McKay Securities Plc

# Interim Report 2021

# Who we are

## McKay is a specialist in the development, refurbishment and management of office, industrial, and logistics property in the South East and London – ideally positioned to deliver quality, innovation and growth.

## Our Vision

To build upon our reputation and status as the leading property specialist for occupiers and investors, focused entirely on the South East and London – and build a business based on markets that we know and understand.

## Our Purpose

To deliver outstanding services as a customer-focused and flexible landlord with occupiers at the heart of everything we do.

## Our Mission

To develop, refurbish and manage low carbon resource-efficient and healthy commercial property; working in partnership with occupiers to deliver quality, innovation and growth.

We provide the very best environment for our customers to thrive and businesses to grow.

We deliver sustainable returns by operating an effective and established business model in a progressive and transparent way.

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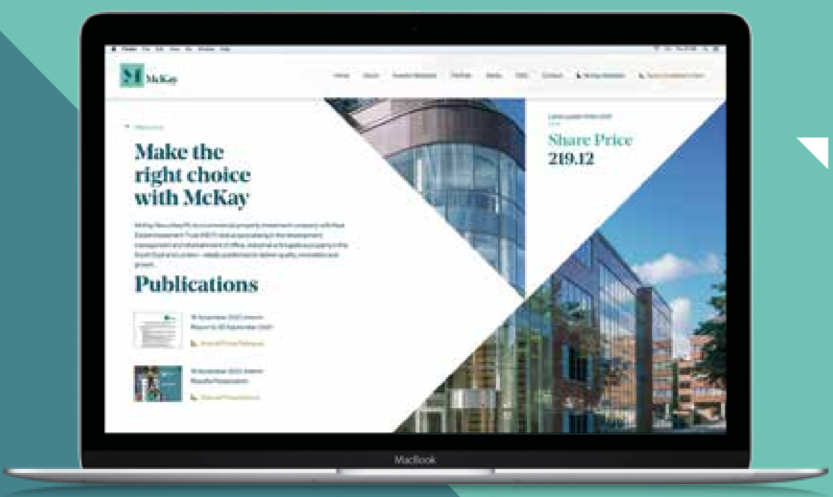


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# Highlights

## Profits and earnings

**£4.09m[1]**
**Adjusted profit before tax**
(30 September 2020: £5.27 million[1])

**£15.44m**
**Profit before tax (IFRS)**
(30 September 2020: £(15.02) million loss)

**4.6p[2]**
**EPRA earnings per share**
(30 September 2020: 5.5 pence[2])

**16.7p[2]**
**IFRS earnings per share**
(30 September 2020: (15.9) pence[2])

## Portfolio valuation

**£454.95m[4]**
(31 March 2021: £438.95 million)[4]

**£11.76m**
**Surplus**

**2.7%**
(30 September 2020: £(15.64) million deficit/3.4%)

## Shareholders' funds

**£295.85m**
(31 March 2021: £294.74 million)

**322p[3]**
**EPRA NTA per share**
(31 March 2021: 313 pence[3])

**322p[3]**
**Net asset value per share (IFRS)**
(31 March 2021: 312 pence[3])

## Net debt to portfolio value (LTV)

**33.6%[5]**
(31 March 2021: 30.3%[5])

## Proposed interim dividend per share

**2.9p**
(30 September 2020: 2.8 pence)

1. See note 4 in financial statements.
2. See note 7 in financial statements.
3. See note 12 in financial statements.
4. See note 10 in financial statements.
5. See note 3 in financial statements.

# Chair's Statement

## Our focus on the economically resilient regions of the South East and London has continued to underpin our operations, and we have benefitted from portfolio diversity with another strong performance from our industrial and logistics assets and a stabilising of our office assets.

**Overview**
Trading over the first half was more challenging as it was only in mid-June that Government policy permitted a full return to the workplace. However, as Covid-19 restrictions have eased, we have seen improving confidence across our markets and there are many positives to report. These include rent collection for the year to 31 March 2021, which now stands at 99.0% and 96.0% for the year to date, and numerous asset management initiatives with the potential to enhance future value.

# Chair's Statement continued

The office market has re-emerged after 18 months of effective lockdown, with the steady return of workers to the office enabling us to maintain a high occupier retention rate in line with previous years. Encouragingly, occupier demand and market lettings are significantly higher than 12 months ago, and 10 of the 13 lettings we achieved over the period were recently refurbished office suites, benefitting from occupiers looking for quality space to attract and retain staff. This supported our strategic decision to commence the refurbishment of a number of floors across the portfolio where leases expired during the period. The timing of these expiries has increased our portfolio vacancy rate, but we are already seeing occupier interest which is expected to reverse this and add value. We have also taken advantage of a lease expiry at Sopwith Drive, Weybridge and are well progressed with plans to refurbish or redevelop the existing 63,140 sq ft warehouse, either of which will add to the substantial 24.5% reversionary potential of the existing portfolio.

