McKAY DELIVERS 21% UPLIFT IN RENTAL INCOME
AND REMAINS WELL POSITIONED TO CAPTURE FURTHER VALUE

McKay Securities Plc, the only Real Estate Investment Trust (REIT) specialising exclusively in the London and South East office, industrial and logistics markets, today announces its half year results for the six months ended 30th September 2019.

Financial Highlights

- Gross rental income up 20.8% to £12.61 million (September 2018: £10.43 million), benefitting from lettings secured on recent development projects
- Net rental income of £11.27 million, up 22.8% (September 2018: £9.17 million)
- Adjusted profit before tax up 17.6% to £5.08 million (September 2018: £4.32 million)
- IFRS profit before tax of £11.17 million (September 2018: £11.40 million)
- NAV (EPRA) up 2.1% to 333 pence per share (March 2019: 326 pence)
- NAV (IFRS) up 0.6% to 333 pence per share (March 2019: 331 pence)
- Interim dividend of 2.8 pence per share, in line with the same period last year

Portfolio Highlights

- Portfolio valuation of £492.14 million, generating a 1.0% (£5.06 million) valuation surplus and outperforming the MSCI index which fell by -1.1%
- 1.9% increase in rental value, taking portfolio ERV (net) to £33.30 million pa (MSCI: 0.1%)
- 10 open market lettings (2.3% ahead of ERV) completed at a combined contracted rent of £490,000 pa, in addition to six lease renewals at 5.3% uplift to prior contracted rents
- Opportunistic disposal of Station Plaza, Theale for £8.23 million, representing a 32.7% premium to March 2019 book value
- Development of a new 134,430 sq ft logistics warehouse at Junction 12 of the M4 at Theale underway with completion due in early 2020
- Substantial 24.3% portfolio reversion of £6.51 million pa, well placed to deliver further value and income growth, building on track record of delivery
- New debt facility secured providing an additional £55.00 million of firepower for acquisitions and portfolio expenditure
- Fully in-house managed portfolio, with £3.79 million of expenditure over the period on refurbishment and upgrading of properties at lease expiry to deliver high quality product into supply constrained markets
- Recognition of ESG efforts with a GRESB (Global Real Estate Sustainability Benchmark) Green Star award for the fourth year running

Simon Perkins, Chief Executive of McKay, said:

"Our consistent focus on our core office, industrial and logistics sectors across London and the South East, combined with successful development projects and the intensive in-house management of our portfolio, can be credited for the delivery of another positive set of results, with gains achieved across our key metrics.

"We do not take our ability to out-perform the market in the current environment for granted, and with the benefit of increased headroom have no intention of slowing down the active programme of portfolio initiatives that has helped McKay's assets stand out in a competitive landscape. The letting of our development and refurbishment schemes, the recycling of capital and the ability to utilise our increased loan facilities provide us with the opportunity to continue building on the substantial growth we have delivered over recent years, and unlock an attractive reversion.

“We remain wary of the political uncertainty affecting our operating environment and hope that some clarity will provide the basis for a more positive economic outlook. In the meantime, our focus on the strongest regions and sectors of the UK and their prospects to enhance our portfolio growth once confidence improves, provides us with an encouraging platform for the future.”

- ENDS -

Date: 18th November 2019

NOTE

The Group uses a number of Alternative Performance measures (APM’s) which are not defined or specified within IFRS. The Directors use these measures in order to assess the underlying operational performance of the Group and allow greater comparability between periods but do not consider them to be a substitute for, or superior to, IFRS measures:

For reconciliation of adjusted profit before tax see note 3 below
For reconciliation of adjusted basic earnings per share see note 6 below
For reconciliation of NAV (EPRA) see note 11 below
LTV – Loan to value, being net debt as percentage of portfolio value

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About McKay

McKay Securities Plc is a commercial property investment company with Real Estate Investment Trust (REIT) status, listed on the main market of the London Stock Exchange. It specialises in the development and refurbishment of office, industrial and logistics buildings within established and proven markets of London and South East England. The portfolio, which was valued at 30th September 2019 at £492.14 million, comprises 32 properties in strong and established areas, which deliver diversity in terms of both sector and location.

Forward looking statements

This announcement is for information purposes only and contains certain forward-looking statements which, by their nature, involve risk and uncertainty because they relate to or depend upon future events and circumstances. There are a number of factors which could cause actual results and developments to differ materially from those expressed or implied by these forward looking statements, including a number of factors outside McKay Securities Plc’s control. All forward-looking statements are based upon information known to McKay Securities Plc on the date of this announcement and no representation or warranty is given in relation to them, including as to their completeness or accuracy or the basis on which they were prepared. McKay Securities Plc gives no undertaking to update forward-looking statements whether as a result of new information, future events or otherwise. Information contained in this announcement relating to the Company should not be relied upon as an indicator of future performance.

