

MCKAY SECURITIES PLC ANNOUNCES HALF YEAR RESULTS

McKay Securities PLC, a REIT (Real Estate Investment Trust) focussed on developing and investing in commercial property in the South East, has announced its half year results for the period ended 30 September 2009.

Highlights

- Adjusted profits before tax of £4.12 million (H1 2009: £4.55 million)
- Valuation deficit of 2.1%, outperforming 3.5% fall in IPD monthly index
- Net asset value per share increased by 2.3% to 177p (31 March 2009: 173p)
- Gearing ratio (LTV) of 50%
- Interim dividend of 2.7p declared
- £24.23 million disposal of Lotus Park office complex completed post period end

Simon Perkins, Managing Director of McKay Securities said,

“ By entering the downturn with a low level of gearing, we protected our flexibility to manage the business through what has been a stormy period. Recently, the attraction of property as an asset class has led to an improvement in sentiment for well located office investments in the South East. This is our niche. We have retained a portfolio of high quality assets located in prime locations that are performing well. Our team is focussed on managing those properties actively to safeguard and improve rental income. Despite a weak occupier market, we have been successful in securing income at lease break and expiry.

In certain locations, there has been far more competition from cash rich buyers for prime assets. This is being reflected in a recovery in valuations for higher quality properties. Since the year end, we have taken advantage of these conditions and sold an office complex in Staines for £24.23 million. It attracted considerable interest, which led to a sale price 4% ahead of the March 2009 valuation.

Looking forward, the Group is well positioned and in good shape. Our balance sheet has been further strengthened following a number of disposals and we have committed facilities for investment. McKay Securities has a first class team which, together with the quality of the existing portfolio, provides an excellent platform to capitalise on as market conditions improve.”

-ends-

Date: 25 November 2009

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MCKAY SECURITIES PLC
INTERIM RESULTS
25TH NOVEMBER 2009

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

Ex-dividend date	2 nd December 2009
Record date	4 th December 2009
Interim dividend payment	14 th January 2010

The Directors have declared an interim dividend of 2.7 pence per share, (2008 – 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 2009

The commercial property market has witnessed unprecedented falls in valuations since March 2007 and these have strongly tested the sector. Encouragingly, the Board has seen recent evidence that confidence is returning to the investment market and that valuations are stabilising. The Group entered the economic downturn with a modest level of gearing and has managed its resources to remain well positioned. We retain an excellent portfolio of assets in markets that we know well, a sound financial platform and a stable experienced team.

Results

Given these market conditions, we are pleased to report that adjusted profit before tax, which excludes unrealised movements in the value of the Group's property portfolio and interest rate hedging instruments was £4.12 million compared with £4.55 million for the first half of the 2009 financial year. Earnings per share, adjusted on the same basis, were 8.96 pence (H1 2009 – 10.38 pence).

Profit before tax, which includes the movements referred to above, was £1.85 million (H1 2009 – loss of £21.79 million).

The external valuation of the Group's property portfolio at 30th September 2009 totalled £217.40 million. This represented a 2.1% reduction (£4.69 million) in book value for the half year period compared with a 7.6% (£24.82 million) reduction for the corresponding period last year.

Net asset value per share at 30th September was 177 pence, an increase of 2.3% from 173 pence at 31st March 2009. Adjusted net asset value per share, which disregards the fair value of interest rate hedging instruments showed a small reduction to 225 pence from 227 pence over the same period.

The Board has declared a dividend of 2.7 pence per share (H1 2009 – 4.7 pence) payable on 14th

January 2010 to shareholders on the register on 4th December 2009.

Review

Demanding market conditions have continued during the period. The economy has remained in recession, bank lending has been limited and an imminent general election has introduced further uncertainty.

Despite this, there has been an increase in demand from a wider range of investors for good quality assets with secure rental income and competition for constrained supply has seen capital values for this type of asset improve. Shortly after the end of the period we took advantage of these conditions to sell Lotus Park, an office scheme in Staines, for £24.23 million. This was achieved at a 4% surplus to the 31st March 2009 valuation.