Shortly after the end of the period we added to the portfolio with the acquisition of Evergreen Studios, Richmond-on-Thames for £14.75 million. This attractive office building meets the market requirement for high-quality office space following an extensive refurbishment and will add to earnings for the second half with a net initial yield of 5.8%.

This was our first acquisition since the sale of 30 Lombard Street, EC3 in September 2020, which provided us with the ability to reinvest the sale proceeds into acquisitions with growth potential and to replace income lost on disposal. Having looked at a considerable number of opportunities across the office, industrial and logistics markets we adopted a patient and selective approach to allow improved clarity on investment values. This maintained significant headroom to our existing loan facilities of £92.35 million at the end of the period for investment, capital expenditure to supplement the existing portfolio potential and other value enhancing opportunities.

This headroom includes scope for the on-going share buy-back programme of up to £10.00 million which we originally announced in March 2021 and extended in July 2021. The programme has made an effective contribution to shareholder value, with a total of £5.86 million committed so far to acquire 2.63 million shares at an average price of £2.23 per share.

These activities, combined with continued high levels of rent collection, have delivered a positive set of results and enhanced future portfolio potential whilst maintaining balance sheet strength with a loan to value ratio ("LTV") at the end of the period of 33.6% (31 March 2021: 32.4%).

Gross rents received over the period totalled £11.18 million (30 September 2020: £12.75 million), which was lower mainly due to the loss of £1.35 million of income from 30 Lombard Street, EC3 received in the prior period. This resulted in a reduction in adjusted profit before tax to £4.09 million (30 September 2020: £5.27 million).

The independent valuation of the portfolio at the end of the period totalled £454.95 million (31 March 2021: £437.90 million), which delivered a 2.7% (£11.76 million) surplus after taking into account portfolio capital expenditure compared with a 3.4% (£15.64 million) deficit in the comparable period and a 4.7% (£21.58 million) deficit for the full year to 31 March 2021. Gains were strongest in the industrial and logistics segment of the portfolio, where we have increased our weighting over the last 12 months to 30.1% (30 September 2020: 25.1%).

With the benefit of this valuation surplus, IFRS profit before tax was up to £15.44 million (30 September 2020: £15.02 million loss), a net positive movement over the year of £30.46 million. The valuation gains and the share buy-back contributed to a 4.2% increase in EPRA net tangible asset value per share ("EPRA NTA") to 322 pence (31 March 2021: 309 pence).

### Market review

The improvement in confidence since lockdown has generated a stabilising of market rents and a pick-up in occupier and investor demand in our office markets, whilst rental and capital values in our industrial and logistics markets have continued to benefit from strong occupier and investor demand.

The largest segment of our portfolio is South East offices, which accounts for 52.5% by value. We expressed confidence at the end of last year that this market would recover once lockdown restrictions were eased. Since then, we have seen encouraging signs of recovery based on our own letting activity and on data provided by BNP Paribas. For the year to date, a total of 1.63 million sq ft has been let in this market, which is 92.0% ahead of the 0.85 million sq ft of take-up at the same

Table 1:
## Portfolio capital value and ERV by sector

| Sector | Assets (no) | £m CV | % | £m ERV | % |
|---|---|---|---|---|---|
| Office – SE | 17 | 238.85 | 52.5 | 20.65 | 66.2 |
| Office – London | 3 | 54.90 | 12.1 | 3.70 | 11.8 |
| Office – Total | 20 | 293.75 | 64.6 | 24.35 | 78.0 |
| SE Industrial | 9 | 136.95 | 30.1 | 6.26 | 20.1 |
| Other | 4 | 24.25 | 5.3 | 0.59 | 1.9 |
| **Total** | **33** | **454.95** | **100.0** | **31.20** | **100.0** |

stage last year. This is already ahead of the 1.31 million sq ft of lettings for the whole of 2020 and is on course to exceed the five-year average of 1.89 million sq ft. The lettings continued the pre-pandemic trend for smaller unit sizes, which we have positioned our portfolio to meet, with 83.5% of take-up in the sub 60,000 sq ft size band. The importance of maintaining portfolio quality was also illustrated by new or grade A buildings accounting for 85.9% of the take-up. We expect post-pandemic demand to continue to grow for high-quality space in this smaller size band, and are well placed to meet this need.

