McKay Securities PLC

Interim Report

2006

McKay Securities PLC is a commercial property investment company specialising in the development and refurbishment of quality buildings within established and emerging growth areas of central London and the South East of England. Completed projects are retained and managed for long term growth within the Group's portfolio, valued in excess of £285 million.

Properties are not traded, and therefore there is a hardcore rental stream underpinning profits growth which is further secured from time to time by the sale of investment properties. This policy has rewarded shareholders with consistent growth in capital value, earnings and dividend distributions over many years.

Financial Highlights

- Profit before tax of £7,432,000 (2005 – £3,020,000)
- Adjusted profit before tax £3,878,000 (2005 – £3,867,000) – note 4
- Basic earnings per share 13.18p (2005 – 4.89p)
- Diluted adjusted earnings per share 7.24p (2005 – 6.53p) – note 6
- Adjusted net asset value per share 422p (2005 – 330p) – note 8
- Interim dividend up 5.9% to 3.6 pence per share (2005 – 3.4 pence per share)
- Investment property income up 12.1% to £8,144,000 (2005 – £7,267,000)
- Weighted average cost of borrowing of 5.9% (2005 – 6%)
- Net debt gearing of 52% (2005 – 80%)

Chairman's Statement

Results for the six months to 30th September 2006

Pre-tax profit for the half year increased to £7.43 million from £3.02 million for the same period in 2005. Contributing to this increase was a profit from the sale of investment properties of £3.59 million compared with £221,000 in 2005.

Adjusted pre-tax profit, which excludes non-recurring profit on sales, surrender premiums, movement in the fair value of interest rate hedging instruments, and revaluation movements was £3.88 million (2005 - £3.87 million).

Net asset value per share, adjusted to exclude deferred tax and the fair value of derivatives, was 422p (2005 - 330p).

The Directors have declared an interim dividend of 3.6p (2005 - 3.4p), an increase of 5.9%, payable on 10th January 2007 to shareholders on the register at the close of business on 12th December 2006.

Review

The results for the half year show good progress in all areas; in particular from new lettings and significant profits arising from the sales of Chobham and Chancery House, Sutton. Current and proposed schemes within the development programme have also moved forward in an encouraging way.

Net income from investment properties increased by 12% to £8.14 million compared with the same period in 2005, with a full income contribution from our two major office developments at Westminster and Wimbledon, which were completed and let at the end of last year. This included a £810,000 net gain in gross rents, which increased in total to £8.57 million. Adjusted profit before tax remained at a similar level to 2005, with the increase in income offset by a number of one off administrative costs, and a higher interest charge as a result of an increased level of debt prior to the property sale that was completed towards the end of the period.

The occupational market for office property has continued to favour better quality space, and a reduction in supply is beginning to generate rental growth, particularly in central London and other established centres within our core South East market. This has worked to our advantage at Pegasus Place, Crawley where Pegasus Three (offices - 16,400 sq ft) was let as a whole to a large Swiss group on a 15 year term certain lease. The contracted rent of £377,635 pa represented an improved rental value for the scheme where now only 9,966 sq ft remains available to let on two floors at Pegasus One.

Since the end of the half year, solicitors have been instructed on the lettings of the ground floor retail unit at Wimbledon Gate (4,350 sq ft) and the recently vacated warehouse unit in Petersfield (50,026 sq ft), where there continues to be the potential for residential use in the longer term. Should both of these lettings be completed, the combined contracted rent will be £260,000 pa.

Another significant letting achieved during the period was at Chancery House, Sutton (offices - 54,615 sq ft) where 12,400 sq ft was let following the refurbishment undertaken to the common areas and the vacant office floors. This was in addition to the letting of 10,700 sq ft last year, leaving only 2,400 sq ft vacant. Having achieved these lettings in a market where tenant demand and rental growth have proved limited over the years, the decision was taken to sell the property into a strong investment market before imminent break clauses over a third of the building impacted on value. The price achieved was £13.33 million, which showed a considerable profit over book value of £3.49 million after sale costs. In addition, the sale of the former distribution depot at Chobham was completed during the period at a figure of £9.75 million. Whilst the profit over book value was limited as a result of the March 2006 year end valuation coinciding with the date of the sale, the price achieved compares with a book value of £2.75 million prior to receipt of detailed planning consent for 54 residential units at the end of 2005. The combined net proceeds from the two sales was £22.52 million, and the profit over historical cost was £15.48 million.