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

Ex dividend date	28th November 2019
Record Date for the interim dividend	29th November 2019
Interim dividend paid	2nd January 2020

An interim dividend per share of 2.8 pence, (2018: 2.8 pence per share), which will be paid as an ordinary dividend.

CHAIRMAN'S STATEMENT

I am pleased to report a positive set of results for the half year period, despite the volatile political and economic backdrop.

Overview

These results have been generated by the continued delivery of our active programme of portfolio initiatives and underpinned by our focus on the resilient office, industrial and logistics markets of London and the South East.

Rental income from the portfolio increased by 20.8% to £12.61 million (September 2018: £10.43 million), benefiting from lettings secured on our recent development projects and other portfolio projects. This increase, offset to a degree by a lower level of capitalised interest, resulted in a substantial 17.6% increase in adjusted profit before tax to £5.08 million (September 2018: £4.32 million).

Our continued investment in the portfolio, and our active in-house management, has continued to deliver portfolio gains ahead of the MSCI benchmark, with the portfolio estimated rental value ("ERV") growing by 1.9% to £33.30 million pa (on a like-for-like basis), the portfolio valuation of £492.14 million generating a 1.0% (£5.06 million) surplus and a total property return for the period of 3.4% (September 2018: 3.8%). The valuation gain and a £1.72 million surplus from the sale of Station Plaza, Theale in May 2019 at a price of 32.7% ahead of book value, contributed to a 2.1% increase in NAV per share (EPRA) to 333 pence (March 2019: 326 pence) and an increase in shareholders' funds to £313.93 million (March 2019: £311.08 million).

These gains have been achieved as a result of our strategic focus on enhancing the income potential of the portfolio. In addition to the gains achieved over the period, we still have the potential to secure a 24.3% (£6.51 million pa) reversionary increase in rental income, being the difference between the current level of contracted income and ERV.

Having grown the portfolio value over recent years, we were able to secure an increase in loan facilities at the beginning of the period, providing additional headroom for acquisitions and portfolio expenditure. This facilitated the acquisition of an office asset in Newbury post period end, referred to below, and provides scope for further value enhancing investment.

Market review

The protracted uncertainty over Brexit across our markets has held back occupier demand and resulted in lower levels of office occupier take up. Despite this, the highly restricted supply of modern business space, especially across our South East office markets, has helped maintain rental values and is set to support future rental growth, especially with a recovery in business confidence.

There is still considerable pent up demand from a wide range of domestic and overseas buyers seeking to invest in our markets. However, the volume of transactions has been lower over the period with the investment market characterised by a shortage of supply due to political uncertainty. This has supported capital values which have also held steady.

In the South East office market, which accounts for 52.3% of the portfolio (by value), larger occupier transitions are down on last year due to business uncertainly and a lack of available space. As a result, total occupier take up to the end of Q3/2019 of 1.31 million sq ft, was 6.8% below the ten year Q1 – Q3 average. Based on identified demand in the market of 3.18 million sq ft we anticipate full year take up to be in the region of 10.0% below the ten year annual average of 1.92 million sq ft. Occupier choice remains increasingly limited, with vacancy rates at an all time low of 1.8% for new supply and 6.3% for Grade A. Looking forward, the pipeline remains constrained with just three new office developments totalling 340,000 sq ft predicted to complete in 2020, which is less than half the ten year average. Building obsolescence is also compounding the lack of supply and continues to be one of the key drivers of occupier demand. The increasing importance of sustainable, modern business space to attract and retain employees is set to increase competition, and put upward pressure on rental values, particularly with the benefit of greater business certainty.

In the London office market, the development pipeline has picked up as a response to vacancy rates well below the ten year average. However, continued occupier take up and demand for the limited stock available has held rental levels steady.

The South East industrial and logistics market, which accounts for 17.6% of the portfolio (by value), continues to perform well, driven by the growth of e-commerce. Take up to the end of Q3/2019 totalled 5.70 million sq ft across the South East, which is a 23.0% increase over the same period last year and the highest take up ever recorded. Set against this is low supply totalling 4.50 million sq ft, which equates to just 0.8 years worth of supply calculated against the five year average take up. It is within this market that our major development at Theale Logistics Park (134,430 sq ft) is due to complete shortly.

Portfolio income and asset management

Throughout the portfolio, sustainability is at the heart of everything we do. Creating and managing sustainable and efficient buildings is an essential strand of our offer to prospective occupiers, while the efficiency of design provides lower utility bills and higher levels of workspace satisfaction for our tenants. Our Sustainability Strategy was first launched in 2013, and has delivered some notable achievements including a 44.0% reduction in carbon footprint and high sustainability ratings on new developments and major refurbishments. We were also pleased to achieve the prestigious three-star rating for the fourth year in succession by the widely recognised Global Real Estate Sustainability Benchmark (“GRESB”). This measures the real estate sector against Environmental, Social and Governance (“ESG”) targets and confirms our progress and standing in this important area.