Following the shift towards hybrid working, the office is becoming increasingly important as a collaborative space to reinforce a business's identity and to encourage team work and the effective integration of new and younger employees. At the end of the last financial year, we anticipated that demand for office space had been deferred during lockdown rather than lost, based on our view that the office would remain a strategic location for the delivery of a company's business plan. This has so far proved to be the case with the recent pick-up in named occupier demand in the South East office market up to 2.85 million sq ft, representing a 31.3% increase over demand at the same stage last year, and a substantial move back towards the five-year average of 3.11 million sq ft.

The pick-up in demand and lettings has reduced the overall supply of floor space to let in this market by 11.5% over the period to 7.79 million sq ft, representing a vacancy rate of 8.4% (31 March 2021: 9.4%). The supply of new buildings however remains highly constrained with a vacancy rate for new space of just 2.5% (31 March 2021: 2.3%) and the pipeline also remains limited as development and major refurbishment projects have been deferred pending greater market clarity. Despite the low levels of take-up during the pandemic, this limited supply remains close to historic lows and is restricting occupier choice, resulting in new rental highs in a number of established centres due to lack of supply and the flight to quality.

Our three central London office properties now account for 12.1% of the portfolio by value. The London occupational market is also showing positive signs of recovery, with each of our buildings continuing to provide management opportunities for rental and capital growth.

The increase in our portfolio weighting in the South East industrial and logistics market to 30.1% has been the result of the successful deployment of capital into the Willoughby Road, Bracknell acquisition last year, portfolio initiatives and the 135 Theale Logistics Park development which was completed and let to Amazon in summer 2020. This market continues to see record levels of take-up of distribution space, driven by the shift to on-line retail, which has generated further rental growth during the period. Supply is now at historically low levels in this market as well, and highly competitive investor demand in anticipation of further rental growth has compressed yields further and pushed pricing to record highs.

### Asset management

We continued to adopt an active approach to our assets to enhance value and income through tenant retention, selective refurbishments, development and the recycling of capital from disposals.

Income growth cannot be achieved without retaining and attracting new occupiers and that means ensuring that our portfolio properties are best placed to meet evolving occupier demand for high-quality, flexible floor space. To achieve this we invested £5.32 million over the period in mainly office refurbishment works to enhance the quality, appeal and rental value of assets with vacancies. In a number of cases the works included our McKay+ offer of semi-fitted out floors to facilitate ease and speed of occupation for businesses looking to work with a landlord. This offer, along with other initiatives such as short-form leases, flexible lease terms and our in-house McKay Way management commitment are increasingly popular with occupiers.

Table 2:
## Portfolio income

| | 30 September 2021 | | | 31 March 2021 | | |
|---|---|---|---|---|---|---|
| | £m pa | Yield[2] | Vacancy[3] | £m pa | Yield[2] | Vacancy[3] |
| Current rental income[1] | 22.69 | 4.7% | | 22.20 | 4.8% | |
| Contracted rental income[1] | 25.05 | 5.2% | | 25.61 | 5.5% | |
| Uplifts at rent review/lease expiry | 0.29 | | | 1.21 | | |
| Void properties (excluding developments[3]) | 5.14 | | 16.9% | 4.63 | | 15.5% |
| Void (developments[4]) | 0.72 | | | – | | |
| Portfolio reversion | 6.15 | | | 5.84 | | |
| **Total portfolio ERV** | **31.20** | **6.4%** | | **31.45** | **6.7%** | |
| Equivalent yield | | 6.1% | | | 6.1% | |

1 Net of ground rents.
2 Yield on portfolio valuation with notional purchaser's costs (6.75%) added.
3 By ERV.
4. Weybridge.

# Chair's Statement continued

This proved to be the case at Pegasus Place in Crawley (50,790 sq ft) where we completed the comprehensive refurbishment of Pegasus 2 (12,480 sq ft) to a McKay+ specification last year. During the period we let the 1st floor (4,330 sq ft) on a 10 year term with a break at the end of the fifth year at £0.12 million pa and in early October we let the remaining 2nd floor (4,330 sq ft) at £0.13 million pa on similar terms. Both lettings were ahead of ERV, and this leaves the building now fully let at record rents for the area.

These lettings contributed to a total of 13 open market lettings completed over the period, with a combined contracted rent of £0.64 million pa; 3.8% ahead of ERV. Total contracted rent at the end of the period was £25.05 million pa (31 March 2021: £25.61 million) with the reduction reflecting a higher portfolio vacancy level while refurbishment works are carried out prior to re-letting. The portfolio ERV (net) at the end of the period was £31.20 million pa (31 March 2021: £31.45 million pa), with the difference representing a significant portfolio reversion potential of £6.15 million pa (24.5%).

