# Press Release

## McKAY SECURITIES PLC ANNOUNCES FULL YEAR RESULTS

McKay Securities PLC, a REIT (Real Estate Investment Trust) focussed on developing and investing in commercial property in the South East and central London, has announced its results for the year ended 31st March 2011.

- Net Asset Value up 20.7% since 30th September 2010 to 197p per share
- EPRA Net Asset Value 223p per share (31st March 2010 – 234p per share)
  Property portfolio valuation £208.52m (31st March 2010 - £205.95)
- Profit before tax of £4.50m (31st March 2010 - £15.38m), lower on account of reduced valuation gains
- Adjusted profit before tax £5.10m (31st March 2010 - £5.93m)
- Loan to value ratio 45.6% (31st March 2010 - 43.2%)
- Appointment of Giles Salmon as designate Finance Director

- Final dividend for the year up 1.8% to 5.6p per share (2010 – 5.5p)
- Total dividend for the year up 1.2% to 8.3p per share (2010 – 8.2p)

David Thomas, Chairman of McKay, said:

"Over the year there has been continued improvement across all the Group's markets, with the pace of recovery in central London greater than in the South East. Improving rental values and diverse investor demand generated income and contributed to capital growth within the Group's central London office portfolio.

Market conditions within the South East office and industrial markets have become more stable and rental growth has been achieved for the best buildings in the most undersupplied centres. It was also encouraging to end the year with identified South East office demand 20% higher than last year and with a greater number of active investors prepared to commit to this market in anticipation of rental growth following London's lead, which has proved to be the case in previous cycles.

The generation and retention of income will continue to be a priority in what is expected to remain a variable occupier market until economic growth generates sustained upward pressure on rents. There is inherent potential in the Group's portfolio that will be released once void properties are let and as the pace of recovery in South East markets picks up.

In addition, the prospects for the Group's proposed schemes at 30-32 Lombard Street, EC3 and Great Surrey House, SE1 have been enhanced by the improvements seen to date in the central London office market"

Date: 2nd June 2011

For further information contact:

| McKay Securities PLC | City Profile |
|---|---|
| Simon Perkins, Managing Director | Simon Courtenay |
| Alan Childs, Finance Director | Sheena Khan |
| 0118 950 2333 | 020 7448 3244 |

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

| | |
|---|---|
| Ex dividend date | 8th June 2011 |
| Record Date for the final dividend | 10th June 2011 |
| Report and Financial Statements dispatched to Shareholders with Notice of AGM | 23rd June 2011 |
| Annual General Meeting to be held at 12 noon at The Royal Thames Yacht Club, 60 Knightsbridge, London SW1 | 21st July 2011 |
| Final dividend paid | 4th August 2011 |

A final dividend per share of 5.6 pence is recommended by the Board making a total dividend for the year of 8.3 pence per share (2010 – 8.2 pence). The 5.6 pence per share will be paid as a Property Income Distribution (PID), making the total PID for the year 8.3 pence per share (2010 – 8.2 pence).

## CHAIRMAN'S STATEMENT

**Profit before tax for the year to 31st March 2011 was £4.50 million (2010 - £15.38 million). Profit before tax, adjusted to exclude non-recurring profit on sales, surrender premiums and unrealised movements in the value of both the Group's property portfolio and its interest rate hedging instruments, was £5.10 million (2010 - £5.93 million). Diluted earnings per share, adjusted on the same basis, was 10.82 pence (2010 – 12.79 pence).**

**The external valuation of the Group's property portfolio at 31st March 2011 was £208.52 million, representing a 0.1% (£0.27 million) increase over book value for the twelve month period. This compares with a 3.5% (£7.06 million) increase for the twelve month period to 31st March 2010, which accounts for a significant proportion of the difference in profit before tax compared with last year.**

**The Group incurred a one off swap cancellation fee of £5.93 million to reduce interest rate hedging instruments permanently by £50.00 million. This fee is included as a finance cost within profit before tax, and excluded from adjusted profit before tax.**

**Net asset value at the year end totalled £90.17 million (197 pence per share), representing a 20.7% increase since the last balance sheet date of 30th September 2010 (£74.72 million – 163 pence per share) and a 1.1% increase since 31st March 2010 (£89.16 million – 195 pence per share). EPRA net asset value at the year end was £110.52 million (223 pence per share), a reduction of 3.7% compared with 30th September 2010 and of 3.8% for the period as a whole.**

**The Board has recommended a final dividend of 5.6 pence per share (2010 – 5.5 pence per share) payable on 4th August 2011 representing an increase of 1.8%, taking the total dividend for the year to 8.3 pence per share (2010 – 8.2 pence).**

### Review of the Year

Over the year there has been continued improvement across all the Group's markets, with the pace of recovery in central London greater than in the South East. Improving rental values and diverse investor demand generated income and contributed to capital growth within the Group's central London office portfolio. Market conditions within the South East office and industrial markets have become more stable and rental growth has been achieved for the best buildings in the most undersupplied centres. It was also encouraging to end the year with identified South East office demand 20% higher than last year and with a greater number of active investors prepared to commit to this market in anticipation of rental growth following London's lead, which has proved to be the case in previous cycles.

At operating level, gross rental income from the portfolio was £15.66 million, compared with £17.12 million for the equivalent period last year. This lower level of income was anticipated at the end of last year, when it was noted that the sale of three properties would reduce income for the year to 31st March 2011 by £1.26 million. With the benefit of an improvement this year in service charge recovery and a lower level of non-recoverable property costs, net income from the portfolio was £14.74 million. This compares with £14.45 million on a like for like basis, excluding the income contribution from those properties sold.

Administration costs for the period fell by £0.69 million to £3.47 million due to lower staff levels and the absence of any payments under the Group's annual bonus scheme, which accounted for £0.37 million last year. Interest costs were £0.30 million higher at £5.44 million, reflecting a £6.34 million increase in net debt to £95.18 million. The loan to value ratio at the year end was 45.6% (2010 – 43.2%).

These savings helped mitigate the lower income contribution from the portfolio and as a result, adjusted profit before tax was £5.10 million (2010 - £5.93 million). This is our preferred measure of recurring profit on a consistent basis and also excludes surrender premiums received over the period of £0.58 million (2010 - £0.22 million).

As one of the few companies within the listed property sector that did not resort to a dilutive rights issue during the recent downturn, the Group maintained covenant compliance and balance sheet strength by reducing borrowings. This left the Group in an over-hedged position and in the second half of the year, a one off swap cancellation fee of £5.93 million was incurred to reduce the notional sum hedged from £155.00 million to £105.00 million and to remove the risk of higher finance costs associated with this over-hedged position. This was a positive step for the Group, and together with gains in the market value of the retained hedging instruments, has resulted in a 20.7% improvement in shareholders' funds since 30th September 2010. The EPRA measure of net asset value, which excludes the market value of these instruments, was 3.7% lower over the same period primarily due to the swap cancellation fee paid out.

