a strong first half at operating level, with good progress made in generating and maintaining income from completed developments and from the management of the Group's assets. These gains have benefited from our strategy of concentrating on quality properties in the established markets of London and South East England. Adjusted profit before tax increased by 12.0% to £4.55 million (2007 - £4.06 million) attributable primarily to growth in gross rental income, which increased by £0.90 million (9.6%) to £10.32 million. Recent acquisitions in Fleet, Maidenhead and Banbury contributed to this increase, assisted by income from 75,000 sq ft of lettings during the period with a combined contracted rent of £1.09 million per annum; the full benefit of these lettings will be seen in subsequent periods.

Lotus Two, Staines (19,600 sq ft) was let in May to Salesforce.com on a 10 year lease at a rent of £607,600 pa, which exceeded rental expectations and set a new benchmark for top quality office floor space in Staines. Lotus Park, totalling 79,135 sq ft, is now fully let and the comprehensive refurbishment of Lotus One and Two since acquisition in 2005 has improved rents, extended lease terms, and significantly improved the quality of this well located investment. The letting also leaves the Group with no major development projects, either completed and vacant, or under construction, which is in line with our policy of adopting a more cautious approach to the implementation of larger schemes in the current climate.

Another significant letting during the period was at the Brooklands Industrial Estate, Weybridge, where the 38,000 sq ft warehouse element of the freehold unit acquired in 2007 was let shortly after completion of comprehensive sub-division works to Parcelnet, at a rent of £305,000 pa. The balance of the building is occupied by Yamaha Motors (UK) Ltd, who took a lease back at the time of acquisition, leaving the investment fully let with a number of future possibilities, including reinstatement to a single unit or redevelopment for alternative uses.

The impact of the deteriorating economic climate on these and other lettings completed during the period was limited, and the portfolio void of 8% by area at 31<sup>st</sup> March 2008 reduced to 6% (83,250 sq ft) at the end of the period, which remains below the sector average. Marketing activity continues in respect of all unoccupied buildings, which include the recently refurbished office floors at Corinthian House, Croydon and Mallard Court, Staines, and industrial units at Oakwood Trade Park, Crawley.

The first phase of refurbishment at The Switchback, Maidenhead (6,800 sq ft), the upgrading of floors and common parts within Portsoken House, EC3 (circa 20,000 sq ft), and refurbishment of the second floor of 1 Castle Lane (3,000 sq ft) are all programmed to commence in the second half of the year, which will add to the portfolio void. Works are planned to coincide with known lease expiries, and will improve the rental prospects of all of these investments.

Rents are collected direct from tenants rather than through managing agents, which provides first hand and current knowledge of their payment patterns. For the first half of the year these patterns showed little marked change, but occupiers anticipate more testing conditions in the second half of the year, and at the McKay Trading Estate, Poyle it is expected that we will regain possession of Units 1-3 (26,660 sq ft) where the tenant is in financial difficulty.

Two good quality office buildings totalling 21,155 sq ft were acquired at Ancells Business Park, Fleet; an established business park location off Junction 4A of the M3. At a purchase price of £7.60 million, the properties yield 7.3% which should improve with an increase in the low passing rents to a market level, and if a past planning consent for an additional 4,750 sq ft can be renewed and implemented. There were no sales during the period.

### Valuation

The independent external valuation of the Group's property portfolio as at 30<sup>th</sup> September 2008 totalled £300.02 million, representing a 7.6% (£24.82 million) reduction in book value, disregarding the SIC15 lease incentive accounting adjustment of £0.72 million. Comparable market evidence for the valuation was limited, due to the low level of investment transactions since the 31<sup>st</sup> March 2008 valuation. Those transactions that did take place, and market sentiment generally, reflect a further adverse yield shift over the last six months. Since the last valuation the yield profile of the investment portfolio increased by a further 0.6% to an equivalent yield of 7.2%.

On a sector basis, south east offices reduced by 6.2%, London offices by 6.7%, Glasgow offices by 13.7%, and south east industrial by 9.9%. This compared with a 10.0% reduction in the value of all property within the Investment Property Databank (IPD) Monthly Index for the same period. The adverse effect of yield shift on value was mitigated by the lettings achieved and the quality of the assets within the portfolio.