This approach assisted with the completion over the period of ten open market lettings, with a combined contracted rental value of £490,000 pa, 2.3% ahead of ERV. The largest of these lettings was at Pegasus Place, Crawley, which consists of three office buildings totalling 50,790 sq ft. The comprehensive refurbishment of Pegasus 2 (12,720 sq ft) was completed in July 2019. Prior to completion we let the ground floor (3,820 sq ft) at a contracted rent of £100,000 pa, setting a new record rent for Crawley of £27.00 per sq ft. The remaining two floors are being marketed and generating good interest.

The second major refurbishment over the period comprised the upgrading and modernisation of two office floors, the reception and other common areas at Mallard Court in the centre of Staines (21,860 sq ft). Works completed in August 2019 and achieved the early letting of part of the first floor at a rental level in line with ERV. Marketing of the remainder of the space is also generating encouraging interest. The building upgrade has incorporated new technology to introduce smart management of the building services and access controls, which can be operated through a dedicated app. This will enable our occupiers to control their heating and lighting, book meeting rooms, control building access and to be kept informed of travel updates, amenities and local retail offers. We will be monitoring the success of this, with a view to rolling the same technology out to other portfolio properties.

Our flexible offer of smaller suites, co-working space and communal kitchens at One Crown Square, Woking (50,190 sq ft) and at 329 Bracknell (32,800 sq ft) is continuing to prove attractive to occupiers. At Bracknell, we achieved 100% occupation during the period and at Woking we welcomed, amongst others, Handelsbanken as a new occupier committing to a ten year lease with a five year break at a contracted rent of £60,000 pa. We also accepted a negotiated payment for an early surrender of the ground floor banking unit (3,802 sq ft) and simultaneously exchanged contracts to let the space to a gym operator, thereby also improving the building’s offer for existing and future tenants.

At Switchback Office Park in Maidenhead (37,155 sq ft), having relocated the tenant of Unit 4.1 (3,886 sq ft) to our Brentford office asset, we speculatively fitted out the empty space to attract the increasing number of tenants seeking ease of occupation. This has proved to be very successful having secured a five year lease commitment of the entire space at a contracted rent of £100,000 pa, 4.6% ahead of ERV.

In addition to the income generated from new lettings, we also settled five rent reviews at a combined contracted rent of £1.65 million pa, representing a 12.6% uplift over the prior rent passing and a rental level equivalent to ERV. The payment of back dated rent to the review date also resulted in a one-off addition to rental income for the period. The reviews, which were across a range of assets, have also contributed to the release of some of the reversionary income potential of the portfolio.

We now manage all our assets in-house, providing our tenants direct access to, and regular dialogue with, our Occupier Services team. This aids quick decisions, efficient turnaround times and closely managed service charge expenditure. This supports our ability to maintain close relationships with our occupiers and the prospects for tenant retention. This proved to be the case over the period with 75.0% of tenants choosing to stay in occupation at lease break or expiry.

Portfolio occupancy at the end of the period was 87.1% (March 2019: 87.9%) or 91.1% excluding developments (March 2019: 91.0%). The majority of the portfolio void has been recently refurbished, enhancing the letting prospects for the remainder of the year.

At the end of the period, the portfolio remains well placed to deliver additional income and future value from the portfolio reversion as set out below.

£ million pa	30th September 2019	31st March 2019[1]
Portfolio ERV (net)	33.30	32.70
Contracted rent	26.79	26.32
Voids (exc. developments)	2.82	2.60
Void (developments)	1.48	1.48
Uplifts (rent reviews/lease expiry)	2.21	2.30
Total reversion	**6.51**	**6.38**

1. Like-for-like, excluding Station Plaza, Theale

Acquisitions and disposals
In May 2019, we completed the freehold disposal of Station Plaza, Theale to an owner occupier at a price of £8.23 million. We acquired the asset, which consists of three office buildings totalling 41,420 sq ft, for £8.46 million in September 2014, and have had the benefit of £900,000 pa of income since then. It had been our intention to refurbish the buildings on lease expiry in July 2019 but the sale price, which represented a 32.7% premium to the March 2019 book value, delivered our anticipated refurbishment profit without taking any of the construction, planning or letting risk.

Given the strength of overseas investment demand in the Central London office market referred to above, we have recently instructed agents to explore the opportunistic disposal of 30 Lombard Street, EC3. In the event of a sale completing, we will unlock the full value created by our success with the scheme and recycle the proceeds into acquisitions and other asset management initiatives that provide us with greater future growth prospects.

Also since the end of the period, we have completed the acquisition of Rivergate, a multi-let office building fronting Newbury Business Park, for £15.5 million at an initial yield of 7.5%. The building provides 61,385 sq ft of lettable space over three floors which is fully let to six occupiers at a rent of £1.29 million pa. This is an earnings enhancing addition to the portfolio, whilst the low rental value and the potential to add and refurbish space also provide scope for future growth.