The Group's business model is based on generating income and capital growth from a portfolio of properties. The successful implementation of this model is reliant on buying assets with potential for growth, managing and implementing strategies on a property by property basis to release value and, in due course, realising asset sales in order to recycle capital and to maintain an appropriate level of debt and gearing. The model is therefore dependent both on the potential within the portfolio, and on the market conditions prevailing at the time such strategic decisions are considered.

In implementing this strategy we continue to appraise prospective new acquisitions to reinvest funds released from the disposals made last year. Banks are under increasing pressure to reduce their overweight position in property which will in time lead to a release of more opportunities. Whilst acquisitions can be made that are income enhancing, we will continue to look for prospects with the potential to contribute to the broader demands of our model over the medium term.

In the meantime, the existing portfolio has considerable potential to benefit from market improvements. Valuations now reflect a lower level of market rent and make allowances for void periods ahead of re-letting. The portfolio has minimal over renting and with 63.9% of contracted rents paid by major tenants with a net worth in excess of £35.00 million, has a resilient base. In addition, all portfolio voids, including recently completed refurbishments at Eastgate House, Fleet (13,780 sq ft) and the McKay Trading Estate, Poyle are being presented to an improving market in good condition with minimal capital expenditure required. Conversion of occupier interest into lettings is key to releasing additional value, as demonstrated by letting success at Portsoken House, EC3 and 30/32 Lombard Street, EC3. These were two of the largest voids at the beginning of the period. As a result of careful management of existing tenants and a total of 27 lettings over the period, the portfolio void has reduced from 11.6% to 10.9%, and our target of collecting at least 90.0% of rents demanded within seven days of the due date has been achieved throughout the period.

There are two large assets within the portfolio with differing characteristics that both have significant potential to add value in the medium term. 100 Bothwell Street, Glasgow (100,270 sq ft), is a highly prominent office building developed by the Group in the early 1980's in a prime central location where recent major redevelopments have set new headline rents on adjoining plots. The valuation of this asset was reduced by 14.8% (£2.70 million) this year to reflect the proximity of lease expiry at the end of December 2013. The asset has been held due to its prime location and the potential to generate increased value by either implementing a refurbishment or extending the existing lease as a result of our continuing dialogue with the current tenant.

In the City, the Group continues to work towards a redevelopment of 30-32 Lombard Street, EC3 (36,140 sq ft) at the end of 2012 when vacant possession can be obtained. The planning consent was renewed in December 2010 for a 60,000 sq ft scheme which is a striking high quality office in this highly regarded City location. Improving conditions in the City market and the limited number of similar sized projects make this an unusual and sought after opportunity and we will review the most beneficial way of releasing value from this scheme as the year progresses. Also within central London, we have the potential to generate gains from the letting of Great Surrey House, SE1 (21,560 sq ft), where the current valuation reflects the lease expiry in September 2011. This 1980's office is opposite Southwark underground station, and plans are being formulated to refurbish the building which should be well received in an undersupplied market.

Following the sales made in the last financial year, further disposals are kept under regular review. With headroom to all banking covenants and funds available for acquisitions, significant disposals are not planned until lettings and acquisitions add to current income levels. We will however continue to assess opportunistic disposals ahead of book value.

Our model is underpinned by the availability of reasonably priced flexible bank finance. Having renewed and extended facilities in 2008, we have at least five years until the expiry of facilities totalling £155.00 million which were secured at borrowing rates pre-dating the banking crisis. The release of value from the portfolio will improve our ability to draw down this debt whilst maintaining covenant headroom.

**<u>Dividend</u>**

Having taken account of the progress made by the Group since the downturn, the Board is recommending a modest increase in the final dividend.

The Board has recommended a final dividend of 5.6 pence per share (2010 – 5.5 pence). This will be paid as a Property Income Distribution (PID) on 4th August 2011, taking the total dividend for the year, all paid as PID, to 8.3 pence per share (2010 – 8.2 pence).

**<u>Board Changes</u>**

In January this year, the retirement of Alan Childs was announced. Alan has dedicated 38 years to the Group and has been an integral part of its growth since joining in 1973, when shareholders' funds totalled £8.63 million. He was appointed Finance Director in 1996 and his experience has been invaluable in protecting shareholders' interests through one of the most severe downturns we have experienced. I would like to thank him on behalf of past and present members of the Board for his commitment and support ahead of his retirement in August this year.

We are delighted that Giles Salmon, who has been appointed as designate Finance Director, joined the Group at the beginning of May. He is a qualified Chartered Accountant with a strong real estate track record, most recently as Finance Director of BAA Lynton, the commercial property arm of British Airports Authority.

## Future Prospects

During the last financial year we successfully maintained our focus on the existing portfolio and carefully managed our finances, in particular our hedging facilities, to further improve the Group's balance sheet. These objectives were clear and achieved. We therefore ended the year with a firm platform to work from in 2011 and beyond, with funds available to invest in the existing portfolio and acquisitions.

The generation and retention of income will continue to be a priority in what is expected to remain a variable occupier market until economic growth generates sustained upward pressure on rents. There is inherent potential in the Group's portfolio that will be released once void properties are let and as the pace of recovery in South East markets picks up. In addition, the prospects for the Group's proposed schemes at 30-32 Lombard Street, EC3 and Great Surrey House, SE1 have been enhanced by the improvements seen to date in the central London office market.

D.O. Thomas
Chairman
2nd June 2011

## PROPERTY AND FINANCE REVIEW

### Overview

McKay Securities is a commercial property investment company with REIT status specialising in the refurbishment and development of quality buildings within established and proven markets of central London and South East England. The Group's business model is based on generating rental and capital growth from an active approach to the management of the portfolio. Recurring rental income from the portfolio underpins profits, which are supplemented by gains from the sale of investment properties to fund new acquisitions with better growth prospects, whilst maintaining compliance with the terms of flexible secured bank finance.

The Group has built up a portfolio of institutional quality assets concentrated in these resilient established markets, without reliance on one sector or location.

Over the period, the portfolio, which increased in value by 0.1% to £208.52 million, remained stable at 31 properties totalling 1.18 million sq ft, with an average lot size of £6.72 million. The portfolio splits into three main sectors; South East offices 40.8%, central London offices 28.3%, and South East industrial 21.2% (% by value). Across these main portfolio sectors referred to, low average contracted rental values of £22 psf, £27 psf and £8 psf respectively and limited over-renting leaves the portfolio well placed to benefit from rental growth as the economy improves.