## Finance

Net debt at 30<sup>th</sup> September 2008 was £139.92 million, representing 87.0% of shareholders' funds. On this basis, gearing would increase to 115.0% if total banking facilities available to the Group of £185.00 million were fully drawn, at which point there would remain a reasonable margin to the Group's banking covenants. The facilities have an average weighted maturity of 7.2 years and provide secure long term funding for the Group at competitive margins. The average cost of debt for the period was 5.0% (2007 – 5.9%), benefiting from interest rate hedging instruments totalling £140.00 million.

The final corporation tax payment of £1.76 million was made in July to conclude payment of the REIT entry charge, provision for which was made in the year to 31<sup>st</sup> March 2007. As a REIT the Group continues to benefit from no corporation tax payable on qualifying rental income and on the profit from the sale of investment property. Corporation tax on the limited amount of residual income for the period is offset by residual expenses.

## Dividend

The board is pleased to declare an interim dividend of 4.7 pence per share, which maintains the same level of distribution as at the interim stage last year. This will be paid as a Property Income Distribution. In making this declaration, careful consideration has been given to the balance between sustaining an appropriate level of distribution to shareholders at this stage, the uncertainty regarding the potential impact of the economic outlook on our tenants, and protecting cash flow.

## Future Prospects

One of the most significant factors now influencing the pace and depth of this downturn in the property cycle is the resilience of occupier markets in deteriorating economic conditions. We remain vigilant in monitoring the performance of our tenants, and despite the recent cut in the bank base rate, there remains uncertainty over both tenant demand and the security of rental streams. In such circumstances, investors will remain cautious and asset values are likely to decline further. Such trends may become clearer towards the end of this financial year.

Although 2009 is looking tough, our curtailment of major developments combined with additional funds secured in November 2007 have strengthened the Group's ability to progress through these difficult market conditions.

D O Thomas  
Chairman

27<sup>th</sup> November 2008

## GROUP INCOME STATEMENT

		6 months to 30 <sup>th</sup> September 2008 (Unaudited) £'000	6 months to 30 <sup>th</sup> September 2007 (Unaudited) £'000	12 months to 31 <sup>st</sup> March 2008 (Audited) £'000
	Notes			
Gross rents and service charges receivable		11,962	11,091	22,948
Surrender premiums received		61	-	-
Direct property outgoings		(2,332)	(2,152)	(4,523)
		-----	-----	-----
Net rental income from investment properties	3	9,691	8,939	18,425
Administration costs		(1,628)	(1,656)	(3,366)
		-----	-----	-----
Operating profit before gains on investment properties		8,063	7,283	15,059
Profit on disposal of investment properties		-	267	312
Movement in revaluation of investment properties	7	(25,545)	(14,823)	(45,615)
		-----	-----	-----
Operating loss		(17,482)	(7,273)	(30,244)
Net finance costs – finance costs	6	(4,645)	(2,559)	(12,346)
– finance income		49	41	86
		(4,596)	(2,518)	(12,260)
Share of profit of associated undertaking		285	86	(901)
		-----	-----	-----
Loss before taxation		(21,793)	(9,705)	(43,405)
Taxation	4	-	-	13
		-----	-----	-----
Loss for the period		(21,793)	(9,705)	(43,392)
		-----	-----	-----
Earnings per share	5			
Basic		(47.59)p	(21.19)p	(94.76)p
Diluted		(47.59)p	(21.19)p	(94.76)p
Adjusted earnings per share	5			
Basic		10.38p	8.87p	18.33p
Diluted		10.28p	8.74p	18.08p