In addition, we also had success at Mallard Court, Staines (21,860 sq ft) where a McKay+ specification contributed to two lettings exchanging in the period, but with completion due shortly, at a combined contracted rent of £0.24 million pa.

Complementing the letting progress set out above, the strength of our in-house property management and close occupier relationships contributed to 11 lease renewals and retention of six out of seven occupiers at lease break. This maintained a strong occupier retention rate of 73.9% at lease break or expiry across the portfolio (31 March 2021: 74.3%), securing combined income of £0.86 million pa, which was 6.4% ahead of ERV.

Our portfolio occupancy at the end of the period (excluding developments) was 83.2% (31 March 2021: 84.5%), increasing to 85.9% with leases due to complete shortly and since the end of the period. Although we have seen the benefit of improving occupier demand with positive lettings and high occupier retention rates, portfolio occupancy reflects our strategic decision to refurbish a number of floors that became vacant during the period. These works are under way, and once let, will release income potential included within the portfolio reversion referred to above, and return the portfolio occupancy to more normal levels

### Refurbishment

In addition to the refurbishment work already under way at the beginning of the period, we have taken the opportunity to invest in those predominantly office assets with vacancies over the period to enhance letting prospects as the market recovers. This refurbishment work has progressed well, and at the end of the period 60.1% (£3.09 million pa) of the portfolio void (excluding developments) was concentrated within Swan Court, Wimbledon; Corinthian House, Croydon; and Portsoken House, EC3. Works are either under way or completed and in all cases, occupier interest is encouraging.

At Swan Court (57,500 sq ft), having agreed a 10 year lease renewal over four of the six floors with Domestic and General last year, we are refurbishing the remaining two floors and upgrading the reception and common parts, which is due for completion in Q1 2022. This will provide 20,000 sq ft of Grade A accommodation with an ERV of £0.98 million pa in an under supplied, well connected market.

The rolling refurbishment programme continues at Corinthian House, Croydon (44,590 sq ft) where we have completed an upgrade of the reception, the common parts and the 2nd and 5th floors (totalling 8,758 sq ft). These two floors are now 85% let with four of the five new suites let to existing occupiers who chose to stay in the building at lease break or expiry and move to upgraded space. The next phase (floors 3, 4, 7 and part 8th totalling 15,000 sq ft) is nearing completion with a pre-let already signed on 1,637 sq ft at £0.06 million pa, 18% ahead of ERV. This demonstrates the appeal of this repositioned asset in the heart of Croydon, where office supply is limited. Vacancy in the building at the end of the period totalled 26,835 sq ft with an ERV of £0.85 million pa.

At Portsoken House, EC3 (49,570 sq ft) the refurbishment of four floors (21,453 sq ft) has commenced with a staggered completion through to Q1 2022. This includes three floors vacated at the beginning of the period, two of which by a long-term occupier paying £26.00 psf in comparison to a refurbished ERV of

£50.00 psf. The combined ERV of the vacant floor space of £1.26 million pa includes a 62.4% increase in income potential from the four floors.

In addition to these three main projects, the rolling refurbishment at The Mille in Brentford (96,700 sq ft) continues to improve the experience for occupiers with a new gym and other wellness provisions, which have contributed to the retention of all four tenants who had a lease break or expiry during the period (£0.24 million pa of contracted rent). The refurbishment of the 5th and part 4th floors (12,128 sq ft) with an ERV of £0.27 million pa, will complete shortly.

### Development

The current programme consists of the refurbishment or redevelopment of our warehouse and logistics unit at Sopwith Drive, Weybridge (63,140 sq ft), where Hermes Parcelnet exercised their break at the beginning of the period to move to a larger adjoining building. Both options will significantly increase the current ERV of the existing unit of £0.72 million pa (£11.60 psf).

We have already secured planning consent for a comprehensive refurbishment. However, we are now reassessing the potential for redevelopment, which could increase the unit size by up to 20%, as scheme viability has improved with continued rental and valuation growth in this sector. In the interim, Hermes signed a short-term licence agreement after the end of the period to re-use the warehouse from October 2021 to March 2022, which provides income while finalising our approach.

### Acquisitions and disposals

Following the disposal of 30 Lombard Street, EC3 last year for an excellent headline price of £76.50 million (4.2% yield), cash and undrawn facilities at the beginning of the period totalled £103.25 million. This provided us with scope to re-cycle into new opportunities in our core South East office, industrial and logistics markets, whilst maintaining a prudent LTV and balance sheet strength.