Contracted annual rental income from a total of 133 tenants at the year-end was £16.34 million, of which 63.9% was receivable from tenants with the highest Dun and Bradstreet credit rating (5A – net worth in excess of £35.00 million). Income is well spread across business sectors, the largest of which continued to be financial and business services which accounted for 33.1% of contracted rents, with the public sector accounting for 8.1%. The weighted average lease term of the portfolio was 6.2 years, and 5.3 years to the earlier of the lease break or expiry.

The portfolio is under-pinned by the ten largest properties, which account for 65.7% of contracted rents and 67.2% of portfolio value. They have a strong occupier base, with 77.4% of rents paid by tenants with the highest Dun and Bradstreet rating and a weighted annual lease length of 7.9 years (6.8 years including break clauses).

At the year end, the total portfolio void (by rental value) had reduced from 11.6% in March 2010 to 10.9%, with a combined rental value of £1.96 million pa. 69.6% of the vacant floor space which totalled 142,500 sq ft, was contained within five properties.

The total portfolio return for the period was 7.2% (2010 – 10.2%). This compares with a return of 10.7% for the IPD Monthly Index and 6.2% for the South East office segment of the Index. The Index out-performed overall due to a 10.7% return for the retail segment of the Index which represents 46.4% of the Index by value.

### Market Review

Investment and occupational markets both showed continued progress over the period from the severe downturn in 2008/2009.

Over the year investors continued to focus on either properties with long and secure income streams or markets perceived to offer the potential for rental growth. This has been due to continuing uncertainty over the pace of economic recovery and the demanding criteria for the limited amount of bank debt available.

As a result of rental growth and the appeal to a wide range of investors, the central London office sector has achieved capital growth of circa 13% as competition from UK and overseas buyers for limited stock has pushed up values. In the South East office and industrial markets there has been continued demand for prime investments but limited appetite for lesser quality properties. This has resulted in an increasing yield gap between primary, secondary and tertiary assets.

As anticipated at the half year stage, the prices that investors are prepared to pay for properties with short leases requiring refurbishment have continued to fall in order to better reflect the risks to be taken. Investor appetite for Chiswick Park, Chiswick and Green Park, Reading in the second half of the year was considerable. This indicates that purchasers are increasingly prepared to search outside central London for growth opportunities.

Lending banks remain heavily over exposed to the UK property sector. The supply of property to the market from default situations has so far been limited, but as the banks repair their own balance sheets and the number of loan expiries increase, we continue to anticipate an increase in the number of opportunities to be released.

Occupier demand for offices and industrial floor space outside central London showed further indications of improvement towards the end of the period. Named South East office requirements increased over the period by 19.5% to 4.9m sq ft in March 2011 (source: Strutt & Parker). Although the majority of these requirements were driven by lease expiries or breaks, there was a higher proportion due to business consolidation or expansion into better quality floor space. Occupiers remain cost conscious and rental values and other terms available vary between centres dependent on the supply available. Where occupiers have a range of opportunities, lease terms remain in favour of the tenant.

Office take up within the Group’s market area was 68.0% higher in 2010 compared with 2009. A number of transactions in excess of 100,000 sq ft in the second half of the year contributed to this, where large occupiers who had been in the market for some time took advantage of the terms on offer. Take up in the first quarter this year is ahead of the same period last year, and market estimates are that total take up for the year will be similar to last year.

Encouragingly, those centres with limited supply are beginning to generate rental growth, a lower level of incentives and longer lease terms. The number of speculative office schemes in the South East has increased to five, but is still constrained by the availability of finance and investor appetite. If occupier demand levels are maintained, an increasing lack of good quality stock should generate rental growth across a wider market area.

**Portfolio Activity**

The Group’s strategy over the period has been to maximise income and value from the existing properties within the portfolio, whilst reviewing market opportunities with the potential to generate value from management, refurbishment and development.

Since the disposal of three assets towards the end of the last financial year for total net proceeds of £27.33 million, the portfolio has remained unchanged. The sale of these properties has reduced rental income for the period by £1.26 million in comparison to last year, and it is proposed to reinvest a proportion of these proceeds to help replace this income, whilst maintaining a reasonable level of balance sheet gearing. A selective approach is being taken as the pricing of property at present is very susceptible to income risk and the need for capital expenditure. There has been a limited supply of opportunities that fit our requirements, and further opportunities as a result of expiring bank finance are anticipated as the year goes on. Although entry pricing has become more favourable, we will continue to look for properties where pricing better reflects growth prospects and income return.

Despite the variable occupier market, particularly outside central London, active management of the portfolio has resulted in a total of 27 lettings totalling 136,400 sq ft, with a combined contracted annual rent of £1.47 million. Of these, 16 were open market lettings totalling 65,000 sq ft with contracted annual rents of £0.76 million, with the most significant being at Portsoken House, EC3 and 30/32 Lombard Street, EC3.

On expiry of leases in Portsoken House at the end of 2008, tenants were retained in 20,000 sq ft and despite the poor market conditions at that time, the remaining vacant 24,900 sq ft and the common areas were refurbished. The policy of committing to up front expenditure to enhance letting prospects was justified and 16,900 sq ft was let during the period. A further 1,400 sq ft was let after the period, and there is encouraging interest in the remaining 6,600 sq ft.

At 30/32 Lombard Street all remaining vacant space totalling 22,450 sq ft was let at the beginning of the year. Flexibility for redevelopment has been retained with lease terms enabling vacant possession to be obtained at the end of 2012. Development potential was protected over the period with the renewal of planning consent. This consent permits the redevelopment of the existing 36,140 sq ft building with a top quality 60,000 sq ft office headquarters and the acquisition of rights of light from the most impacted adjoining owner at a cost of £0.45 million. Further detailed design work will be undertaken to allow consideration by mid 2012 of the most beneficial way of taking the scheme forward.

At lease expiry or break, a high level of retention was maintained with 19 tenants (61.3%) remaining in occupation. The 12 properties vacated had a combined rental value of £0.70 million, and are being actively marketed. The two largest properties vacated were Eastgate House, Fleet (13,780 sq ft) and Albion House, Newbury (6,520 sq ft). Their combined rental value of £0.32 million accounts for nearly half of the space vacated. Both buildings have been refurbished and marketing campaigns are now underway.

In addition to these properties, Units 1-3 and 8 at The McKay Trading Estate, Poyle have been marketed over the period following refurbishment. Since the year end, Units 1 and 2 have been let at a contracted rent of £0.19 million, and there is encouraging interest in Units 3 and 8.

The Group continued to collect all rents direct from tenants rather than through managing agents. In excess of 90% of rents demanded was received within seven days of each quarter day, which has proved to be a consistent and resilient payment pattern since the downturn. Business insolvencies were limited to three cases during the year with combined income representing less than 2% of the portfolio rental value. The most significant property affected was Pegasus Two, Crawley (12,730 sq ft), where the lease is expected to be disclaimed shortly and a marketing plan then actioned to re-let this office building developed by the Group in 2000.