## GROUP BALANCE SHEET

		As at 30 <sup>th</sup> September 2008 (Unaudited) £'000	As at 30 <sup>th</sup> September 2007 (Unaudited) £'000	As at 31 <sup>st</sup> March 2008 (Audited) £'000
	Notes			
<b>Non-current assets</b>				
Investment properties	7	297,499	346,968	314,740
Plant and equipment		44	50	51
Investments		5,340	6,178	5,056
		-----	-----	-----
		302,883	353,196	319,847
		-----	-----	-----
<b>Current assets</b>				
Trade and other receivables		9,098	11,395	8,448
Cash and cash equivalents		-	90	5,113
		-----	-----	-----
		9,098	11,485	13,561
		-----	-----	-----
<b>Total assets</b>		<b>311,981</b>	<b>364,681</b>	<b>333,408</b>
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<b>Current liabilities</b>				
Bank overdraft		(71)	-	-
Corporation tax payable		(1)	(7,244)	(3,468)
Trade and other payables		(6,838)	(5,848)	(10,244)
		-----	-----	-----
		(6,910)	(13,092)	(13,712)
		-----	-----	-----
<b>Non-current liabilities</b>				
Loans and other borrowings		(139,328)	(123,911)	(127,816)
Pension fund liabilities		(491)	(222)	(567)
Finance lease liabilities		(4,410)	(4,410)	(4,410)
		-----	-----	-----
		(144,229)	(128,543)	(132,793)
		-----	-----	-----
<b>Total liabilities</b>		<b>(151,139)</b>	<b>(141,635)</b>	<b>(146,505)</b>
		-----	-----	-----
<b>Net assets</b>		<b>160,842</b>	<b>223,046</b>	<b>186,903</b>
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<b>Equity</b>				
Called up share capital		9,159	9,159	9,159
Share premium account		2,495	2,495	2,495
Capital reserve		56,332	49,806	56,326
Revaluation reserve		58,514	122,396	84,047
Retained earnings		34,342	39,190	34,876
		-----	-----	-----
<b>Total equity</b>		<b>160,842</b>	<b>223,046</b>	<b>186,903</b>
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Net asset value per share	9	351p	487p	408p
Adjusted net asset value per share	9	356p	476p	411p

## GROUP CASH FLOW STATEMENT

	6 months to 30 <sup>th</sup> September 2008 (Unaudited) £'000	6 months to 30 <sup>th</sup> September 2007 (Unaudited) £'000	12 months to 31 <sup>st</sup> March 2008 (Audited) £'000
Operating activities			
Loss before tax	(21,793)	(9,705)	(43,405)
Adjustments for:			
Depreciation	14	19	46
Other non-cash movements	299	283	557
Profit on disposal of investment properties	-	(267)	(312)
Movement in revaluation of investment properties	25,545	14,823	45,615
Net finance costs	4,596	2,518	12,260
Share of (profit)/loss of associate undertaking	(285)	(86)	901
	-----	-----	-----
Cash flow from operations before changes in working capital	8,376	7,585	15,662
Increase in debtors	(970)	(1,187)	(1,928)
(Decrease)/increase in creditors	(4,310)	(4,217)	574
	-----	-----	-----
Cash generated from operations	3,096	2,181	14,308
Interest paid	(3,080)	(716)	(7,361)
Interest received	80	58	102
Corporation tax paid	(3,467)	(1,156)	(4,919)
	-----	-----	-----
Cash flows from operating activities	(3,371)	367	2,130
	-----	-----	-----
Investing activities			
Sale of investment properties	-	1,057	13,494
Dividends from sundry investments	1	1	2
Dividends from associated undertaking	-	-	135
Purchase and development of investment properties	(8,891)	(11,378)	(22,254)
Purchase of other fixed assets	(6)	(21)	(50)
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Cash flows from investing activities	(8,896)	(10,341)	(8,673)
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Financing activities			
Increase in borrowings	11,479	12,750	16,494
Equity dividends paid	(4,396)	(3,389)	(5,541)
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Cash flows from financing activities	7,083	9,361	10,953
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Net (decrease)/increase in cash and cash equivalents	(5,184)	(613)	4,410
Cash and cash equivalents at beginning of period	5,113	703	703
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Cash and cash equivalents at end of period	(71)	90	5,113
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## STATEMENT OF RECOGNISED INCOME AND EXPENSE

	6 months to 30 <sup>th</sup> September 2008 (Unaudited) £'000	6 months to 30 <sup>th</sup> September 2007 (Unaudited) £'000	12 months to 31 <sup>st</sup> March 2008 (Audited) £'000
Actuarial movement on defined benefit pension scheme	-	-	(453)
Net income recognised directly in equity	-	-	(453)
Loss for the period	(21,793)	(9,705)	(43,392)
Total recognised income and expense for the period	(21,793)	(9,705)	(43,845)

### 1 Principal accounting policies

#### Basis of preparation

The accounting policies used for the audited financial statements at 31<sup>st</sup> March 2008 have been used in the preparation of these condensed interim financial statements.