This disposal has further strengthened the Group's financial position, and has released funds for reinvestment once the risks associated with occupier markets can be better assessed, although in the meantime, the loss of net rental income will reduce earnings.

The pricing of properties where income is more at risk remains less clear as the number of market transactions has been limited. The anticipated increase in forced sellers has not been seen and the supply of investment properties coming to the market has remained constrained; the lending banks are believed to have in the region of £225 billion outstanding to the UK commercial property sector and appear to be refinancing doubtful loans rather than calling them in. Lease expiries and further tenant defaults will put pressure on this approach, and at some stage the market is likely to see more properties released.

Furthermore, the incentives on offer to prospective tenants from landlords have increased and headline rents in the South East office market, which accounts for 59% of the Group's portfolio, have reduced. Net effective rents have therefore continued to fall, but the pace of decline has slowed. Demand from occupiers remains limited and market activity is driven largely by lease events or building obsolescence rather than business expansion. Tenants are generally renegotiating terms to remain in-situ at lease expiry, rather than incur the cost and disruption of moving.

In such a market the Group's strategy of active management becomes even more important to ensure that the portfolio is best placed to retain and secure new income whilst keeping capital expenditure and costs to a minimum.

At operating level, adjusted profit before tax for the period was £4.12 million. The reduction of £0.43 million compared to the corresponding period last year was mainly due to a lower income contribution from the portfolio, offset by a reduced interest charge. Gross rental income for the period, which totalled £9.22 million, was £1.11 million lower owing to the loss of income from recent disposals and lease expiries predominantly at Portsoken House, EC3, 30/32 Lombard Street, EC3 and Unit 2, Switchback Office Park, Maidenhead. Non recoverable property expenditure for the period was £0.18 million higher, due primarily to an increase in the cost of void rates. Net interest payable reduced to £2.54 million from £3.53 million last year, benefiting from a lower base rate for the period. After taking into account the Group's hedging instruments, the weighted average cost of debt for the period was 4.1% (H1 2009 – 5.0%).

Healthy cash flows were maintained with over 90% of rents paid quarterly in advance within 7 days of the due date. We maintain a regular dialogue with our tenants and aim to work with them to help support their occupational requirements; this often creates opportunities for us. We also continue to manage the portfolio and collect rent ourselves, which helps maintain our awareness of tenants' trading conditions.

During the period there were 14 lease expiries and 12 break clauses across the portfolio equating to an annual rent of £1.79 million or 10% of the Group's contracted rental income and we were successful in retaining 77% of the income at rental levels ahead of valuer's estimates.

Having completed and let projects within our development programme ahead of the economic downturn, the Group has no development exposure. As a result, the floor space available to let within the portfolio is only where existing leases have expired. During the period, new leases were completed with a total contracted rent of £0.22 million pa at Corinthian House, Croydon and Oakwood Trade Park, Crawley. This helped limit the increase in void levels (by rental value) to 12% from 10% at March 2009, in line with the IPD Monthly Index. In both cases, refurbishment had improved the presentation and quality of the floor space and the rents achieved were ahead of valuation assumptions, supporting our strategy of investing in good quality buildings.

Two smaller properties at Thatcham and Petersfield were sold during the period. Net proceeds totalled £3.83 million, which was ahead of book value. The passing rents on both properties had been achieved at the top of the market, and with short lease terms in place there was little chance of income or capital growth.

The sale of Lotus Park, Staines referred to above was completed in October 2009 at a price of £24.23 million. The Group's refurbishment and re-letting of Lotus 1 and 2 in 2005/2006, which was funded by the surrender premium secured from the tenant, helped achieve a premium price from an institutional purchaser in excess of book value. Our intention had been to refurbish Lotus 3 and 4 on lease expiry in March 2013, but the sale price secured anticipated gains achievable at that time without any development risk.