Development programme
The construction of Theale Logistics Park, our 134,430 sq ft distribution warehouse development at Junction 12 of the M4 motorway, is progressing well. Practical completion of the scheme, which will deliver best in class product in an under supplied market, is due early in the new year. The scheme delivers a 39.0% increase in lettable floor area compared with the previous warehouse building on the site, and will double the rental value to circa £1.48 million pa, making a significant contribution to earnings once let. Our active marketing campaign continues to generate interest, although tenant commitment in this sector is more typical once the building is complete.

Valuation
The external independent valuation of the portfolio by Knight Frank LLP as at 30th September 2019 was £492.14 million. The valuation surplus for the period was 1.0% (£5.06 million), outperforming the MSCI index which fell by -1.1%. Our active portfolio management contributed to the 1.9% increase in ERV (MSCI: 0.1%) which had a positive impact on valuation, supplemented by the release of development gains.

At sector level, our office portfolio increased in value by 0.3% and our industrial and logistics portfolio by 2.7% (MSCI: 0.1% and 1.6% respectively).

The net initial yield on contracted income was 5.1% (31st March 2019: 5.3%) and the reversionary yield at full ERV was 6.3% (31st March 2019: 6.6%), reflecting the 24.3% potential income growth still to come.

Finance
Adjusted profit before tax, our measure of recurring profit excluding valuation movements, profit on disposal and other one-off items, increased by 17.6% to £5.08 million (September 2018: £4.32 million), primarily due to an increase of £2.17 million in gross rental income, which ended the period up 20.8% at £12.61 million (September 2018: £10.43 million). IFRS profit before tax was £11.17 million (September 2018: £11.40 million).

The most significant contribution to the increase in gross rental income was £1.47 million from 30 Lombard Street, EC3 following the letting in January 2019. Also contributing to the increase in gross rental income was £240,000 of back-dated income from rent reviews settled during the period.

Non-recoverable property costs of £1.40 million (September 2018: £1.26 million) were slightly higher mainly due to an increase in rates and other void costs on recently completed refurbishments prior to reletting. After taking these costs into account, net rental income increased by 22.8% (£2.10 million) to £11.27 million (September 2018: £9.17 million).

Administration costs of £2.40 million were 26.6% lower than the comparable period last year (September 2018: £3.26 million) due to a variation of the IFRS 2 share-based payment assumptions. Excluding the accounting benefit of this variation, administration costs of £2.79 million for the period were unchanged (September 2018: £2.82 million).

Interest payable increased to £3.34 million (September 2018: £2.02 million). This anticipated increase was partly due to higher levels of drawn debt, which ended the period at £173.00 million (September 2018: £161.00 million), and a reduction in capitalised interest on development projects. Contributing to the increase in drawn debt was development and refurbishment expenditure over the period totalling £10.58 million, offset by net sale proceeds from the disposal of Station Plaza, Theale of £8.07 million. The ratio of net debt to portfolio value (LTV) at the end of the period was 34.6% (March 2019: 33.3%).

Inclusion of 30 Lombard Street, EC3 as one of three properties held for sale has triggered a deferred tax provision of £960,000, payable only in the event of a successful disposal.

After taking these movements into account, adjusted earnings per share increased by 17.2% to 5.39 pence (September 2018: 4.60 pence), and the EPRA earnings per share increased to 5.86 pence (September 2018: 4.10 pence).

IFRS net asset value increased by £2.85 million to £313.93 million over the period, benefiting from the £3.90 million valuation surplus (including IFRS 16). As a result, EPRA net asset value per share increased by 2.1% to 333 pence (March 2019: 326 pence).

Our financing position was strengthened over the period with completion in April 2019 of the refinancing of three bilateral loans totalling £125.00 million into one club facility of £180.00 million. This increased our total facilities to £245.00 million, providing additional headroom for acquisitions and capital expenditure on refurbishment and development projects.

Dividend
The Board is pleased to declare an interim dividend of 2.8 pence per share, maintaining the level of dividend paid for the same period last year. This will be paid as an ordinary dividend on 2nd January 2020.

Outlook
The letting of our development and refurbishment schemes, the recycling of capital and the investment of firepower from our increased loan facilities provide us with the opportunity to build on the substantial growth we have delivered from the strategic investment in our portfolio over recent years.

We hope that by the end of the year, political clarity will provide the basis for a more positive economic outlook. In the meantime, our focus on the strongest regions and sectors of the UK and their prospects to enhance our portfolio growth once confidence improves, provides us with an encouraging platform for the future.

Richard Grainger
Chairman

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Six months to 30th September 2019

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 Perkins
Chief Executive Officer

G Salmon
Chief Financial Officer

Identification of business risks

The Group's principal risks and uncertainties are consistent with those noted in the Annual Report for the year ended 31st March 2019 which include compliance with financial covenants on bank borrowing, tenant default, liquidity and interest rate movements on bank borrowing. The Directors consider that the significant areas of judgement that have a material effect on the Group's performance are valuation of investment properties and financial instruments. These are unchanged from those identified in the Annual Report for the year ended 31st March 2019.