The comparative figures for the financial year ended 31<sup>st</sup> March 2008 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

The interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

#### Basis of consolidation

The consolidated condensed interim financial statements incorporate the results of the Company and its subsidiary companies for the six months to 30<sup>th</sup> September 2008. Subsidiary companies are those entities under the control of the Company. Control means the power to govern the financial and operating policies 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 is 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, less any impairment in the value of individual investments.

#### 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 income statement.

#### 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 income statement 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 income statement.

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.

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 income statement and the reduction of the balance sheet liability. Contingent rents are charged as an expense in the income statement 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 income statement, 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 movements in capital and reserves.

#### 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, 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 income statement.

#### 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, less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost using the effective interest rate method.

#### Rental income

Rental income received under operating leases from investment properties is recognised in the income statement 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 borrowings 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 income statement over the lease term. Facility arrangement costs are recognised in the income statement over the facility term.

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

#### Trade and other receivables payable

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 share option schemes 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 income statement 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 as movements in equity, through the statement of recognised income and expense. The liabilities of the defined benefit pension scheme are measured at the discounted 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 income statement.

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 income statement as incurred but, the Group does not recognise any gains or losses arising from movements in the value of the personal pension plans.

#### Taxation

The tax charge in the income statement 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 income statement that are taxable or deductible in other years and items that are never taxable or deductible. The tax rate is that enacted or substantively 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 and no deferred tax is recognised on properties covered by the REIT regime.

Deferred tax on properties not falling within the REIT regime is recognised using the balance sheet liability method, without discounting, on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base used for taxation purposes. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that future taxable profits will be available against which the asset can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill not deductible for tax purposes, or from the initial recognition of other assets and liabilities that affect neither accounting nor taxable profit. Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that there will be future taxable profits against which the asset can be utilised. Deferred tax is calculated at the rate enacted or expected to apply in the period when the liability is settled or the asset realised.

## 2 Adjusted profit before tax

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

	6 months to 30 <sup>th</sup> September 2008 (Unaudited) £'000	6 months to 30 <sup>th</sup> September 2007 (Unaudited) £'000	12 months to 31 <sup>st</sup> March 2008 (Audited) £'000
Loss before tax	(21,793)	(9,705)	(43,405)
Surrender premium received	(61)	-	-
Change in fair value of derivatives	1,064	(802)	5,381
Movement in revaluation of investment properties	25,545	14,823	45,615
Profit on disposal of investment properties	-	(267)	(312)
Associated undertakings disposals, revaluation movement and taxation	(204)	13	1,102
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Adjusted profit before tax	4,551	4,062	8,381
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## 3 Net rental income from investment properties

	6 months to 30 <sup>th</sup> September 2008 (Unaudited) £'000	6 months to 30 <sup>th</sup> September 2007 (Unaudited) £'000	12 months to 31 <sup>st</sup> March 2008 (Audited) £'000
Gross rents receivable	9,600	8,565	17,783
SIC15 adjustment	721	852	1,568
	-----	-----	-----
Gross rental income	10,321	9,417	19,351
Service charges receivable	1,641	1,674	3,597
	-----	-----	-----
	11,962	11,091	22,948
Surrender premiums received	61	-	-
Direct property outgoings	(2,332)	(2,152)	(4,523)
	-----	-----	-----
	9,691	8,939	18,425
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#### 4 Taxation

	6 months to 30 <sup>th</sup> September 2008 (Unaudited) £'000	6 months to 30 <sup>th</sup> September 2007 (Unaudited) £'000	12 months to 31 <sup>st</sup> March 2008 (Audited) £'000
Analysis of charge in period:			
Current tax:			
UK corporation tax on profits for the period	-	-	-
Adjustments in respect of prior periods	-	-	(13)
	-----	-----	-----
Total tax credit in the income statement	-	-	(13)
	-----	-----	-----
Reconciliation to effective rate of tax:			
Loss before tax	(21,793)	(9,705)	(43,405)
	-----	-----	-----
Tax credit on loss at 28% (2007 – 30%)	(6,102)	(2,911)	(13,021)
Effects of:			
Exempt REIT profits and gains	(972)	(1,543)	(1,042)
Property revaluations	7,153	4,447	13,682
Non-deductable expenses	-	-	14
Other timing differences	1	-	72
Permanent differences	-	33	-
Associated company	(80)	(26)	270
Other	-	-	25
Adjustment to tax charge in respect of prior years	-	-	(13)
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Tax credit for period (as above)	-	-	(13)
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#### Factors affecting future tax rate:

McKay Securities PLC converted to a Real Estate Investment Trust (REIT) on 1<sup>st</sup> April 2007 and no corporation tax is expected to become payable on future qualifying income or capital gains. The limited amount of residual income outside the REIT structure is expected to be offset by residual expenses.