Valuation

The independent valuation of the Group's property portfolio as at 30th September 2009 totalled £217.40 million, representing a 2.1% (£4.69 million) reduction in book value, disregarding the lease incentive accounting adjustment of £0.36 million. This outperformed a 3.5% reduction in the IPD Monthly Index. The pace of decline in values slowed considerably over the period when compared with a 19.6% reduction in the Group's portfolio experienced in the six months ended March 2009.

Valuers were able to rely on an increasing number of investment transactions for better quality stock, which showed yields beginning to stabilise. The Group's five largest properties increased in value by 1.6%, with the positive movement reflecting gains on those properties with longer leases. Properties with vacant floor space generally reduced in value, as rental and letting assumptions were adjusted to reflect a weaker occupier market.

At 30th September 2009, the initial yield of the portfolio was 7.5% (March 2009 – 7.6%), increasing to 8.1% (March 2009 – 8.2%) on contracted rents once letting incentives expired. The true equivalent yield was 8.7% (March 2009 – 8.9%) being the average income return reflecting the timing of future rental increases, with rent paid quarterly in advance.

Finance

Net debt at 30th September 2009 was £108.34 million (H1 2009 - £139.92 million), resulting in a gearing ratio to portfolio value (LTV) of 49.8% (H1 2009 – 46.6%). After the end of the period, proceeds from the sale of Lotus Park, Staines and payment of the 2009 final dividend reduced net debt to £90.80 million (LTV – 46.8%). With limited capital expenditure programmed, this increases headroom significantly, enabling the Group to absorb a further potential fall in portfolio value of circa 20% and still remain within banking covenants.

Banking facilities available to the Group total £185.00 million, of which £155.00 million has at least six years to expiry. Compliance with all bank covenants has been maintained. As a result, the Group has no near term financing risk and continues to benefit from low borrowing margins. We believe that this gives us a secure platform from which we can expand the Group when we consider market conditions permit.

Financial hedging instruments totalling £155.00 million have been retained providing protection against

future increases in interest rates. Whilst this level exceeds net debt at present, the current yield curve anticipates a rapid increase in rates towards 4.5% in three years time. It is to protect against this possibility that the Group has maintained its hedging programme. The fair value of these instruments, which is calculated at the end of each period, remains negative due to the significant fall in base rates since their inception, but had improved by £2.80 million at the end of the period as financial markets begin to price in the possibility of future base rate increases.

As a REIT, the Group pays no corporation tax on qualifying rental income and on profits from the disposal of investment properties. Corporation tax on the limited amount of residual income for the period is offset by qualifying expenses.

Dividend

My statement in June 2009 noted that higher vacancy rates and lower occupier demand were indicators that this year was likely to see downward pressure on earnings. Taking these factors into consideration and the effect of recent property disposals, the Board has declared an interim dividend of 2.7 pence per share. This will be paid as a Property Income Distribution (PID). In re-basing the level of distribution, it is the Board's intention to establish a sustainable level of dividend reflecting a lower level of earnings until occupier markets recover, whilst still meeting the requirements of REIT regulations.

Future Prospects

There is little doubt that the property market has become a more stable place than it was six months ago, although it remains too early to anticipate a sustained recovery. The timing and pace of such a recovery in both occupier demand and the availability of bank finance to the market generally requires there to be tangible signs of a return to economic growth.

Our strategy of proactive portfolio management, combined with flexible financing, provides shareholders with a sound base for future growth. The quality of our portfolio and the range of actions we have taken throughout these difficult times leave the Group in a strong financial position and well placed in due course to supplement the portfolio with value enhancing properties.