Going concern

The Interim Report has been prepared on a going concern basis, which assumes the Group will be able to meet its liabilities as they
fall due, for the foreseeable future. The Directors have prepared cash flow forecasts which show that the cash generated from operating activities will provide sufficient cash headroom for the foreseeable future.

The Group is in full compliance with its borrowing covenants at 30th September 2019 and is expected to be in compliance for the next 12 months.

INDEPENDENT REVIEW REPORT TO MCKAY SECURITIES PLC

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30th September 2019 which comprises the Group Profit and Loss and other Comprehensive Income, the Group Statement of Financial Position, the Group Cash Flow Statement, the Group Statement of Changes in Equity and related notes 1 to 12. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors’ responsibilities
The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

As disclosed in note 1 (page 13), the annual financial statements of the Group are prepared in accordance with IFRS’s as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union.

Our responsibility
Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30th September 2019 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
London

Group Profit and Loss and other Comprehensive Income

Six months to 30th September 2019

	Notes	**6 months to 30th September 2019 (Unaudited) £'000**	6 months to 30th September 2018 (Unaudited) £'000	12 months to 31st March 2019 (Audited) £'000
Gross rents and service charges receivable		14,572	12,293	25,344
Other property income		66	7	73
Direct property outgoings		(3,369)	(3,125)	(6,321)
Net rental income from investment properties	5	**11,269**	**9,175**	**19,096**
Administration costs	4	(2,396)	(3,263)	(6,245)
Operating profit before gains on investment properties		**8,873**	**5,912**	**12,851**
Profit on disposal of investment properties		1,725	–	–
Revaluation of investment properties	9	3,904	7,513	4,833
Operating profit		**14,502**	**13,425**	**17,684**
Finance costs	7	(3,337)	(2,021)	(4,498)
Finance income	7	4	1	4
Profit before taxation		**11,169**	**11,405**	**13,190**
Taxation	8	(963)	–	–
Profit for the period		**10,206**	**11,405**	**13,190**
Other comprehensive income:				
Items that will not be reclassified subsequently to profit and loss				
Actuarial movement on defined benefit pension scheme		–	–	(135)
Total comprehensive income for the period		**10,206**	**11,405**	**13,055**
Earnings per share	6			
Basic		10.83p	12.13p	14.02p
Diluted		10.79p	12.02p	13.91p

Adjusted earnings per share figures are shown in note 6.

Group Statement of Financial Position

As at 30th September 2019

	Notes	**As at 30th September 2019 (Unaudited) £'000**	As at 30th September 2018 (Unaudited) £'000	As at 31st March 2019 (Audited) £'000
Non-current assets				
Investment properties – As reported by valuers	9	492,140	478,550	482,700
– Adjustment for rents recognised in advance under IFRS 16		(9,482)	(7,358)	(8,326)
– Assets held for sale		(79,090)	(12,900)	(14,400)
– Adjustment for grossing up headleases		4,403	4,404	4,404
		407,971	**462,696**	**464,378**
Plant and equipment		165	64	71
Trade and other receivables		9,482	7,017	10,292
Total non-current assets		**417,618**	**469,777**	**474,741**
Current assets				
Trade and other receivables		3,676	1,720	3,501
Assets held for sale		79,090	12,900	14,400
Cash and cash equivalents		2,692	2,793	4,363
Total current assets		**85,458**	**17,413**	**22,264**
Total assets		**503,076**	**487,190**	**497,005**
Current liabilities				
Trade and other payables		(12,734)	(10,315)	(16,234)
Finance lease liabilities		(286)	(286)	(285)
Total current liabilities		**(13,020)**	**(10,601)**	**(16,519)**
Non-current liabilities				
Loans and other borrowings		(169,058)	(158,887)	(163,176)
Pension fund deficit		(1,988)	(2,044)	(2,108)
Deferred tax liability		(963)	–	–
Finance lease liabilities		(4,118)	(4,118)	(4,119)
Total non-current liabilities		**(176,127)**	**(165,049)**	**(169,403)**
Total liabilities		**(189,147)**	**(175,650)**	**(185,922)**
Net assets		**313,929**	**311,540**	**311,083**
Equity				
Called up share capital		18,853	18,825	18,825
Share premium account		79,966	79,652	79,652
Retained earnings		75,766	77,758	79,981
Revaluation reserve		139,344	135,305	132,625
Total equity		**313,929**	**311,540**	**311,083**
Net asset value per share	11	**333p**	**331p**	**331p**
EPRA net asset value per share	11	**333p**	**326p**	**326p**