Looking ahead there are two significant lease events for the Group. At Great Surrey House, SE1 (21,560 sq ft) the tenant will vacate at the end of September 2011. This provides the opportunity to deliver a refurbished office building into this undersupplied London market. As the valuation of the property reflects the imminent vacancy, re-letting at or in excess of the rental value of £0.5 million will see a considerable uplift in value.

Value will also be released if discussions with the occupier of 100 Bothwell Street, Glasgow (100,270 sq ft) lead to a new lease beyond expiry in December 2013. In the event that the tenant does not remain in occupation, the potential will exist to refurbish this significant property, located in the core of the central business district, to provide quality office floor space at a time when a supply shortage is predicted.

## Valuation

The independent valuation of the Group's property portfolio at 31st March 2011 totalled £208.52 million, representing a 0.1% (£0.27 million) increase over book value for the twelve month period. The value of those properties with little change to their lease structure and limited income risk remained generally constant. Gains were achieved as a result of lettings and rental growth, but impending lease events such as break clauses, expiries and tenant insolvency resulted in negative movements.

30/32 Lombard St, EC3 and Portsoken House, EC3 improved in value by 18.5% overall as a result of lettings and a combined increase in rental value of 13.8%. This compared with a 14.1% capital gain in the City office segment of the IPD Monthly Index. 100 Bothwell Street, Glasgow reduced in value by 14.8% and our South East office properties were 3.8% lower overall compared with a fall of 1.9% in the South East office segment of the Index. This was mainly due to impending lease events, particularly at Switchback Business Park, Maidenhead and tenant insolvency at Pegasus Two, Crawley. The industrial portfolio increased in value by 3.6% compared with a gain of 1.9% in the Index segment mainly as a result of letting progress.

At the valuation date, the portfolio initial yield was 6.9% (2010 – 7.0%), increasing to 7.4% (2010 – 7.5%) on the expiry of letting incentives. The true equivalent yield was 7.8% (2010 – 7.8%).

**Finance**

As at 31st March 2011, the Group's net debt was £95.18 million (2010 - £88.96 million). The increased level of debt was primarily due to restructuring the Group's financial hedging instruments at a cost of £5.93 million and net investment in the portfolio totalling £2.37 million (2010 – £25.25 million disinvestment).

The gearing ratio of drawn debt to portfolio value (LTV) as at 31st March 2011 was 45.6% (2010 – 43.2%), and the ratio of aggregate borrowings to tangible net worth, as used in connection with the Group's bank covenants, was 91.3% (2010: 79.6%). Net cash flow from operating activities, including the one-off swap cancellation fee of £5.93 million was £(0.05) million (2010 - £6.86 million). Interest cover based on adjusted profit before tax plus finance costs as a ratio to finance costs, was 1.9x (2010 – 2.1x).

Banking facilities available to the Group totalled £155.00 million at the year end (2010 - £185.00 million). A single facility of £30.00 million expired in March 2011, and the balance continues until at least February 2016. The average weighted unexpired term to maturity was 5.7 years (2010 – 5.7 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. There is therefore no tax charge and any residual income has been offset by relevant costs.

The Group is required to distribute at least 90% of rental income profits arising each financial year by way of a Property Income Distribution (PID). Subject to exemptions, this is paid after deduction of withholding tax, at present 20%. The final dividend of 5.6 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 4.48 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 various forecast models to help its financial planning. Throughout the period the Group complied with all such covenants and retains significant headroom should there be an overall decline in capital values.

Tenant default is monitored using Dun & Bradstreet checks for new tenants together with 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. The Board receives regular information on rental arrears and rent collection activities.

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

Protection against future increase in interest rates is provided by financial hedging instruments. At the year end, £105.00 million (2010 - £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 67.8% (2010

– 83.8%). During the year, the Group restructured its financial hedging instruments and incurred a swap cancellation fee of £5.93 million after taking external specialist treasury advice. The notional sum hedged was permanently reduced by £50.00 million to £105.00 million. As a result the anticipated increase in interest cost that was referred to last year has been significantly reduced. Following this restructuring, movement in the market value of the remaining instruments will have a less marked impact on the balance sheet. At the current levels of debt the weighted average cost of borrowing will remain at or below this year's level.

The weighted average cost of borrowing for the year increased to 5.9% (2010 - 4.9%) as the cost of the financial hedging instruments was applied to a lower level of debt. Following the restructuring, the mark to market valuation of these facilities at the year end improved by £5.05 million to a negative value of £17.48 million (2010 - £22.53 million). 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.

S.C. Perkins
A.S. Childs

2nd June 2011

The summary of the consolidated results of McKay Securities PLC and its subsidiary undertakings (the "Group") for the year ending 31st March 2011 are as follows:

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**For the year ended 31st March 2011**

| | Notes | 2011 £'000 | 2010 £'000 |
|---|---|---|---|
| **Gross rents and service charges receivable** | 2 | **19,054** | 19,988 |
| Surrender premiums received | | **582** | 221 |
| Direct property outgoings | | **(4,893)** | (4,611) |
| **Net rental income from investment properties** | 2 | **14,743** | 15,598 |
| Administration costs | 3 | **(3,470)** | (4,155) |
| **Operating profit before gains on investment properties** | | **11,273** | 11,443 |
| Profit on disposal of investment properties | 4 | **11** | 236 |
| Profit on disposal of listed investments | 4 | **31** | - |
| Movement on revaluation of investment properties | 8 | **271** | 6,739 |
| **Operating profit** | | **11,586** | 18,418 |
| Net finance costs - finance costs | 5 | **(6,668)** | (3,201) |
| - finance income | 5 | **20** | 24 |
| | | **(6,648)** | (3,177) |
| Share of results of associated undertaking | | **(441)** | 141 |
| **Profit before taxation** | | **4,497** | 15,382 |
| Taxation | 6 | **-** | - |
| **Profit for the year** | | **4,497** | 15,382 |
| Other comprehensive income: | | | |
| Actuarial movement on defined benefit pension scheme | | **(122)** | (101) |
| **Total comprehensive income for the year** | | **4,375** | 15,281 |
| **Earnings per share** | 7 | | |
| Basic | | **9.81p** | 33.59p |
| Diluted | | **9.54p** | 33.17p |

Adjusted earnings per share figures are shown in note 7.

| | | 2011 | 2010 |
|---|---|---|---|
| **Dividends** | | | |
| Previous year's final dividend of 5.5p (2010 – 9.5p) paid during the year | | **2,519** | 4,350 |
| Interim dividend of 2.7p (2010 – 2.7p) paid during the year | | **1,239** | 1,236 |
| Proposed final dividend of 5.6p (2010 – 5.5p) | | **2,569** | 2,519 |