D O Thomas
Chairman

25th November 2009

GROUP INCOME STATEMENT

		6 months to 30 th September 2009 (Unaudited) £'000	6 months to 30 th September 2008 (Unaudited) £'000	12 months to 31 st March 2009 (Audited) £'000
	Notes			
Gross rents and service charges receivable		10,726	11,962	23,544
Surrender premiums received		-	61	61
Direct property outgoings		(2,381)	(2,332)	(4,905)
		-----	-----	-----
Net rental income from investment properties	3	8,345	9,691	18,700
Administration costs		(1,761)	(1,628)	(3,276)
		-----	-----	-----
Operating profit before gains on investment properties		6,584	8,063	15,424
Profit/(loss) on disposal of investment properties		1	-	(2,909)
Movement in revaluation of investment properties	7	(5,050)	(25,545)	(80,713)
		-----	-----	-----
Operating profit/(loss)		1,535	(17,482)	(68,198)
Net finance costs – finance income	6	2,815	49	68
– finance costs		(2,550)	(4,645)	(30,014)
		265	(4,596)	(29,946)
Share of results of associated undertaking		53	285	(2,717)
		-----	-----	-----
Profit/(loss) before taxation		1,853	(21,793)	(100,861)
Taxation – credit	4	-	-	1
		-----	-----	-----
Profit/(loss) for the period		1,853	(21,793)	(100,860)
		-----	-----	-----
Earnings per share	5			
Basic and diluted		4.05p	(47.59)p	(220.26)p

Adjusted earnings per share figures are shown in note 5

GROUP BALANCE SHEET

		As at 30 th September 2009 (Unaudited) £'000	As at 30 th September 2008 (Unaudited) £'000	As at 31 st March 2009 (Audited) £'000
	Notes			
Non-current assets				
Investment properties	7	215,428	297,499	222,338
Plant and equipment		25	44	34
Investments		2,260	5,340	2,207
		-----	-----	-----
		217,713	302,883	224,579
		-----	-----	-----
Current assets				
Trade and other receivables		7,170	9,098	6,839
Cash and cash equivalents		2,791	-	1,210
		-----	-----	-----
		9,961	9,098	8,049
		-----	-----	-----
Total assets		227,674	311,981	232,628
		-----	-----	-----
Current liabilities				
Bank overdraft		-	(71)	-
Corporation tax payable		-	(1)	-
Trade and other payables		(8,530)	(6,838)	(7,166)
Interest rate derivatives		(3,648)	-	(2,225)
		-----	-----	-----
		(12,178)	(6,910)	(9,391)
		-----	-----	-----
Non-current liabilities				
Loans and other borrowings		(110,604)	(139,328)	(116,099)
Pension fund liabilities		(1,003)	(491)	(1,060)
Finance lease liabilities		(4,409)	(4,410)	(4,410)
Interest rate derivatives		(18,379)	-	(22,603)
		-----	-----	-----
		(134,395)	(144,229)	(144,172)
		-----	-----	-----
Total liabilities		(146,573)	(151,139)	(153,563)
		-----	-----	-----
Net assets		81,101	160,842	79,065
		-----	-----	-----
Equity				
Called up share capital		9,159	9,159	9,159
Share premium account		2,495	2,495	2,495
Capital reserve		61,191	56,332	60,315
Revaluation reserve		(12,601)	58,514	(6,676)
Retained earnings		20,857	34,342	13,772
		-----	-----	-----
Total equity		81,101	160,842	79,065
		-----	-----	-----
Net asset value per share	9	177p	351p	173p
Adjusted net asset value per share	9	225p	356p	227p