Group Cash Flow Statement

Six months to 30th September 2019

	6 months to 30th September 2019 (Unaudited) £'000	6 months to 30th September 2018 (Unaudited) £'000	12 months to 31st March 2019 (Audited) £'000
Operating activities			
Profit before taxation	11,169	11,405	13,190
Adjustments for:			
Depreciation	24	19	46
Other non-cash movements	(20)	759	1,725
Profit on sale of investment properties	(1,725)	–	–
Movement in revaluation of investment properties	(3,904)	(7,513)	(4,833)
Net finance costs	3,333	2,020	4,494
Cash flow from operations before changes in working capital	**8,877**	**6,690**	**14,622**
Decrease/(increase) in debtors	528	(1,221)	(6,274)
Increase/(decrease) in creditors	(3,647)	871	5,623
Cash generated from operations	**5,758**	**6,340**	**13,971**
Interest paid	(2,954)	(2,551)	(5,275)
Interest received	4	1	4
Cash flows from operating activities	**2,808**	**3,790**	**8,700**
Investing activities			
Proceeds from sale of investment properties	8,072	–	–
Purchase and development of investment properties	(10,741)	(9,776)	(14,304)
Purchase of other fixed assets	(117)	(41)	(76)
Cash flows from investing activities	**(2,786)**	**(9,817)**	**(14,380)**
Financing activities			
Increase in borrowings	8,000	14,000	18,000
Bank facility fees paid	(2,498)	2	3
Headlease liability paid	(230)	(142)	(285)
Equity dividends paid	(6,965)	(6,765)	(9,400)
Cash flows from financing activities	**(1,693)**	**7,095**	**8,318**
Net (decrease)/increase in cash and cash equivalents	(1,671)	1,068	2,638
Cash and cash equivalents at the beginning of the period	4,363	1,725	1,725
Cash and cash equivalents at end of period	**2,692**	**2,793**	**4,363**

Group Statement of Changes in Equity

Six months to 30th September 2019

	Attributable to equity holders of the parent Company				
	Share capital £'000	Share premium £'000	Revaluation reserve £'000	Retained earnings £'000	Total equity £'000
At 1st April 2018	**18,791**	**79,235**	**127,792**	**80,622**	**306,440**
Profit for the period	–	–	–	11,405	11,405
Other comprehensive income:					
Transfer surplus on revaluation of properties	–	–	7,513	(7,513)	–
Total comprehensive income in the period	**–**	**–**	**7,513**	**3,892**	**11,405**
Issue of new shares net of costs	34	417	–	(451)	–
Dividends paid in period	–	–	–	(6,765)	(6,765)
Cost of share-based payments	–	–	–	439	439
Deferred bonus	–	–	–	21	21
At 30th September 2018	**18,825**	**79,652**	**135,305**	**77,758**	**311,540**
Profit for the period	–	–	–	1,785	1,785
Other comprehensive income:					
Transfer surplus on revaluation of properties	–	–	(2,680)	2,680	–
Transfer on disposal of investment properties	–	–	–	–	–
Actuarial loss on defined benefit pension scheme	–	–	–	(135)	(135)
Total comprehensive income in the period	**–**	**–**	**(2,680)**	**4,330**	**1,650**
Dividends paid in period	–	–	–	(2,635)	(2,635)
Deferred bonus	–	–	–	89	89
Costs of share-based payments	–	–	–	439	439
At 31st March 2019	**18,825**	**79,652**	**132,625**	**79,981**	**311,083**
Profit for the period	–	–	–	10,206	10,206
Other comprehensive income:					
Transfer on disposal of investment property	–	–	2,815	(2,815)	–
Transfer surplus on revaluation of properties	–	–	3,904	(3,904)	–
Total comprehensive income in the period			**6,719**	**3,487**	**10,206**
Issue of new shares net of costs	28	314	–	(342)	–
Dividends paid in period	–	–	–	(6,965)	(6,965)
Credit for share-based payments	–	–	–	(429)	(429)
Deferred bonus	–	–	–	34	34
At 30th September 2019	**18,853**	**79,966**	**139,344**	**75,766**	**313,929**

Notes to the Financial Statements

Six months to 30th September 2019

1 Accounting policies

Basis of preparation

The annual financial statements of McKay Securities Plc ("the Group") are prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union. This condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union.

As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the financial statements have been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published Group financial statements for the year ended 31st March 2019.

The following accounting standards and guidance were adopted by the Group during the year:

IFRS 16 Leases (effective year ended 31st March 2020)

IFRS 16 Leases establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. The standard specifies how entities reporting in accordance with IFRSs will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless term is 12 months or less or the underlying asset has a low value. IFRS 16's approach to lessor accounting is substantially unchanged from its predecessor, IAS 17 Leases. The standard is effective for annual period beginning on or after 1st January 2019. No material impact has been experienced with the adoption of IFRS 16 as the Group has no current lease commitments.

The Board approved the unaudited interim financial statements on 15th November 2019.

2 Alternative Performance Measures

The Group uses a number of Alternative Performance Measures ("APMs") which are not defined or specified within IFRS. The Directors use these measures in order to assess the underlying operational performance of the Group and allow greater comparability between periods but do not consider them to be a substitute for, or superior to, IFRS measures. Adjusted profit before tax is in note 3. EPRA earnings per share is in note 6. EPRA net asset per share is in note 11.