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

**GROUP BALANCE SHEET**
**As at 31st March 2011**

| | Notes | 2011 £'000 | 2010 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | 8 | **207,430** | 204,896 |
| Plant and equipment | | **13** | 16 |
| Investments | | **1,814** | 2,304 |
| | | **209,257** | 207,216 |
| **Current assets** | | | |
| Trade and other receivables | 9 | **5,979** | 6,313 |
| Cash and cash equivalents | | **2,519** | 677 |
| | | **8,498** | 6,990 |
| **Total assets** | | **217,755** | 214,206 |
| **Current liabilities** | | | |
| Loans and other borrowings | 10 | **-** | (13,000) |
| Trade and other payables | 10 | **(7,293)** | (7,869) |
| Finance lease liabilities | | **(286)** | (286) |
| Interest rate derivatives | 10 | **(3,591)** | (3,297) |
| | | **(11,170)** | (24,452) |
| **Non-current liabilities** | | | |
| Loans and other borrowings | 10 | **(97,313)** | (76,141) |
| Pension fund liabilities | | **(1,090)** | (1,096) |
| Finance lease liabilities | | **(4,123)** | (4,123) |
| Interest rate derivatives | 10 | **(13,888)** | (19,235) |
| | | **(116,414)** | (100,595) |
| **Total liabilities** | | **(127,584)** | (125,047) |
| **Net assets** | | **90,171** | 89,159 |
| **Equity** | | | |
| Called up share capital | | **9,176** | 9,159 |
| Share premium account | | **2,478** | 2,495 |
| Capital reserves | | **49,792** | 49,878 |
| Revaluation reserve | | **10,780** | 10,996 |
| Retained earnings | | **17,945** | 16,631 |
| **Total Equity** | | **90,171** | 89,159 |
| **Net asset value per share** | 11 | **197p** | 195p |
| **EPRA net asset value per share** | 11 | **223p** | 234p |

These financial statements were approved by the Board of Directors on 2nd June 2011 and were signed on its behalf by D.O. Thomas and S.C. Perkins.

**GROUP CASH FLOW STATEMENT**
**For the year ended 31st March 2011**

| | **2011** | 2010 |
|---|---|---|
| | **£'000** | £'000 |
| **Operating activities** | | |
| Profit before tax | **4,497** | 15,382 |
| Adjustments for: | | |
| Depreciation | **8** | 22 |
| Other non-cash movements | **721** | 639 |
| Profit on disposal of investment properties | **(11)** | (236) |
| Profit on disposal of listed investments | **(31)** | - |
| Movement in revaluation of investment properties | **(271)** | (6,739) |
| Net finance costs | **6,649** | 3,177 |
| Share of the results of associate undertaking | **441** | (141) |
| **Cash flow from operations before changes in working capital** | **12,003** | 12,104 |
| Decrease/(Increase) in debtors | **323** | (275) |
| (Decrease)/Increase in creditors | **(761)** | 63 |
| **Cash generated from operations** | **11,565** | 11,892 |
| Interest paid | **(11,636)** | (5,055) |
| Interest received | **18** | 24 |
| **Cash flows from operating activities** | **(53)** | 6,861 |
| **Investing activities** | | |
| Sale of investment properties | **11** | 27,331 |
| Sale of listed investments | **35** | - |
| Dividends from sundry investments | **1** | 1 |
| Dividends from associated undertaking | **45** | 45 |
| Purchase and development of investment properties | **(2,534)** | (2,150) |
| Purchase of other fixed assets | **(5)** | (4) |
| **Cash flows from investing activities** | **(2,447)** | 25,223 |
| **Financing activities** | | |
| Increase/(decrease) in borrowings | **8,100** | (27,031) |
| Equity dividends paid | **(3,758)** | (5,586) |
| **Cash flows from financing activities** | **4,342** | (32,617) |
| **Net increase/(decrease) in cash and cash equivalents** | **1,842** | (533) |
| Cash and cash equivalents at the beginning of the year | **677** | 1,210 |
| **Cash and cash equivalents at the end of the year** | **2,519** | 677 |

**CONSOLIDATED STATEMENT**
**OF CHANGES IN EQUITY**
**For the year ended 31st March 2011**

| | Attributable to equity holders of the parent company | | | | | |
|---|---|---|---|---|---|---|
| | Share capital £'000 | Share premium £'000 | Revaluation reserve £'000 | Capital reserve £'000 | Retained earnings £'000 | Total equity £'000 |
| At 1st April 2009 | 9,159 | 2,495 | (6,676) | 60,315 | 13,772 | 79,065 |
| Profit for the year | - | - | - | - | 15,382 | 15,382 |
| Other comprehensive income: | | | | | | |
| Transfer surplus on revaluation of properties | - | - | 6,739 | - | (6,739) | - |
| Transfer of share of surplus on revaluation in associated undertaking | - | - | 55 | - | (55) | - |
| Transfer on disposal of investment properties | - | - | 10,642 | (10,437) | (205) | - |
| SIC 15 historic valuation transfer | - | - | 236 | - | (236) | - |
| Actuarial loss on defined benefit pension scheme | - | - | - | - | (101) | (101) |
| Total comprehensive income for the year | - | - | 17,672 | (10,437) | 8,046 | 15,281 |
| Dividends paid in year | - | - | - | - | (5,586) | (5,586) |
| Fair value of share based payments | - | - | - | - | 399 | 399 |
| At 31st March 2010 | 9,159 | 2,495 | 10,996 | 49,878 | 16,631 | 89,159 |
| Profit for the year | - | - | - | - | 4,497 | 4,497 |
| Other comprehensive income: | | | | | | |
| Transfer surplus on revaluation of properties | - | - | 271 | - | (271) | - |
| Transfer share of deficit on revaluation of properties in associated undertaking | - | - | (566) | - | 566 | - |
| Transfer on disposal of investment properties | - | - | 79 | (86) | 7 | - |
| Actuarial loss on defined benefit pension scheme | - | - | - | - | (122) | (122) |
| Total comprehensive income for the year | - | - | 10,780 | 49,792 | 21,308 | 93,534 |
| Dividends paid in year | - | - | - | - | (3,758) | (3,758) |
| Fair value of share based payments | - | - | - | - | 395 | 395 |
| Exercise of performance share plan awards | 17 | (17) | - | - | - | - |
| **At 31st March 2011** | **9,176** | **2,478** | **10,780** | **49,792** | **17,945** | **90,171** |

**Notes forming part of the Group financial statements**

**1.** The financial information set out in the final results announcement does not constitute the Group's statutory accounts for the year ended 31st March 2011 or 2010, but is derived from those accounts. The statutory accounts for the period ended 31st March 2011 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The statutory accounts for the year ended 31st March 2010 have been delivered to the Registrar of Companies. The auditors have reported on the accounts for both the years ended 31st March 2011 and 2010; their reports were (i) unqualified (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006 in respect of the accounts for 2010 and 2011.