GROUP CASH FLOW STATEMENT

	6 months to 30 th September 2009 (Unaudited) £'000	6 months to 30 th September 2008 (Unaudited) £'000	12 months to 31 st March 2009 (Audited) £'000
Operating activities			
Profit/(loss) before tax	1,853	(21,793)	(100,861)
Adjustments for:			
Depreciation	11	14	29
Other non-cash movements	372	299	676
(Profit)/loss on disposal of investment properties	(1)	-	2,909
Movement in revaluation of investment properties	5,050	25,545	80,713
Net finance costs	(265)	4,596	29,945
Share of (profit)/loss of associate undertaking	(53)	(285)	2,717
	-----	-----	-----
Cash flow from operations before changes in working capital	6,967	8,376	16,128
Increase in debtors	(529)	(970)	(1,331)
Increase/(decrease) in creditors	455	(4,310)	(442)
	-----	-----	-----
Cash generated from operations	6,893	3,096	14,355
Interest paid	(1,637)	(3,080)	(5,807)
Interest received	14	80	102
Corporation tax paid	(1)	(3,467)	(3,467)
	-----	-----	-----
Cash flows from operating activities	5,269	(3,371)	5,183
	-----	-----	-----
Investing activities			
Sale of investment properties	3,826	-	19,291
Dividends from sundry investments	1	1	2
Dividends from associated undertaking	-	-	135
Purchase and development of investment properties	(1,983)	(8,891)	(10,167)
Purchase of other fixed assets	(2)	(6)	(11)
Purchase of sundry investments	-	-	(4)
	-----	-----	-----
Cash flows from investing activities	1,842	(8,896)	9,246
	-----	-----	-----
Financing activities			
(Decrease)/increase in borrowings	(5,530)	11,479	(11,784)
Equity dividends paid	-	(4,396)	(6,548)
	-----	-----	-----
Cash flows from financing activities	(5,530)	7,083	(18,332)
	-----	-----	-----
Net increase/(decrease) in cash and cash equivalents	1,581	(5,184)	(3,903)
Cash and cash equivalents at beginning of period	1,210	5,113	5,113
	-----	-----	-----
Cash and cash equivalents at end of period	2,791	(71)	1,210
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STATEMENT OF RECOGNISED INCOME AND EXPENSE

	6 months to 30 th September 2009 (Unaudited) £'000	6 months to 30 th September 2008 (Unaudited) £'000	12 months to 31 st March 2009 (Audited) £'000
Actuarial movement on defined benefit pension scheme	-	-	(662)
Net expense recognised directly in equity	-	-	(662)
Profit/(loss) for the period	1,853	(21,793)	(100,860)
Total recognised income and expense for the period	1,853	(21,793)	(101,522)

1 Principal accounting policies

Basis of preparation

The accounting policies used for the audited financial statements at 31st March 2009 have been used in the preparation of these condensed interim financial statements.

The comparative figures for the financial year ended 31st March 2009 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 financial statements incorporate the results of the Company and its subsidiary companies for the six months to 30th September 2009. Subsidiary companies are those entities under the control of the Company. Control means the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Associates

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

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

The Group's investment properties held on long leases are accounted for as finance leases and carried at fair value. The present value of the future minimum lease payments is recognised as a liability with a corresponding asset added to the carrying value of the leasehold property. The minimum lease payments are apportioned between finance charges in the 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 and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. Assets subject to impairment losses are stated at their estimated recoverable amount, being the greater of the net selling price or value-in-use, the loss being recognised in the 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 receivable 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 borrowing is recognised in the income statement in the period during which it is incurred, except for interest capitalised in accordance with the Group's policy on properties under development (see Properties above). The interest expense component of finance lease payments is recognised in the 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 and payables

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

Performance Share Plan

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

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

Share option scheme

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

The fair value of the benefit of the options awarded is recognised in the 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 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 substantially enacted at the balance sheet date.

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

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

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

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

2 Adjusted profit before tax

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

	6 months to 30 th September 2009 (Unaudited) £'000	6 months to 30 th September 2008 (Unaudited) £'000	12 months to 31 st March 2009 (Audited) £'000
Profit /(loss) before tax	1,853	(21,793)	(100,861)
Surrender premium received	-	(61)	(61)
Change in fair value of derivatives	(2,801)	1,064	23,675
Movement in revaluation of investment properties	5,050	25,545	80,713
(Profit)/loss on disposal of investment properties	(1)	-	2,909
Associated undertakings' disposals, revaluation movement and taxation	22	(204)	2,940
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Adjusted profit before tax	4,123	4,551	9,315
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3 Net rental income from investment properties