We have appraised a significant number of opportunities, sourced both on and off market through our network of agents and other professional contacts. Having adopted a disciplined and highly selective approach in view of the more limited returns from industrial and warehouse opportunities, and to allow the office sector to re-establish market value, we made no acquisitions over the period. However, shortly after the period end, we were pleased to announce the acquisition of Evergreen Studios in Richmond for £14.75 million. This appealing office building (17,325 sq ft), located in a prime location in central Richmond, has been refurbished to a high standard. A two year lease-back of the whole building by the vendor at a rent of £0.92 million pa provides us with an initial yield of 5.8% while we run a marketing campaign to secure new occupiers on a floor-by-floor basis, with the ground floor already let.

No disposals were made over the period, but we remain under contract to sell The Planets, Woking (98,255 sq ft) if the purchaser obtains planning consent for residential redevelopment. Following a planning appeal earlier this month, a decision is anticipated before the end of the year.

As previously reported, our tenant at Great Brighams Mead, Reading (84,840 sq ft) will vacate in March 2022. Having assessed a range of refurbishment and redevelopment alternatives, we are now marketing the freehold as a commercial refurbishment opportunity, but also with the benefit of permitted development for conversion to residential use.

### ESG

ESG considerations continue to play an integral part in our strategy and operating practices, based on our 2019 Sustainability Framework and 2021 Net Zero Carbon Pathway. Providing low-carbon, resource-efficient and healthy buildings is one of our long-term priorities as a responsible business and essential to meeting market demand for our product. Our Carbon Pathway confirms our commitment to achieving net zero in operation by 2030 for new developments and by 2040 for existing assets. The first new build test of this will be at Sopwith Drive, Weybridge where we will be targeting net zero construction and net zero in operation should we redevelop the site.

We have also been closely monitoring the Government's review of legislation in connection with minimum energy standards, which is widely anticipated to introduce more demanding energy performance certificates ("EPCs") to let or sell a building. We have achieved our own internal target since 2015 to deliver a t least 'B' 'in all new developments and major refurbishments, and have a programme in place across the portfolio to deliver improvements where required. At the year end we will report on how we have performed in the independent review of the 27 externally set ESG targets. Good progress is being made so far, and in October 2021 we received the positive news that GRESB (Global Real Estate Sustainability Benchmark) had awarded us another prestigious 4-star rating, with our score having increased from 77% in 2020 to 81%.

### Valuation

The external independent valuation of the 33 assets (31 March 2021: 33 assets) by Knight Frank as at 30 September 2021 totalled £454.95 million (31 March 2021: £437.90 million). This generated a surplus of £11.76 million (2.7%) for the six-month period net of the capital spent upgrading the assets, with a portfolio ERV down 0.8% to £31.20 million (31 March 2021: £31.45 million). The MSCI (All Property) Monthly Index delivered capital growth of 6.0% and rental growth of 0.9% which was ahead of our performance primarily due to the higher Index weighting in the better performing sectors.

Our South East office segment had a valuation deficit of 0.7%, compared with the 0.2% increase in the relevant MSCI Index. Much of the refurbishment expenditure previously referred to earlier was invested in these assets, and the reversal of valuation assumptions for vacant floor space once let are expected to contribute to future performance. ERVs were up marginally by 0.2%, with the relevant Index up 0.4%.

The valuation gains in the period were driven by our South East industrial and logistics assets which delivered a capital surplus of 12.9% (£14.37 million) and a 1.3% increase in ERV (Index: 13.7% and 4.0% respectively). The combination of continued yield contraction and rental growth continues to push values higher in this sought-after sector.

The yield profile remained broadly similar to March 2021, with the slight contraction reflecting the increasing value of our industrial and logistics assets. The

# Chair's Statement continued

## Table 3: Rent collection

| | Year to March 2021 % | Mar 21 quarter % | Jun 21 quarter % | Sep 21 quarter % | **Total 3 quarters %** |
|---|---|---|---|---|---|
| Paid within seven days | 73.2% | 76.8% | 85.9% | 88.4% | **83.8%** |
| Paid after seven days | 25.7% | 22.5% | 12.9% | 2.9% | **12.5%** |
| Cash received | 98.9% | 99.3% | 98.8% | 91.3% | **96.4%** |
| Outstanding | 0.4% | 0.7% | 1.2% | 8.7% | **3.6%** |
| Sub-total | 99.3% | 100.0% | 100.0% | 100.0% | **100.0%** |
| Impaired | 0.7% | | | | **0.0%** |
| **Grand Total** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

portfolio initial yield (based on contracted rents) was 5.2% (31 March 2021: 5.5%), and the reversionary yield (fully let at ERV) was 6.4% (31 March 2021: 6.7%). The equivalent yield, which is the average yield over time allowing for voids and capital expenditure, was unchanged at 6.1% (31 March 2021: 6.1%).