Following further design improvement, a detailed planning application was submitted in September for the redevelopment of 30/32 Lombard Street, EC3 (offices - 36,140 sq ft). The application scheme is for a striking contemporary headquarters office building on ten floors with a net lettable area of 63,750 sq ft, which compares with the existing planning consent of 53,280 sq ft. Consultations with the planning authority are underway and, subject to an uncontested planning approval and satisfactory market conditions nearer the time, the flexible leases negotiated within the existing building enable the commencement of development from January 2008.

Elsewhere within the development programme, the extensive refurbishment of Dacre House, SW1 was completed at the end of August, with the conversion of surplus plant and residential floor space increasing the lettable office floor area by 10% to 12,745 sq ft. The remodelled floors and contemporary new reception area have been finished to a high standard, and with a new air conditioning system, the building now meets modern occupier expectations in this area of London which continues to see healthy rental growth. A full marketing campaign is generating considerable tenant interest.

At Lotus Park, Staines the refurbishment of Lotus 1 and Lotus 2, totalling 32,690 sq ft, began in September after the receipt of £4.60 million (equivalent in total to 5.5 years rent) from the tenant to surrender its leases of these office buildings at the end of last year. The works now underway involve a comprehensive external and internal refurbishment, including new roof coverings, replacement glazing, new mechanical and electrical installations, new double height reception areas and improved landscaping. Completion will take place next Spring, when we will be able to launch two top quality office buildings into the Staines market, which looks set to benefit in particular from the opening of Terminal 5, Heathrow in March 2008.

Following the end of the half year, contracts have been completed to purchase the freehold of two office buildings adjacent to Lotus Park, known as Captain's House (3,636 sq ft) and Waterman's House (7,311 sq ft) for £5.25 million. These buildings, which look out onto the River Thames over a small marina basin, are let on leases expiring in 2015, at a total annual rent of £301,670 pa, with the potential for uplift at the next rent review in 2009. They will be incorporated within the overall management of Lotus Park, and will complement the improved environment being created. Further acquisitions with the potential to add value through active management and development are under consideration.

Finance

Net debt at 30th September 2006 was £88.60 million (2005 - £108.73 million) representing 52.3% of shareholders' funds (2005 - 79.7%). Total facilities available to the Group increased during the period by £7.00 million to £150.00 million (2005 - £128.45 million) as a new 10 year fully revolving facility was put in place with a new lender, replacing two smaller facilities nearing expiry and helping to reduce the average cost of debt to 5.9% (2005 - 6.0%). If fully drawn down, balance sheet gearing would increase to 88.6% of shareholders' funds (2005 - 94.1%). At the end of the period, financial hedging instruments totalling £110.00 million (2005 - £52.00 million) were in place providing an increased level of strategic protection against future interest rate rises. The increase in cover over the last twelve months was considered prudent as a result of the higher levels of debt available to the Group, and the prospect of further interest rate rises.

The tax charge for the period of £1.42 million gives an effective tax rate of 19.3%, on profit before taxation excluding the results of the associated undertaking. This low rate is due to the utilisation of capital losses brought forward; otherwise the tax rate would have been 28.2%.

In my last statement I updated shareholders on the progress of the Finance Bill, which contained draft legislation for Real Estate Investment Trusts (REITs). Royal Assent was given in July 2006, introducing a tax exempt corporate structure from January 2007, with an entry cost of 2% of the market value of assets at the date of conversion and a minimum dividend distribution of 90% of net taxable income, after various allowances. At the date of Royal Assent, various regulations and guidance notes were still being drafted, and although the regulations have been published, confirming that the presence of a 10% shareholding is not a barrier to entry, a number of the guidance notes are still awaited. We have looked closely at the legislation, and with publication of the guidance notes expected later this month, expect to be in a position to make a decision in the near future on whether or not it is in the best interests of shareholders to convert.

Board changes

We are delighted to welcome Viscount Lifford to the Board as a non-executive Director. James has been a main board director of Rathbones Brothers Plc, fund managers, for the last ten years with responsibility for their regional network of offices and also has past involvement in the property sector having been Chairman of property group Basepoint Plc. With his informed City background, James will be of great assistance in the continued expansion of the Group.