	6 months to 30 th September 2009 (Unaudited) £'000	6 months to 30 th September 2008 (Unaudited) £'000	12 months to 31 st March 2009 (Audited) £'000
Gross rents receivable	8,859	9,600	19,173
SIC15 adjustment	357	721	1,094
	-----	-----	-----
Gross rental income	9,216	10,321	20,267
Service charges receivable	1,510	1,641	3,277
	-----	-----	-----
	10,726	11,962	23,544
Surrender premiums received	-	61	61
Direct property outgoings	(2,381)	(2,332)	(4,905)
	-----	-----	-----
	8,345	9,691	18,700
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The Group engages in only one class of business activity, being property investment and development.

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

4 Taxation

	6 months to 30 th September 2009 (Unaudited) £'000	6 months to 30 th September 2008 (Unaudited) £'000	12 months to 31 st March 2009 (Audited) £'000
Current tax	-	-	-
Adjustments in respect of prior periods	-	-	(1)
Total tax credit in the income statement	-	-	(1)
Reconciliation to effective rate of tax:			
Profit/(loss) on ordinary activities before tax	1,853	(21,793)	(100,861)
Tax charge/(credit) on profit/(loss) at 28%	519	(6,102)	(28,241)
Effects of:			
REIT tax exemption	(505)	6,181	27,467
Non-deductable expenses	-	-	10
Other timing differences	1	1	3
Associated company	(15)	(80)	761
Adjustment to tax charge in respect of prior years	-	-	(1)
Tax credit for period (as above)	-	-	(1)

5 Earnings per share

	6 months to 30 th September 2009 p	6 months to 30 th September 2008 p	12 months to 31 st March 2009 p
Basic earnings/(loss) per share	4.05	(47.59)	(220.26)
Change in fair value of derivatives	(6.12)	2.32	51.70
Movement in revaluation of investment properties	11.03	55.78	176.26
Surrender premium received	-	(0.13)	(0.13)
Loss on disposal of investment properties	-	-	6.35
Associated undertaking disposals and revaluation movement	-	-	6.42
Adjusted earnings per share	8.96	10.38	20.34

Basic earnings/(loss) per share on ordinary shares is calculated on the profit in the half year of £1,853,000 (2008 – loss: £21,793,000) and 45,792,655 (2008 – 45,792,655) shares, being the weighted average number of ordinary shares in issue during the period.

	6 months to 30 th September 2009	6 months to 30 th September 2008
Weighted number of ordinary shares in issue	45,792,655	45,792,655
Number of shares under option	3,050,769	2,182,002
Number of shares that would have been issued at fair value	(3,348,964)	(1,711,743)
Diluted weighted average number of ordinary shares in issue	45,494,460	46,262,914

	6 months to 30 th September 2009 p	6 months to 30 th September 2008 p	12 months to 31 st March 2009 p
Basic and diluted earnings/(loss) per share	4.05	(47.59)	(220.26)
Effect of dilutive potential ordinary shares under option	0.02	0.48	0.94
Change in fair value of derivatives	(6.16)	2.30	51.48
Movement in revaluation of investment properties	11.10	55.22	175.51
Surrender premium received	-	(0.13)	(0.13)
Loss on disposal of investment properties	-	-	6.32
Associated undertaking disposals and revaluation movement	-	-	6.39
Adjusted diluted earnings per share	9.01	10.28	20.25
EPRA earnings per share	9.01	10.41	20.38

Diluted earnings /(loss) per share are based on the same profit/(loss) after tax and on the weighted average diluted number of shares in issue during the period of 45,494,460 (2008 – 46,262,914) shares, which takes into account the number of potential ordinary shares under option. No account has been taken in diluted earnings/(loss) per share of potential ordinary shares in 2008 and 2009 where their conversion to ordinary shares would increase the earnings or 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. The EPRA measure includes all of these adjustments except for surrender premiums which are added back.