### Finance

Rent collection remained strong, with the year to March 2021 now at 98.9% of rents due, with a further 0.4% agreed, taking the total to 99.3% for the year. Furthermore, a significant proportion of the amount impaired in that accounting period has since been collected during this new financial year.

For the current year to 31 March 2022, 96.4% of rent due has so far been received for the first nine months of the financial year, as shown in Table 3. Of the 8.7% of rent outstanding for the September 2021 quarter, 64.4% relates to agreed monthly payments.

Gross rents receivable for the period decreased by £1.57 million to £11.18 million (30 September 2020: £12.75 million). This was due primarily to the loss of the income contribution of £1.35 million from 30 Lombard St, EC3 following disposal in September 2020. There was also reduced income contributions from those properties in refurbishment or redevelopment which was offset by full income contributions from the prior year purchase at Willoughby Rd, Bracknell, and from the letting of 135 Theale Logistics Park.

Non-recoverable property costs of £1.34 million (30 September 2020: £1.62 million) were slightly lower, due to the lack of rent and service charge impairments in the period.

Net rental income as a result of these movements was down by 9.3% to £10.24 million (30 September 2020: £11.29 million).

Administration costs of £2.73 million (excluding IFRS 2) were £0.28 million higher than the comparable period (30 September 2020: £2.45 million) mainly due to a £0.09 million increase in insurance costs, and with a £0.12 million one-off reversal of a Performance Share Plan national insurance charge benefitting the period to 30 September 2020. The IFRS 2 charge for the period, being the unrealised revaluation of share-based payments, was £0.25 million (30 September 2020: £0.22 million).

During the period, development and refurbishment expenditure totalled £5.32 million and there were no acquisitions nor disposals. Interest payable was lower at £3.01 million (30 September 2020: £3.41 million) because of lower average drawings than the comparable period. Net debt at the end of the current period was £152.65 million (31 March 2021: £141.75 million), which resulted in an LTV of 33.6% (31 March 2021: 32.4%).

In March 2021, the Group announced a share buy-back programme of up to £10.00 million. At the end of the period a total of 2,628,016 shares have been bought back (2,089,474 in the period) at a cost of £5.86 million (£4.72 million in the period) representing 2.8% of the issued share capital prior to the buy-back. The programme, which has been accretive to shareholder value, will remain under review to ensure it continues as an effective and efficient means of generating value for shareholders alongside portfolio initiatives, acquisitions and disposals and the importance of maintaining balance sheet resilience.

After taking these items into account, adjusted profit before tax - our measure of recurring profit excluding valuation movements, profit on disposals and other one-off items decreased to £4.09 million (30 September 2020: £5.27 million).

The IFRS profit before tax was £15.44 million (30 September 2020: £15.02 million loss) mainly as a result of the positive unrealised movement of £11.20 million in the revaluation of investment properties (including IFRS 16 adjustment) over the period compared with a negative movement of £17.10 million at 30 September 2020.

Adjusted earnings per share decreased to 4.41 pence (30 September 2020: 5.59 pence). EPRA earnings per share reduced to 4.57 pence (30 September 2020: 5.53 pence). In both cases, the reduction was primarily due to the loss of income from prior year disposals as referred to above.

IFRS net asset value increased by £5.95 million to £295.85 million (31 March 2021: £289.90 million), benefitting from the unrealised valuation gain. As a result, EPRA NTA per share and IFRS NAV per share both increased by 4.2% to 322 pence (31 March 2021: 309 pence), benefitting from the buy-back of shares at a discount. Of the 13 pence per share increase over the period, the share buy-back programme accounted for 2 pence per share on a proforma basis.

The Company's loan profile remains strong with a total of £245.00 million secured across two facilities, providing £92.35 million of headroom to net debt at the end of the period. These two facilities consist of a £65.00 million fully drawn term loan fixed until 2030 and a £180.00 million revolving facility to 2024, which provides a reasonable time frame prior to refinancing.

## Dividend

The Board is pleased to declare an interim dividend of 2.9 pence per share. This is a 3.6% increase on the dividend paid for the same period last year and will be paid as a Property Income Distribution ("PID") on 4 January 2022.

## Outlook

Whilst prospects for the remainder of the year are dependent on the pace of recovery in the economy and our markets from Covid-19, we can look forward from a position of resilience and substantial portfolio potential.