The current Group corporation tax payable of £1,000 (2007 - £7,244,000) represents the last payable for periods prior to conversion to a REIT.

#### 5 Earnings per share

	6 months to 30 <sup>th</sup> September 2008 p	6 months to 30 <sup>th</sup> September 2007 p	12 months to 31 <sup>st</sup> March 2008 p
Basic loss per share	(47.59)	(21.19)	(94.76)
Change in fair value of derivatives	2.32	(1.75)	11.75
Movement in revaluation of investment properties	55.78	32.37	99.61
Surrender premium received	(0.13)	-	-
Profit on disposal of investment properties	-	(0.58)	(0.68)
Associated undertaking disposals and revaluation movement	-	0.02	2.41
	-----	-----	-----
Adjusted basic earnings per share	10.38	8.87	18.33
	-----	-----	-----

Basic loss per share is based on the loss in the half year of £21,793,000 (2007 - £9,705,000 loss) and 45,792,655 (2007 – 45,792,655) shares, being the weighted average number of ordinary shares in issue during the period.

Reconciliation of earnings per share to diluted earnings per share:

	6 months to 30 <sup>th</sup> September 2008	6 months to 30 <sup>th</sup> September 2007	
Weighted number of ordinary shares in issue	45,792,655	45,792,655	
Number of shares under option	2,182,002	1,656,624	
Number of shares that would have been issued at fair value	(1,711,743)	(1,073,459)	
	-----	-----	
Diluted weighted average number of ordinary shares in issue	46,262,914	46,375,820	
	-----	-----	
	6 months to 30 <sup>th</sup> September 2008	6 months to 30 <sup>th</sup> September 2007	12 months to 31 <sup>st</sup> March 2008
	p	p	p
Basic loss per share	(47.59)	(21.19)	(94.76)
Effect of dilutive potential ordinary shares under option	-	-	-
	-----	-----	-----
Diluted loss per share	(47.59)	(21.19)	(94.76)
Effect of dilutive potential ordinary shares under option	0.48	0.26	1.30
Change in fair value of derivatives	2.30	(1.73)	11.59
Movement in revaluation of investment properties	55.22	31.96	98.25
Surrender premium received	(0.13)	-	-
Profit on disposal of investment properties	-	(0.58)	(0.67)
Associated undertaking disposals and revaluation movement	-	0.02	2.37
	-----	-----	-----
Adjusted diluted earnings per share	10.28	8.74	18.08
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Diluted earnings per share are based on the same loss after tax and on the weighted average number of shares in issue during the period of 46,262,914 (2007 – 46,375,820) shares, which takes into account the number of potential ordinary shares under option. No account has been taken in diluted loss per share of potential ordinary shares where their conversion to ordinary shares would decrease the loss per share but is included to arrive at adjusted diluted earnings per share.

Adjusted earnings per share excludes the after tax effect of profit from the disposal of investment properties, surrender premiums received, the change in the fair value of derivatives and the movement in revaluation of investment properties.

## 6 Finance costs

	6 months to 30 <sup>th</sup> September 2008 (Unaudited) £'000	6 months to 30 <sup>th</sup> September 2007 (Unaudited) £'000	12 months to 31 <sup>st</sup> March 2008 (Audited) £'000
Interest on bank overdraft and loans	3,405	3,437	6,739
Finance lease interest on leasehold property obligations	143	143	285
Finance arrangement costs	33	23	183
	-----	-----	-----
	3,581	3,603	7,207
Capitalised interest	-	(242)	(242)
	-----	-----	-----
	3,581	3,361	6,965
Fair value losses/(gains) on derivatives	1,064	(802)	5,381
	-----	-----	-----
	4,645	2,559	12,346
Interest receivable	(49)	(41)	(86)
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	4,596	2,518	12,260
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## 7 Investment properties