Future prospects

Encouraging progress has been made in the first half of the year, adding further rental income to that secured at the end of last year through the success of the development programme. This looks set to continue with the level of occupier interest now being shown in Dacre House and the two buildings undergoing refurbishment at Lotus Park. Investor demand for commercial property continues to exceed supply, and despite the increasing cost of debt, capital values have continued to rise generally over the period. Whilst the rate of growth has slowed, we do not anticipate values falling back in the short term.

The introduction of REITs in 2007 is likely to be positive for the sector as a whole, and with further income and capital growth potential from within the portfolio, we remain confident about the Group's prospects for the full year.

E. S. G. Lloyd
Chairman

29th November 2006

Consolidated Income Statement
Six months to 30th September 2006

	Notes	**6 months to 30th September 2006 (Unaudited) £'000**	6 months to 30th September 2005 (Unaudited) £'000	12 months to 31st March 2006 (Audited) £'000
Gross rents and service charges receivable		**9,828**	9,080	18,353
Surrender premiums received		**101**	—	3,700
		9,929	9,080	22,053
Direct property outgoings		**(1,785)**	(1,813)	(3,684)
Net rental income from investment properties		**8,144**	7,267	18,369
Administration costs		**(1,623)**	(1,304)	(3,288)
Operating profit before gains on investment properties		**6,521**	5,963	15,081
Profit on disposal of investment properties		**3,593**	221	167
Movement in revaluation of investment properties	2	**(738)**	(228)	35,247
Operating profit	3	**9,376**	5,956	50,495
Finance costs	7	**(2,105)**	(3,072)	(5,344)
Finance income		**67**	20	50
Share of results of associated undertaking		**94**	116	807
Profit before taxation		**7,432**	3,020	46,008
Taxation	5	**(1,418)**	(795)	(12,719)
Profit for the period		**6,014**	2,225	33,289
Earnings per share	6			
Basic		**13.18p**	4.89p	73.06p
Diluted		**12.99p**	4.87p	72.43p

Adjusted earnings per share are shown in note 6.

Consolidated Balance Sheet

As at 30th September 2006

	Notes	As at 30th September 2006 (Unaudited) £'000	As at 30th September 2005 (Unaudited) £'000	As at 31st March 2006 (Audited) £'000
Non-current assets				
Investment properties		**286,814**	264,473	304,687
Plant and equipment		**55**	76	73
Investment in associate		**5,794**	5,135	5,700
		292,663	269,684	310,460
Current assets				
Trade and other receivables		**5,240**	3,211	3,633
Cash and cash equivalents		**1,490**	2,676	1,838
		6,730	5,887	5,471
Total assets		**299,393**	275,571	315,931
Current liabilities				
Loans and other borrowings		**—**	(797)	(15,016)
Corporation tax payable		**(3,179)**	(716)	(274)
Trade and other payables		**(7,098)**	(7,142)	(8,260)
		(10,277)	(8,655)	(23,550)
Non-current liabilities				
Loans and other borrowings		**(89,754)**	(110,468)	(94,543)
Pension fund liabilities		**(633)**	(1,148)	(701)
Finance lease liabilities		**(4,427)**	(4,469)	(4,469)
Deferred tax		**(24,978)**	(14,966)	(26,708)
		(119,792)	(131,051)	(126,421)
Total liabilities		**(130,069)**	(139,706)	(149,971)
Net assets		**169,324**	135,865	165,960
Equity				
Called up share capital		**9,157**	9,111	9,122
Share premium		**2,486**	2,124	2,208
Capital reserve		**48,683**	35,724	36,065
Revaluation reserve		**77,669**	62,718	87,599
Retained earnings		**31,329**	26,188	30,966
Total equity		**169,324**	135,865	165,960
Net asset value per share	8	**370p**	298p	364p
Adjusted net asset value per share	8	**422p**	330p	421p