Total property return

(excluding developments)

	6 months to 30th September 2019 £'000	6 months to 30th September 2018 £'000
Valuation surplus	2,672	6,042
Other property income	66	7
Profit realised on disposal	1,725	–
Income from investment properties	11,298	9,341
	15,761	15,390
Book value	470,268	402,108
Total property return	**3.4%**	**3.8%**

Debt to portfolio value (LTV)

	30th September 2019 £'000	31st March 2019 £'000
Net debt – bank debt net of cash balances	170,308	160,636
Valuation as reported by external valuers	492,140	482,700
LTV	**34.6%**	**33.3%**

3 Adjusted profit before taxation

The Directors consider adjusted profit before taxation to be an additional informative measure of the ongoing profits from core rental activities before taxation, adjusted as set out below.

	6 months to 30th September 2019 (Unaudited) £'000	6 months to 30th September 2018 (Unaudited) £'000	12 months to 31st March 2019 (Audited) £'000
Profit before taxation	11,169	11,405	13,190
Movement in valuation of investment properties	(3,904)	(7,513)	(4,833)
Other property income	(66)	(7)	(73)
(Profit) on disposal of investment properties	(1,725)	–	–
IFRS 2 adjustment to share-based payments and deferred bonus	(395)	439	988
Adjusted profit before taxation	**5,079**	**4,324**	**9,272**

4 Administration costs

	6 months to 30th September 2019 £'000	6 months to 30th September 2018 £'000	12 months to 31st March 2019 £'000
Administration costs before IFRS 2	(2,791)	(2,824)	(5,257)
IFRS 2 TSR	(213)	(203)	(407)
IFRS 2 NAV	642	(236)	(471)
Deferred bonus	(34)	–	(110)
Total IFRS 2	395	(439)	(988)
Administration costs including IFRS 2	**(2,396)**	**(3,263)**	**(6,245)**

The IFRS 2 charge is calculated by reassessing all current grants each period to assess how many shares are likely to vest. This will then lead to either a charge or a credit to the Group Profit and Loss and other Comprehensive Income.

5 Net rental income from investment properties

	6 months to 30th September 2019 (Unaudited) £'000	6 months to 30th September 2018 (Unaudited) £'000	12 months to 31st March 2019 (Audited) £'000
Gross rents receivable	11,458	9,898	20,287
IFRS 16 adjustment (spreading of rental incentives)	1,148	534	1,321
Gross rental income	**12,606**	**10,432**	**21,608**
Service charges receivable	1,966	1,861	3,736
	14,572	**12,293**	**25,344**
Other property income	66	7	73
Direct property outgoings	(3,369)	(3,125)	(6,321)
Net rental income	**11,269**	**9,175**	**19,096**

Rent receivable under the terms of the leases is adjusted, in accordance with IFRS 16, for the effect of any incentives given.

Other property income relates to surrender premiums.

6 Earnings per share

	6 months to 30th September 2019 p	6 months to 30th September 2018 p	12 months to 31st March 2019 p
Basic earnings per share	10.83	12.13	14.02
Movement in revaluation of investment properties	(4.14)	(7.99)	(5.14)
Other property income	(0.07)	(0.01)	(0.08)
(Profit) on disposal of investment properties	(1.83)	–	–
IFRS 2 share-based payments and deferred bonus	(0.42)	0.47	1.05
Deferred tax	1.02	–	–
Adjusted earnings per share	**5.39**	**4.60**	**9.85**

Basic earnings per share on ordinary shares is calculated on the profit in the half year of £10,206,076 (30th September 2018: profit £11,404,630 and 31st March 2019: profit £13,190,002) and 94,204,508 (30th September 2018: 94,050,407 and 31st March 2019: 94,087,315) shares, being the weighted average number of ordinary shares in issue during the period.

	6 months to 30th September 2019 Number of shares	6 months to 30th September 2018 Number of shares	12 months to 31st March 2019 Number of shares
Weighted average number of ordinary shares in issue	94,204,508	94,050,407	94,087,315
Number of shares under option	667,348	1,709,536	1,721,064
Number of shares that would have been issued at fair value	(307,788)	(911,976)	(974,797)
Diluted weighted average number of ordinary shares in issue	**94,564,068**	**94,847,967**	**94,833,582**

Diluted earnings per share

	6 months to 30th September 2019 p	6 months to 30th September 2018 p	12 months to 31st March 2019 p
Basic earnings/(loss) per share	10.83	12.13	14.02
Effect of dilutive potential ordinary shares under option	(0.04)	(0.11)	(0.11)
	10.79	12.02	13.91
Movement in revaluation of investment properties	(4.14)	(7.92)	(5.10)
Other property income	(0.07)	(0.01)	(0.08)
(Profit) on disposal of investment properties	(1.82)	–	–
Share-based payments (IFRS 2)	(0.42)	0.46	1.04
Deferred tax	1.02	–	–
Adjusted diluted earnings per share	**5.37**	**4.55**	**9.78**
Share-based payments (IFRS 2)	0.42	(0.46)	(1.04)
Surrender premiums	0.07	0.01	0.08
EPRA earnings per share	**5.86**	**4.10**	**8.81**

Diluted earnings per share is calculated on the same profit after tax and on the weighted average diluted number of shares in issue during the period of 94,564,068 (30th September 2018: 94,847,967 and 31st March 2019: 94,833,582) shares, which takes into account the number of potential ordinary shares under option.