**Accounting policies**

**Basis of preparation**

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

In accordance with Section 408 Companies Act 2006 a separate Statement of Comprehensive Income for McKay Securities PLC (the Company) is not presented. The profit for the year after tax of the Company is £3,857,000 (2010 - £16,276,000).

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

IFRS 3 (Revised), 'Business Combinations', effective for accounting periods beginning on or after 1st July 2009.

Amendments to IAS 27, 'Consolidated and Separate Financial Statements', effective for accounting periods beginning on or after 1st July 2009.

Amendments to IAS 32, 'Financial Instruments: Presentation: Classification of Rights Issues', effective for accounting periods beginning on or after 1st February 2010.

IFRIC 15 'Agreements for Construction of Real Estate', effective for accounting periods beginning on or after 1st January 2010.

IFRIC 17, 'Distribution of Non-cash Assets to Owners', effective for accounting periods beginning on or after 1st November 2009.

IFRIC 18, 'Transfer of Assets from Customers', effective for accounting periods beginning on or after 1st November 2009.

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

**Significant judgements and estimates**

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

**Basis of consolidation**
The consolidated financial statements of the Company and its subsidiaries (the Group) have been prepared on a historical cost basis, except for investment property and derivative financial instruments measured at fair value through the Statement of Comprehensive Income. Subsidiary companies are those entities under the control of the Company. Control means the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

**Properties**
The Group's properties are held as investments to earn rental income and for capital appreciation and are stated at fair value at the balance sheet date. The value, reflecting market conditions, is determined at each reporting date by independent external valuers and any gain or loss arising from a change in value is recognised in the Statement of Comprehensive Income and transferred to the revaluation reserve in the balance sheet. Any accrued rent receivable recognised as a separate asset in accordance with the Group's accounting policy on lease incentives is deducted from the external valuation.

Properties purchased are recognised on legal completion in the accounting period and measured initially at cost including transaction costs. Sales of properties are recognised on unconditional exchange of contracts in the accounting period when the significant risks and rewards of ownership have been transferred. Gains and losses arising on the disposal of investment properties are recognised in the Statement of Comprehensive Income, being the difference between net sale proceeds and the carrying value of the property. These gains and losses are then allocated to the capital reserve in the Statement of Changes in Equity.

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

Interest and other outgoings less rental income relating to investment properties in the course of development are capitalised, and added to the cost of the property. Interest capitalised is calculated on development outgoings, including material refurbishments to investment property, using the weighted average cost of general Group borrowings for the year. A property ceases to be treated as being in the course of development when substantially all the activities that are necessary to prepare the property for use are completed. When an existing investment property is redeveloped for continued future use as an investment property it remains an investment property whilst in development.

Properties held under long leases where the Group has substantially all the risks and benefits of ownership are accounted for as finance leases and carried at the lower of fair value or present value of future minimum lease payments. The present value of the future minimum lease payments is recognised as a liability with a corresponding asset added to the carrying value of the leasehold property. The minimum lease payments are apportioned between finance charges in the Statement of Comprehensive Income and the reduction of the balance sheet liability. Contingent rents are charged as an expense in the Statement of Comprehensive

Income in the period incurred.

**Plant and equipment**
Plant and equipment is stated at cost less accumulated depreciation. Depreciation is provided on a straight line basis at rates calculated to write off the cost less estimated residual value over their useful lives, which are estimated to be between 3 and 5 years.

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

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

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

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

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

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

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

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

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

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

**Borrowing costs**
Interest on borrowings, including interest on finance leases, is recognised in the Statement of Comprehensive Income in the period during which it is incurred, except for interest capitalised in accordance with the Group's policy on properties under development (see Properties above). Costs incurred on putting in place borrowing facilities are recognised in finance costs over the term of the facility.

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

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

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

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

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

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

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

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

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

## 2. Net rental income from investment properties

| | **2011 £'000** | 2010 £'000 |
|---|---|---|
| Gross rents receivable | **15,664** | 16,796 |
| SIC 15 adjustment | **(5)** | 321 |
| Gross rental income | **15,659** | 17,117 |
| Service charges receivable | **3,395** | 2,871 |
| | **19,054** | 19,988 |
| Surrender premium received | **582** | 221 |
| Direct property outgoings | **(4,893)** | (4,611) |
| | **14,743** | 15,598 |

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

| | **2011 £'000** | 2010 £'000 |
|---|---|---|
| **Group** | | |
| Directors' - remuneration | **903** | 888 |
| - bonus | **-** | 255 |
| Staff – costs | **698** | 662 |
| - bonus | **-** | 115 |
| Redundancy | **-** | 224 |
| Pension costs | **322** | 492 |
| Share based payment accounting charge | **394** | 399 |
| | **2,317** | 3,035 |
| Depreciation | **8** | 22 |
| Office costs | **495** | 481 |
| Legal and professional fees | **577** | 577 |
| Bad debt provision | **35** | - |
| General expenses | **38** | 40 |
| | **3,470** | 4,155 |

The average number of persons employed by the Group and Company (including Directors) during the year was 18 (2010 – 18).

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Employee costs | | |
| Salaries | **1,385** | 1,722 |
| Redundancy | **-** | 224 |
| Social security costs | **216** | 198 |
| Pension costs – defined benefit scheme | **120** | 264 |
| - defined contributions | **202** | 228 |
| Share based payment accounting charge | **394** | 399 |
| | **2,317** | 3,035 |

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Fees paid to auditors | | |
| Audit of these financial statements | **63** | 63 |
| Amounts receivable by auditors and their associates in Respect of: | | |
| Audit of financial statements of subsidiaries pursuant to legislation | **3** | 3 |
| Tax services | **44** | 51 |
| Other Services | **16** | 16 |
| REIT status advice | **-** | 8 |
| | **126** | 141 |

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

## 4. Adjusted profit before tax

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

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Profit before tax | **4,497** | 15,382 |
| Surrender premium received | **(582)** | (221) |
| Change in fair value of derivatives | **(5,053)** | (2,296) |
| Movement in revaluation of investment properties | **(271)** | (6,739) |
| Fees incurred on the cancellation of derivative contracts | **5,928** | - |
| Profit on disposal of investment properties | **(11)** | (236) |
| Profit on disposal of listed investments | **(31)** | - |
| Associated undertaking disposals and revaluation movement | **625** | 38 |
| Adjusted profit before tax | **5,102** | 5,928 |