Consolidated Cash Flow Statement

Six months to 30th September 2006

	6 months to 30th September 2006 (Unaudited) £'000	6 months to 30th September 2005 (Unaudited) £'000	12 months to 31st March 2006 (Audited) £'000
Operating activities			
Profit before tax	**7,432**	3,020	46,008
Adjustments for:			
Depreciation and other non-cash movements	**71**	(2)	417
Profit on disposal of investment properties	**(3,593)**	(221)	(167)
Movement in revaluation of investment properties	**738**	228	(35,247)
Net finance costs	**2,038**	3,052	5,294
Share of profit of associated undertaking	**(94)**	(116)	(807)
Cash flow from operations before changes in working capital	**6,592**	5,961	15,498
Increase in debtors	**(940)**	(191)	(606)
(Decrease)/increase in creditors	**(2,661)**	(386)	1,636
Cash generated from operations	**2,991**	5,384	16,528
Interest paid	**(1,722)**	(2,239)	(6,294)
Interest received	**60**	17	37
Corporation tax paid	**(140)**	(545)	(1,126)
Cash flows from operating activities	**1,189**	2,617	9,145
Investing activities			
Sale of investment properties	**22,573**	5,121	5,547
Dividends from sundry investments	**1**	1	1
Dividends from associated undertaking	**—**	—	126
Purchase and development of investment properties	**(1,500)**	(34,766)	(39,503)
Purchase of other fixed assets	**(1)**	(31)	(52)
Cash flows from investing activities	**21,073**	(29,675)	(33,881)
Financing activities			
Proceeds from issue of share capital	**314**	9	104
(Decrease)/increase in borrowings	**(19,823)**	30,278	28,572
Equity dividends paid	**(3,101)**	(2,824)	(4,373)
Cash flows from financing activities	**(22,610)**	27,463	24,303
Net (decrease)/increase in cash and cash equivalents	**(348)**	405	(433)
Cash and cash equivalents at beginning of period	**1,838**	2,271	2,271
Cash and cash equivalents at end of period	**1,490**	2,676	1,838

Statement of Recognised Income and Expense

Six months to 30th September 2006

	6 months to 30th September 2006 (Unaudited) £'000	6 months to 30th September 2005 (Unaudited) £'000	12 months to 31st March 2006 (Audited) £'000
Actuarial movement on defined benefit pension scheme	**—**	(11)	259
Deferred tax on fair value of share options	**104**	54	—
Net income recognised directly in equity	**104**	43	259
Profit for the period	**6,014**	2,225	33,289
Total recognised income and expense for the period	**6,118**	2,268	33,548
Adoption of IAS 39	**—**	285	285
Deferred tax on adoption of IAS 39	**—**	(83)	(83)
Total recognised income and expense for the period	**6,118**	2,470	33,750

Notes to the Interim Statement
Six months to 30th September 2006

1 Principal accounting policies

Basis of preparation
The accounting policies used for the audited financial statements at 31st March 2006 have been used in the preparation of these interim financial statements.

The results for the year to 31st March 2006 have been extracted from the full accounts for the year which received an unqualified auditors report and which have been filed with the Registrar of Companies.

Basis of consolidation
The consolidated financial statements incorporate the results of the Company and its subsidiary companies for the six months to 30th September 2006. Subsidiary companies are those entities under the control of the Company. Control means the power to govern the financial and operating policies so as to obtain benefits from its activities.

Associates
An associate is an undertaking over which the Group exercises significant influence, but not control, through participation in the financial and operating policies. The Group's share of the total recognised gains and losses of associates are 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.

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 annually by independent external valuers and any gain or loss arising from a change in fair value is recognised in the income statement.

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 in 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 complete.

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 are recognised as a liability with a corresponding asset added to the carrying value of the leasehold property. The minimum lease payments are apportioned between a finance charge 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.

1 Principal accounting policies continued

Properties continued
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.

Goodwill
Goodwill arising on acquisition of a subsidiary represents the excess of cost over the net fair value of the separable assets acquired. Goodwill arising on acquisitions is capitalised at cost and carried in the balance sheet less any accumulated impairment losses. Negative goodwill, where the fair value of the assets acquired exceeds cost, is recognised immediately in the income statement.

Impairment
The carrying amounts of the Group'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.

Rental income
Rental income received under operating leases from investment properties is recognised in the income statement on a straight line basis over the term of the lease.

The Group treats the aggregate value of incentives given to lessees as a reduction of rental income over the lease term.

Surrender premiums received from outgoing tenants prior to the expiry of their lease are included in rental income.

Borrowing costs
Interest on overdrafts and other bank borrowings, is recognised in the income statement in the period during which it is incurred, except for interest capitalised in accordance with the Group's policy on properties under development. 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.

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.