6 Net Finance costs

	6 months to 30 th September 2009 (Unaudited) £'000	6 months to 30 th September 2008 (Unaudited) £'000	12 months to 31 st March 2009 (Audited) £'000
Interest receivable	14	49	68
Fair value gains on derivatives	2,801	-	-
Finance income	2,815	49	68
Interest on bank overdraft and loans	(2,372)	(3,405)	(5,987)

Finance lease interest on leasehold property obligations	(143)	(143)	(285)
Finance arrangement costs	(35)	(33)	(67)
	-----	-----	-----
	(2,550)	(3,581)	(6,339)
Fair value losses on derivatives	-	(1,064)	(23,675)
	-----	-----	-----
Finance costs	(2,550)	(4,645)	(30,014)
	-----	-----	-----
Net finance costs	265	(4,596)	(29,946)
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7 Investment properties

	6 months to 30 th September 2009 (Unaudited) £'000	6 months to 30 th September 2008 (Unaudited) £'000	12 months to 31 st March 2009 (Audited) £'000
At 1 st April 2009	222,338	314,740	314,740
Additions	1,834	8,324	9,381
Revaluation deficit	(4,693)	(24,824)	(79,622)
Lease incentives recognised	(357)	(721)	(1,091)
	(5,050)	(25,545)	(80,713)
Disposals	(3,674)	-	(21,030)
Amortisation of grossed up headlease liabilities	(20)	(20)	(40)
	-----	-----	-----
At 30 th September 2009	215,428	297,499	222,338
	-----	-----	-----
Adjustment for grossing up of headlease liabilities	(4,006)	(4,046)	(4,026)
Adjustment for rents recognised in advance under SIC15	5,973	6,567	5,768
	-----	-----	-----
Adjusted valuation at 30 th September 2009	217,395	300,020	224,080
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In accordance with the Group's accounting policy on properties there was an external valuation at 30th September 2009. This valuation was carried out in England by Mellersh & Harding, Chartered Surveyors and Valuers, and in Scotland (100 Bothwell Street, Glasgow) by CB Richard Ellis, Chartered Surveyors and Valuers, in accordance with the Appraisal and Valuation Standards of RICS, on an open market basis.

8 Dividends paid

	6 months to 30 th September 2009 (Unaudited) £'000	6 months to 30 th September 2008 (Unaudited) £'000	12 months to 31 st March 2009 (Audited) £'000
Final dividend			
Year ended 31 st March 2009	-	-	-
Year ended 31 st March 2008	-	4,396	4,396
Interim dividend			
Year ended 31 st March 2009	-	-	2,152
	-----	-----	-----
	-	4,396	6,548
	-----	-----	-----

The final dividend of 9.5 pence per share (£4,350,000) for the year ended 31st March 2009 was paid on 16th October 2009.

The Directors have declared an interim dividend of 2.7 pence per share (2008 – 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 2.7 pence per share will be paid as part of this distribution. Further REIT information is available on the Company's website.

9 Net asset value per share

	30 th September 2009			30 th September 2008			31 st March 2009		
	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	81,101	45,793	177	160,842	45,793	351	79,065	45,793	173
Adjustment for fair value of derivatives	22,027	-	48	2,217	-	5	24,828	-	54
Adjusted	103,128	45,793	225	163,059	45,793	356	103,893	45,793	227
Number of shares under option	4,545	3,489	(7)	3,874	2,556	(11)	3,874	2,556	(4)
Adjusted diluted and EPRA measure	107,673	49,282	218	166,933	48,349	345	107,767	48,349	223

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 30th September 2009 has been drawn up and presented for the purposes of complying with English law. If any issue were to arise in relation to any liability under or in connection with the Interim Report for the six months to 30th September 2009, it would also be determined in accordance with English law.

11 Interim Report

The Interim Report is being posted to all shareholders on 4th December 2009. 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.

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

25th November 2009