## 5. Net finance costs

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Interest on bank overdraft and loans | **5,436** | 5,139 |
| Derivative contract cancellation costs | **5,928** | - |
| Finance lease interest on leasehold property obligations | **285** | 285 |
| Finance arrangement costs | **72** | 73 |
| Fair value gains on derivatives | **(5,053)** | (2,296) |
| | **6,668** | 3,201 |
| Interest receivable | **(20)** | (24) |
| | **6,648** | 3,177 |

## 6. Taxation

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Current tax | **-** | - |
| Adjustments in respect of prior periods | **-** | - |
| Total tax in the statement of comprehensive income | **-** | - |

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| **Reconciliation to effective rate of tax:** | | |
| Profit on ordinary activities before tax | **4,497** | 15,382 |
| Tax charge on profit/(loss) at 28% (2010 – 28%) | **1,259** | 4,307 |
| Effects of: | | |
| REIT tax exemption | **(841)** | (4,234) |
| Permanent differences | **(299)** | (116) |
| Other timing differences | **4** | 4 |
| Associated undertaking | **(123)** | 39 |
| Tax for period (as above) | **-** | - |

## 7. Earnings per share

| | **2011** | 2010 |
|---|---|---|
| | **p** | p |
| Basic earnings per share | **9.81** | 33.59 |
| Swap cancellation fees | **12.93** | - |
| Change in fair value of derivatives | **(11.02)** | (5.01) |
| Movement in revaluation of investment properties | **(0.59)** | (14.72) |
| Surrender premium received | **(1.27)** | (0.48) |
| Profit on disposal of investment properties | **(0.02)** | (0.51) |
| Profit on disposal of listed investments | **(0.07)** | - |
| Associated undertaking disposals and revaluation movement | **1.36** | 0.08 |
| Adjusted earnings per share | **11.13** | 12.95 |

Basic earnings per share on ordinary shares is calculated on the profit in the year of £4,497,000 (2010 – £15,382,000) and 45,847,850 (2010 – 45,792,655) shares, being the weighted average number of ordinary shares in issue during the period.

| | **2011 Number of shares** | 2010 Number of shares |
|---|---|---|
| Weighted average number of ordinary shares in issue | **45,847,850** | 45,792,655 |
| Number of shares under option | **3,487,371** | 3,188,978 |
| Number of shares that would have been issued at fair value | **(2,210,306)** | (2,611,110) |
| Diluted weighted average number of ordinary shares in issue | **47,124,915** | 46,370,523 |

| | **2011** | 2010 |
|---|---|---|
| | **p** | p |
| **Diluted earnings per share** | **9.54** | 33.17 |
| Swap cancellation fees | **12.58** | - |
| Change in fair value of derivatives | **(10.72)** | (4.95) |
| Movement in revaluation of investment properties | **(0.58)** | (14.53) |
| Surrender premium received | **(1.24)** | (0.47) |
| Profit on disposal of investment properties | **(0.02)** | (0.51) |
| Profit on disposal of listed investments | **(0.07)** | - |
| Associated undertaking disposals and revaluation movement | **1.33** | 0.08 |
| **Adjusted diluted earnings per share** | **10.82** | 12.79 |
| **EPRA earnings per share** | **12.06** | 13.26 |

Diluted earnings per share is calculated on the same profit after tax and on the diluted weighted average number of shares in issue during the year of 47,124,915 (2010 – 46,370,523) shares, which takes into account the number of dilutive potential ordinary shares under option.

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

## 8. Investment Properties

| | Group | | | Company |
|---|---|---|---|---|
| | Freehold | Long Leasehold | Total | Freehold |
| | £'000 | £'000 | £'000 | £'000 |
| **Valuation** | | | | |
| At 1st April 2010 | 181,360 | 23,536 | 204,896 | 157,160 |
| Additions – development | 1,272 | 1,031 | 2,303 | 1,272 |
| Revaluation surplus/(deficit) | (3,882) | 4,149 | 267 | (942) |
| Adjustment for rents recognised in advance under SIC 15 | 220 | (216) | 4 | 220 |
| Amortisation of grossed up headlease liabilities | - | (40) | (40) | - |
| **Book value as at 31st March 2011** | **178,970** | **28,460** | **207,430** | **157,710** |
| Adjustment for grossing up of headlease liabilities | - | (3,946) | (3,946) | - |
| Adjustment for rents recognised in advance under SIC 15 | 4,750 | 286 | 5,036 | 4,750 |
| **Valuation as at 31st March 2011** | **183,720** | **24,800** | **208,520** | **162,460** |

| | Group | | | Company |
|---|---|---|---|---|
| | Freehold | Long Leasehold | Total | Freehold |
| | £'000 | £'000 | £'000 | £'000 |
| At 1st April 2009 | 199,987 | 22,351 | 222,338 | 174,717 |
| Additions – development | 648 | 1,257 | 1,905 | 648 |
| Revaluation surplus/(deficit) | 7,062 | (2) | 7,060 | 8,132 |
| Adjustment for rents recognised in advance under SIC 15 | (55) | (30) | (85) | (55) |
| Disposals | (26,282) | - | (26,282) | (26,282) |
| Amortisation of grossed up headlease liabilities | - | (40) | (40) | - |
| As at 31st March 2010 | **181,360** | **23,536** | **204,896** | **157,160** |
| Adjustment for grossing up of headlease liabilities | - | (3,986) | (3,986) | - |
| Adjustment for rents recognised in advance under SIC 15 | 4,970 | 70 | 5,040 | 4,970 |
| Valuation at 31st March 2010 | **186,330** | **19,620** | **205,950** | **162,130** |

In accordance with the Group's accounting policy on properties there was an external valuation at 31st March 2011. This valuation was carried out in England by Mellersh and Harding, Chartered Surveyors and Valuers, and in Scotland (100 Bothwell Street, Glasgow) by CB Richard Ellis, Chartered Surveyors and Valuers, in accordance with the Appraisal and Valuation Standards of RICS, on an open market basis.

The historical cost of properties stated at valuation is approximately £187 million (2010 - £184 million) for the Group and £141 million (2010 - £140 million) for the Company.

## 9. Trade and other receivables

| | 2011 Group £'000 | 2011 Company £'000 | 2010 Group £'000 | 2010 Company £'000 |
|---|---|---|---|---|
| Trade receivables | **59** | **59** | 56 | 56 |
| Amounts due from subsidiary undertakings | **-** | **21,970** | - | 20,684 |
| SIC 15 lease incentives | **5,036** | **4,750** | 5,040 | 4,970 |
| Other debtors and prepayments | **884** | **484** | 1,217 | 691 |
| | **5,979** | **27,263** | 6,313 | 26,401 |

All the above debtors are receivable within one year except for lease incentives of £4,297,000 (2010 - £4,594,000), accrued in accordance with SIC 15. The carrying amounts are a reasonable approximation of the fair values estimated as the present value of future cash flows.

| Group trade receivables that were past due but not impaired are as follows: | **2011 £'000** | 2010 £'000 |
|---|---|---|
| Less than three months due | **31** | - |
| Between three and six months due | **16** | 34 |
| Between six and twelve months due | **12** | 22 |
| | **59** | 56 |

The Group holds no collateral in respect of these receivables.