Our balance of office, industrial and logistics assets has continued to deliver high levels of rent collection and provides a natural hedge, while our exposure to the South East and London means we remain focussed on the strongest regions of the country and are well placed to benefit from the re-emergence of the office market which we are now seeing. The better quality stock with strong ESG credentials will capture demand as we move forward, putting McKay's portfolio in a robust position on the back of our ongoing investment programme.

With the returning confidence that we have seen across our markets, and our own improving experience across the portfolio, we are cautiously optimistic.

**Richard Grainger**
Chair
15 November 2021

# Statement of Directors' Responsibilities

**Six months to 30 September 2021**

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 UK; and
- 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
15 November 2021

## Identification of business risks

The Group's principal risks and uncertainties are consistent with those noted in the Annual Report for the year ended 31 March 2021 which include compliance with financial covenants on bank borrowing, tenant default, liquidity, interest rate movements on bank borrowing and the ongoing implications of Covid-19. 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 31 March 2021.

## 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 cashflow 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 30 September 2021 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 30 September 2021 which comprises the profit and loss and other comprehensive income account, the statement of financial position, the statement of changes in equity, the cashflow statement and related notes 1 to 13. 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.

## 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 2, the annual financial statements of the Group will be prepared in accordance with United Kingdom adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, 'Interim Financial Reporting'.

## 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 30 September 2021 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

## Use of our report

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.

**Deloitte LLP**
Statutory Auditor
London, United Kingdom
15 November 2021

# Consolidated Profit and Loss and Other Comprehensive Income

**Six months to 30 September 2021**

| | Notes | 6 months to 30 September 2021 (Unaudited) £'000 | 6 months to 30 September 2020 (Unaudited) £'000 | 12 months to 31 March 2021 (Audited) £'000 |
|---|---|---|---|---|
| **Gross rents and service charges receivable** | | **12,842** | **14,570** | **28,589** |
| Other property income | | 401 | 157 | 157 |
| Direct property outgoings | | (3,006) | (3,441) | (7,112) |
| **Net rental income from investment properties** | 6 | **10,237** | **11,286** | **21,634** |
| Administration costs | 5 | (2,988) | (2,665) | (5,664) |
| **Operating profit before gains on investment properties** | | **7,249** | **8,621** | **15,970** |
| Profit/(loss) on disposal of investment properties | | – | (3,128) | (2,854) |
| Revaluation of investment properties | 10 | 11,204 | (17,105) | (23,356) |
| **Operating profit /(loss)** | | **18,453** | **(11,612)** | **(10,240)** |
| Finance costs | 8 | (3,012) | (3,414) | (6,351) |
| Finance income | 8 | 1 | 8 | 8 |
| | | | | |
| **Profit/(loss) before taxation** | | **15,442** | **(15,018)** | **(16,583)** |
| Taxation | 9 | – | – | 133 |
| **Profit/(loss) for the period** | | **15,442** | **(15,018)** | **(16,450)** |
| Other comprehensive income: | | | | |
| Items that will not be reclassified subsequently to profit and loss: | | | | |
| Remeasurement on defined benefit pension scheme | | 80 | (485) | (278) |
| **Total comprehensive income/(expenses) for the period** | | **15,522** | **(15,503)** | **(16,728)** |
| | | | | |
| **Earnings/(loss) per share** | 7 | | | |
| Basic | | 16.67p | (15.93)p | (17.45)p |
| Diluted | | 16.67p | (15.93)p | (17.45)p |

Adjusted earnings per share figures are shown in note 7.