	6 months to 30 <sup>th</sup> September 2008 (Unaudited) £'000	6 months to 30 <sup>th</sup> September 2007 (Unaudited) £'000	12 months to 31 <sup>st</sup> March 2008 (Audited) £'000
At 1 <sup>st</sup> April 2008	314,740	351,110	351,110
Additions	8,324	11,510	22,467
Revaluation deficit	(24,824)	(13,889)	(44,047)
Lease incentives recognised	(721)	(934)	(1,568)
	(25,545)	(14,823)	(45,615)
Disposals	-	(807)	(13,182)
Amortisation of grossed up headlease liabilities	(20)	(22)	(40)
	-----	-----	-----
At 30 <sup>th</sup> September 2008	297,499	346,968	314,740
	-----	-----	-----
Adjustment for grossing up of headlease liabilities	(4,046)	(4,086)	(4,067)
Adjustment for rents recognised in advance under SIC15	6,567	5,214	5,847
	-----	-----	-----
Adjusted valuation at 30 <sup>th</sup> September 2008	300,020	348,096	316,520
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There was an external valuation at 30<sup>th</sup> September 2008 carried out in England by Mellersh & Harding, Chartered Surveyors and Valuers, and in Scotland by CB Richard Ellis, Chartered Surveyors and Valuers, in accordance with the Appraisal and Valuation Standards of RICS, on an open market basis.

## 8 Dividends paid

	6 months to 30 <sup>th</sup> September 2008 (Unaudited) £'000	6 months To 30 <sup>th</sup> September 2007 (Unaudited) £'000	12 months to 31 <sup>st</sup> March 2008 (Audited) £'000
Final dividend			
Year ended 31 <sup>st</sup> March 2008	4,369	-	-
Year ended 31 <sup>st</sup> March 2007	-	3,389	3,389
Interim dividend			
Year ended 31 <sup>st</sup> March 2008	-	-	2,152
	4,369	3,389	5,541

The Directors have declared an interim dividend of 4.7 pence per share (2007 – 4.7 pence per share).

Since becoming a REIT, the Group is required to distribute at least 90% of qualifying income profits each year as a Property Income Distribution (PID), and the interim dividend of 4.7 pence per share will be paid as part of this distribution. Further information is available on the Company's website.

## 9 Net asset value per share

	30 <sup>th</sup> September 2008			30 <sup>th</sup> September 2007			31 <sup>st</sup> March 2008		
	Net assets £'000	Shares '000	Net asset value per share p	Net assets £'000	Shares '000	Net asset value per share p	Net Assets £'000	Shares '000	Net Asset Value Per Share p
Basic	160,842	45,793	351	223,046	45,793	487	186,903	45,793	408
Adjustment for fair value of derivatives	2,217	-	5	(5,030)	-	(11)	1,153	-	3
Adjusted	163,059	45,793	356	218,016	45,793	476	188,056	45,793	411
Number of shares under option	3,874	2,556	(11)	5,093	1,875	(8)	3,874	1,875	(8)
Adjusted diluted and EPRA measure	166,933	48,349	345	223,109	47,688	468	191,930	47,668	403

The EPRA (European Public Real Estate Association) net asset value per share includes external valuation movements on investment properties but excludes the fair value adjustment for derivatives.

## 10 Disclaimer

The Interim Report of McKay Securities PLC for the six months to 30<sup>th</sup> September 2008 has been drawn up and presented for the purposes of complying with English law. If any issue were to arise in relation to any liability under or in connection with the Interim Report for the six months to 30<sup>th</sup> September 2008, it would also be determined in accordance with English law.

## 11 Interim Report

The Interim Report is being posted to all shareholders on 5<sup>th</sup> December 2008. Copies are available to members of the public from the Company's registered office at 20 Greyfriars Road, Reading, Berkshire RG1 1NL, and on the Company's website at [www.mckaysecurities.plc.uk](http://www.mckaysecurities.plc.uk).

### Responsibility Statement of the Directors

We confirm that to the best of our knowledge:

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

S C Perkins  
Managing Director

A S Childs  
Finance Director

27<sup>th</sup> November 2008