1 Principal accounting policies continued

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 value of the defined benefit scheme obligations is recognised in the balance sheet. Changes in actuarial gains and losses arising in respect of the Group's obligations are recognised as movements in equity, through the statement of recognised income and expense. 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.

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.

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, and the initial recognition of other assets and liabilities that affect neither accounting nor taxable profit. Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that there will be future taxable profits against which the asset can be utilised. Deferred tax is calculated at the rate enacted or expected to apply in the period when the liability is settled or the asset is realised.

Deferred tax on property revaluation movements has been calculated on the basis of the contingent tax that would arise in the event of a sale of a property. This method has been applied as the Group sells properties from time to time and ultimately the carrying value of the properties will be recovered through sale.

2 Properties

The Group's properties are valued at the end of each financial year and were not revalued at 30th September 2006. The consolidated balance sheet reflects the values as at 31st March 2006 adjusted for additions (including lease set up costs) and disposals during the period, and any adjustments resulting from spreading lease incentives over the lease term.

The movement in property valuation in the period under review relates to capitalisation of lease set up costs and a net increase in the lease incentive debtor.

3 Operating profit

Operating profit is identified in the income statement and represents the profit on activities before finance costs, share of associated undertakings and taxation.

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 for the items below.

	6 months to 30th September 2006 (Unaudited) £'000	6 months to 30th September 2005 (Unaudited) £'000	12 months to 31st March 2006 (Audited) £'000
Profit before tax	**7,432**	3,020	46,008
Surrender premiums received	**(101)**	—	(3,700)
Change in fair value of derivatives	**(624)**	851	263
Movement in revaluation of investment properties	**738**	228	(35,247)
Profit on disposal of investment properties	**(3,593)**	(221)	(167)
Associated undertakings' disposals and revaluation movement	**26**	(11)	(588)
Adjusted profit before tax	**3,878**	3,867	6,569

5 Taxation

	6 months to 30th September 2006 (Unaudited) £'000	6 months to 30th September 2005 (Unaudited) £'000	12 months to 31st March 2006 (Audited) £'000
Analysis of charge in period:			
Current tax:			
UK corporation tax on profits for the period	**3,042**	568	712
Adjustments in respect of prior periods	**2**	(3)	—
Total current tax	**3,044**	565	712
Deferred tax:			
Origination and reversal of temporary differences	**(1,626)**	230	12,007
Total tax charge in the income statement	**1,418**	795	12,719
Reconciliation to effective rate of tax:			
Profit before tax	**7,432**	3,020	46,008
Tax on profit at 30% (2005 – 30%)	**2,230**	906	13,802
Effects of:			
Expenses not deductible for tax purposes	**(97)**	(8)	11
Deferred tax released on sale of investment properties	—	(67)	(29)
Associated company	**(28)**	(35)	(242)
Chargeable gains on sale of investment properties	**(33)**	(66)	(50)
Utilisation of tax losses	**(656)**	—	—
Movement on revaluation of investment properties	—	68	(773)
Adjustment to tax charge in respect of prior years	**2**	(3)	—
Tax charge for period (as above)	**1,418**	795	12,719

6 Earnings per share

	6 months to 30th September 2006 p	6 months to 30th September 2005 p	12 months to 31st March 2006 p
Earnings per share	**13.18**	4.89	73.06
Deferred tax on capital allowances	**0.70**	0.44	2.12
Surrender premiums received	**(0.15)**	—	(8.12)
Change in fair value of derivatives	**(0.96)**	1.31	0.59
Movement in revaluation of investment properties	**1.62**	0.50	(53.59)
Profit on disposal of investment properties	**(7.02)**	(0.58)	(0.37)
Associated undertaking disposals and revaluation movement	**(0.02)**	—	(1.29)
Adjusted earnings per share	**7.35**	6.56	12.40

Earnings per share on ordinary shares are based on earnings after tax of £6,014,000 (2005 – £2,225,000) and 45,633,732 (2005 – 45,552,512) shares, being the weighted average number of ordinary shares in issue during the period.