Adjusted earnings per share excludes the after tax effect of profit from the disposal of investment properties, IFRS 2, deferred taxation, other property income, 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 included in other property income, which are added back.

7 Net finance costs

	6 months to 30th September 2019 (Unaudited) £'000	6 months to 30th September 2018 (Unaudited) £'000	12 months to 31st March 2019 (Audited) £'000
Interest on bank overdraft and loans	2,688	2,444	5,025
Commitment fee	266	141	250
Finance lease interest on leasehold property obligations	230	142	285
Finance arrangement costs	380	287	575
Capitalised interest	(227)	(993)	(1,637)
	3,337	**2,021**	**4,498**
Interest receivable	(4)	(1)	(4)
	(4)	**(1)**	**(4)**
Net finance costs	**3,333**	**2,020**	**4,494**

8 Taxation

The taxation charge in the Group Profit and Loss and Other Comprehensive Income relates to a deferred taxation provision of £962,911 on the potential sale of 30 Lombard Street, London, EC3.

9 Investment properties

	As at 30th September 2019 (Unaudited) £'000	As at 30th September 2018 (Unaudited) £'000	As at 31st March 2019 (Audited) £'000
Valuation			
At 1st April	478,778	457,863	457,863
Additions – development	10,579	10,221	16,082
Revaluation surplus	5,060	8,179	6,468
Adjustment for rents recognised in advance under IFRS 16	(1,156)	(667)	(1,634)
Disposals	(6,200)	–	–
Amortisation of grossed up headlease liabilities	–	–	(1)
Book value including assets held for sale	**487,061**	**475,596**	**478,778**
Adjustment for grossing up of headlease liabilities	(4,403)	(4,404)	(4,404)
Adjustment for rents recognised in advance under IFRS 16	9,482	7,358	8,326
Valuation as reported by valuers	**492,140**	**478,550**	**482,700**

In accordance with the Group's accounting policy on properties there was an external valuation at 30th September 2019. These valuations, were carried out by Knight Frank LLP. All valuations were carried out in accordance with the Appraisal and Valuation Standards of RICS, on an open market basis.

Included in current assets as assets held for sale are the following properties: 30 Lombard Street, London EC3, The Planets, Woking and The Penthouse, Knightsbridge. These total £79.09 million.

The valuation surplus after adjustment for IFRS 16 is £3,904,000.

10 Dividends

	6 months to 30th September 2019 (Unaudited) £'000	6 months to 30th September 2018 (Unaudited) £'000	12 months to 31st March 2019 (Audited) £'000
Final dividend			
Year ended 31st March 2019	6,965	–	–
Year ended 31st March 2018	–	6,765	6,765
Interim dividend			
Year ended 31st March 2019	–	–	2,635
	6,965	**6,765**	**9,400**

The final dividend of 7.4 pence per share (£6,965,000) for the year ended 31st March 2019 was paid on 25th July 2019.

The Directors have declared an interim dividend of 2.8 pence per share (2019: 2.8 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 2.8 pence per share will be paid as an ordinary dividend. Further REIT information is available on the Company's website.

11 Net asset value per share

	30th September 2019		
	Net assets £'000	**Shares '000**	**Net asset value per share p**
Basic	313,929	94,264	333
Number of shares under option	–	360	(1)
Diluted/EPRA NNNAV	**313,929**	**94,624**	**332**
Deferred taxation	963	–	1
EPRA NAV	**314,892**	**94,624**	**333**

	30th September 2018		
	Net assets £'000	Shares '000	Net asset value per share p
Basic	311,540	94,124	331
Number of shares under option	912	1,734	(5)
Diluted/EPRA NNNAV	**312,452**	**95,858**	**326**
Adjustment for fair value of derivatives	–	–	–
EPRA NAV	**312,452**	**95,858**	**326**

	31st March 2019		
	Net assets £'000	Shares '000	Net asset value per share p
Basic	311,083	94,124	331
Number of shares under option	1,635	1,732	(5)
Diluted/EPRA NNNAV	**312,718**	**95,856**	**326**
Adjustment for fair value of derivatives	–	–	–
EPRA NAV	**312,718**	**95,856**	**326**

12 Event after balance sheet date

The acquisition of a property in Newbury for £16.3 million (including costs on the 29th October 2019).

Disclaimer

The Interim Report of McKay Securities Plc for the six months to 30th September 2019 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 2019, it would also be determined in accordance with English law.

Interim Report

The Interim Report is being posted to all shareholders on 28th November 2019. 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 mckaysecurities.plc.uk