## 10. Liabilities

| | 2011 Group £'000 | 2011 Company £'000 | 2010 Group £'000 | 2010 Company £'000 |
|---|---|---|---|---|
| Trade and other payables | | | | |
| Rent received in advance | **3,737** | **2,769** | 3,399 | 2,627 |
| Other taxation and social security costs | **732** | **732** | 660 | 660 |
| Amounts owed to subsidiary undertakings | **-** | **11,024** | - | 10,845 |
| Other creditors and accruals | **2,824** | **1,594** | 3,810 | 2,193 |
| | **7,293** | **16,119** | 7,869 | 16,325 |

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

**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:

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Group and Company | | |
| Secured bank loans repayable at stated dates between 2011 and 2017 at variable rates | **97,700** | 89,600 |
| Bank facility fees | **(387)** | (459) |
| | **97,313** | 89,141 |

The bank loans are secured against land and buildings with a carrying amount of £168,870,000 (2010 - £194,360,000).

| Repayable in: | **2010** Group £'000 | **2010** Company £,000 | 2010 Group £'000 | 2010 Company £'000 |
|---|---|---|---|---|
| Less than 1 year | **-** | **-** | 13,000 | 13,000 |
| 1-2 years | **-** | **-** | - | - |
| 2-5 years | **33,641** | **33,641** | - | - |
| 5-10 years | **63,672** | **63,672** | 76,141 | 76,141 |
| | **97,313** | **97,313** | 89,141 | 89,141 |

**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:

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Expiring in less than 1 year | **-** | 17,000 |
| Expiring in 1 – 2 years | **-** | - |
| Expiring in 2 – 5 years | **13,300** | - |
| Expiring in 5 - 10 years | **44,000** | 78,400 |
| | **57,300** | 95,400 |

**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 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 27 years and have swap rates ranging from 3.00% to 5.17%. Provision is made within the terms of the financial instruments for the counterparty bank to terminate the instruments by invoking credit breaks 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 from 2014. Should these breaks be exercised, there would be no payment liability on the Group. The Group does not hold or issue derivative financial instruments for trading purposes.

A 25 basis points change in interest rate levels would increase or decrease the Group's annual profit and equity by £18,000 (2010 - £98,000). This sensitivity has been calculated by applying the interest rate change to the variable rate borrowings, net of interest rate swap, at the year end. The comparative figure for 2010 was based on a 15 basis points change in interest rates. The 25 basis points change being used shows how the profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at the year end.

**Swaps for Group and Company**

| **As at 31st March 2011** | Hedged amount £'000 | Fixed rate | Maturity[1] - years | Fair Value £'000 |
|---|---|---|---|---|
| | ---------- | ------------ | ------------ | --------- |
| Interest rate swap | 75,000 | 4.80%[2] | 3.60 | (14,202) |
| Interest rate swap | 25,000 | 3.00%[3] | 4.10 | (2,581) |
| Interest rate swap | 5,000 | 4.65% | 8.90 | (696) |
| Cancelled in year | | | | - |
| | | | | ---------- |
| | | | | (17,479) |
| | | | | ---------- |

| As at 31st March 2010 | Hedged amount £'000 | Average rate | Average[1] maturity - years | Fair Value £'000 |
|---|---|---|---|---|
| Interest rate swaps | **25,000** | **4.12%** | **4.75** | **(3,040)** |
| Interest rate caps | **130,000** | **5.00%** | **1.58** | **275** |
| Interest rate floors | **130,000** | **3.06%** | **1.58** | **(3,791)** |
| Forward start interest rate swaps | **115,000** | **4.86%** | **6.36** | **(15,976)** |
| | | | | **(22,532)** |

[1] to expiry or break, whichever is earlier
[2] Rate steps up to 5.17% from 28th March 2014
[3] Rate steps up to 4.31% from 9th April 2013

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:

| | **2011 £'000** | 2010 £'000 |
|---|---|---|
| Current | **(3,591)** | **(3,297)** |
| Non-current | **(13,888)** | **(19,235)** |
| | **(17,479)** | **(22,532)** |

| | **2011** | **2010** |
|---|---|---|
| Weighted average cost of borrowing | **5.9%** | **4.9%** |

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 31st March 2011 of £7,300,000 (2010 - £65,859,000).

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

## 11. Net asset value per share

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | **Net Assets** | **Shares** | **Net asset value per share** | Net Assets | Shares | Net asset Value per share |
| | **£'000** | **'000** | **p** | £'000 | '000 | p |
| **Basic** | **90,171** | **45,879** | **197** | 89,159 | 45,793 | 195 |
| Number of shares under option | **2,872** | **3,592** | **(9)** | 3,144 | 3,232 | (7) |
| **Diluted** | **93,043** | **49,471** | **188** | 92,303 | 49,025 | 188 |
| Adjustment to fair value of derivatives | **17,479** | **-** | **35** | 22,532 | - | 46 |
| **EPRA NAV** | **110,522** | **49,471** | **223** | 114,835 | 49,025 | 234 |
| Adjustment to fair value of derivatives | **(17,479)** | **-** | **(35)** | (22,532) | - | (46) |
| **EPRA NNNAV** | **93,043** | **49,471** | **188** | 92,303 | 49,025 | 188 |

## 12. Share Capital

| | 2011 | | 2010 | |
|---|---|---|---|---|
| **Ordinary shares of 20p each** | **Issued and fully paid £** | **Number of Shares** | Issued and fully paid £ | Number of shares |
| As at 1st April 2010 | **9,158,531** | **45,792,655** | 9,158,531 | 45,792,655 |
| Allotted under Performance Share Plan | **17,304** | **86,519** | - | - |
| **At 31st March 2011** | **9,175,835** | **45,879,174** | 9,158,531 | 45,792,655 |

During the year 86,519 ordinary shares (2010 – nil) were issued under the Performance Share Plan.

The Report and Financial Statements will be posted to Shareholders on 23rd June 2011 with copies available from the Group's registered office at 20 Greyfriars Road, Reading, RG1 1NL from the same date, and from the Group's website www.mckaysecurities.plc.uk

## Glossary

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

**Adjusted profit before tax**
Profit before tax adjusted to exclude certain 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.

**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.

**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.

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

**Weighted average 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.