Reconciliation of earnings per share to diluted earnings per share:

	6 months to 30th September 2006	6 months to 30th September 2005	6 months to 30th September 2006 p	6 months to 30th September 2005 p
Weighted number of ordinary shares in issue	**45,633,732**	45,552,512	**13.18**	4.89
Number of shares under option	**1,447,487**	1,556,201	**(0.41)**	(0.15)
Number of shares that would have been issued at fair value	**(791,243)**	(1,334,698)	**0.22**	0.13
	46,289,976	45,774,015	**12.99**	4.87

	6 months to 30th September 2006 p	6 months to 30th September 2005 p	12 months to 31st March 2006 p
Diluted earnings per share	**12.99**	4.87	72.43
Deferred tax on capital allowances	**0.69**	0.44	2.10
Surrender premiums received	**(0.15)**	—	(8.05)
Change in fair value of derivatives	**(0.94)**	1.30	0.56
Movement in revaluation of investment properties	**1.59**	0.50	(53.12)
Profit on disposal of investment properties	**(6.92)**	(0.58)	(0.36)
Associated undertaking disposals and revaluation movement	**(0.02)**	—	(1.28)
Adjusted diluted earnings per share	**7.24**	6.53	12.28

Diluted earnings per share are based on the same earnings after tax and on the weighted average number of shares in issue during the period of 46,289,976 (2005 – 45,774,015) shares, which takes into account the number of potential ordinary shares arising from the exercise of share options.

Adjusted earnings per share excludes the after tax effect of profit from the disposal of investment properties, the change in the fair value of derivatives and the movement in revaluation of investment properties, as well as the deferred tax provided on capital allowances on development and investment properties, where no tax payment is expected to crystallise. These adjustments are made in order to show the recurring element of the Group's profit.

Notes to the Interim Statement

Six months to 30th September 2006

7 Finance costs

	6 months to 30th September 2006 (Unaudited) £'000	6 months to 30th September 2005 (Unaudited) £'000	12 months to 31st March 2006 (Audited) £'000
Interest expense:			
Interest on bank overdraft and loans	**3,040**	2,735	5,930
Finance lease interest on leasehold property obligations	**144**	144	289
Change in fair value of derivatives	**(624)**	851	263
Amortisation of loan facility costs	**18**	7	15
Other interest	**—**	—	8
	2,578	3,737	6,505
Capitalised interest	**(473)**	(665)	(1,161)
	2,105	3,072	5,344

8 Net asset value per share

	30th September 2006			30th September 2005			31st March 2006		
	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	**169,324**	**45,787**	**370**	135,865	45,556	298	165,960	45,609	364
Deferred tax on capital allowances	**6,626**	**—**	**15**	5,535	—	12	6,308	—	14
Deferred tax on revaluation surplus	**17,507**	**—**	**38**	8,771	—	19	19,600	—	43
Fair value of derivatives (net of tax)	**(452)**	**—**	**(1)**	396	—	1	(15)	—	—
Adjusted	**193,005**	**45,787**	**422**	150,567	45,556	330	191,853	45,609	421
Number of shares under option	**2,800**	**1,301**	**(5)**	2,287	1,214	(3)	3,104	1,479	(7)
Adjusted diluted	**195,805**	**47,088**	**417**	152,854	46,770	327	194,957	47,088	414

9 Interim statement

The Interim Statement is being posted to all shareholders today. 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.

Directors and Company Information

Directors

Eric Lloyd F.C.A.
Chairman

Simon Perkins BSc(Hons), M.R.I.C.S.
Managing Director

Alan Childs
Finance Director

Steven Mew DipPropInv., M.R.I.C.S.
Director

Steven Morrice MSc, M.R.I.C.S.
Director

Michael Hawkes F.R.I.C.S.
Senior non-executive

Andrew Gulliford F.R.I.C.S.
Non-executive

David Thomas F.C.A.
Non-executive

Nigel Aslin, F.R.I.C.S.
Non-executive

Viscount Lifford
Non-executive

Secretary

Alan Childs

Registered Office

20 Greyfriars Road
Reading
Berkshire RG1 1NL
Tel: 0118 950 2333
www.mckaysecurities.plc.uk

Registered Number

421479

Registered Auditor

KPMG Audit Plc
Chartered Accountants
Arlington Business Park
Theale
Reading
Berkshire RG7 4SD

Corporate Solicitors

Slaughter and May
One Bunhill Row
London EC1Y 8YY

Registrar and Transfer Office

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA
Tel: 01903 502541
Fax: 01903 854031

McKay Securities PLC

20 Greyfriars Road, Reading
Berkshire, RG1 1NL

T: 0118 950 2333
www.mckaysecurities.plc.uk