# Consolidated Statement of Financial Position

**As at 30 September 2021**

| | | Notes | As at 30 September 2021 (Unaudited) £'000 | As at 30 September 2020 (Unaudited) £'000 | As at 31 March 2021 (Audited) £'000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Investment properties | – Valuation as reported by the valuers | 10 | 454,950 | 438,950 | 437,900 |
| | – Adjustment for tenant incentives recognised under IFRS 16 | | (7,961) | (7,087) | (7,403) |
| | – Assets held for sale | | (13,500) | (13,500) | (13,500) |
| | – Adjustment for grossing up of headleases | | 3,682 | 3,683 | 3,683 |
| | | | **437,171** | **422,046** | **420,680** |
| Plant and equipment | | | 109 | 132 | 125 |
| Other receivables | | | 7,962 | 6,854 | 7,403 |
| **Total non-current assets** | | | **445,242** | **429,032** | **428,208** |
| **Current assets** | | | | | |
| Trade and other receivables | | | 4,510 | 4,636 | 3,063 |
| Assets held for sale | | | 13,500 | 13,500 | 13,500 |
| Cash | | | 3,347 | 4,087 | 2,249 |
| **Total current assets** | | | **21,357** | **22,223** | **18,812** |
| **Total assets** | | | **466,599** | **451,255** | **447,020** |
| **Current liabilities** | | | | | |
| Trade and other payables | | | (11,272) | (15,088) | (9,233) |
| Current tax liability | | 9 | – | (1,392) | (654) |
| Lease liabilities | | | (229) | (229) | (229) |
| **Total current liabilities** | | | **(11,501)** | **(16,709)** | **(10,116)** |
| **Non-current liabilities** | | | | | |
| Loans and other borrowings | | | (153,819) | (133,888) | (141,369) |
| Pension fund deficit | | | (1,980) | (2,462) | (2,180) |
| Lease liabilities | | | (3,453) | (3,454) | (3,453) |
| **Total non-current liabilities** | | | **(159,252)** | **(139,804)** | **(147,002)** |
| **Total liabilities** | | | **(170,753)** | **(156,513)** | **(157,118)** |
| **Net assets** | | | **295,846** | **294,742** | **289,902** |
| **Equity** | | | | | |
| Called up share capital | | | 18,355 | 18,868 | 18,760 |
| Capital redemption reserve | | | 526 | – | 108 |
| Share premium account | | | 75,541 | 75,541 | 75,541 |
| Retained earnings | | | 75,325 | 79,187 | 80,598 |
| Revaluation reserve | | | 126,099 | 121,146 | 114,895 |
| **Total equity** | | | **295,846** | **294,742** | **289,902** |
| **IFRS net asset value per share** | | 12 | **322p** | **312p** | **309p** |
| **EPRA NTA/NRV value per share** | | 12 | **322p** | **313p** | **309p** |

# Consolidated Cashflow Statement

## Six months to 30 September 2021

| | **6 months to 30 September 2021 (Unaudited) £'000** | 6 months to 30 September 2020 (Unaudited) £'000 | 12 months to 31 March 2021 (Audited) £'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit/(loss) before taxation | 15,442 | (15,018) | (16,583) |
| Adjustments for: | | | |
| Depreciation | 29 | 25 | 47 |
| Other non-cash movements | 596 | 617 | 1,321 |
| (Profit)/loss on sale of investment properties | – | 3,128 | 2,854 |
| Movement in revaluation of investment properties | (11,204) | 17,105 | 23,356 |
| Net finance costs | 3,011 | 3,406 | 6,342 |
| **Cashflow from operations before changes in working capital** | **7,874** | **9,263** | **17,337** |
| Increase in debtors | (2,004) | (2,646) | (1,680) |
| Increase/(decrease) in creditors | 1,885 | 2,806 | (2,394) |
| **Cash generated from operations** | **7,755** | **9,423** | **13,263** |
| Interest paid | (2,447) | (2,919) | (5,237) |
| Interest received | 1 | 7 | 8 |
| Corporation tax paid | (654) | – | (605) |
| **Cashflows from operating activities** | **4,655** | **6,511** | **7,429** |
| | | | |
| **Investing activities** | | | |
| Proceeds from sale of investment properties | – | 70,801 | 70,777 |
| Purchase and development of investment properties | (5,596) | (14,077) | (19,925) |
| Purchase of other fixed assets | (14) | (10) | (24) |
| **Cashflows from investing activities** | **(5,610)** | **56,714** | **50,828** |
| | | | |
| **Financing activities** | | | |
| Gross debt drawdowns | 27,000 | 13,000 | 20,000 |
| Gross debt repayments | (15,000) | (70,000) | (70,000) |
| Bank facility fees paid | – | (68) | (34) |
| Headlease interest and capital paid | (115) | (167) | (282) |
| Equity dividends paid | (5,116) | (4,148) | (6,790) |
| Share buybacks in period | (4,716) | – | (1,147) |
| **Cashflows from financing activities** | **2,053** | **(61,383)** | **(58,253)** |
| | | | |
| Net increase/(decrease) in cash and cash equivalents | 1,098 | 1,842 | 4 |
| Cash and cash equivalents at the beginning of the period | 2,249 | 2,245 | 2,245 |
| **Cash and cash equivalents at end of period** | **3,347** | **4,087** | **2,249** |

# Consolidated Statement of Changes in Equity

## Six months to 30 September 2021

| | Share capital £'000 | Capital redemption reserve £'000 | Share premium £'000 | Revaluation reserve £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|
| **At 31 March 2020** | **18,853** | **–** | **75,541** | **133,241** | **81,531** | **309,166** |
| Loss for the period | – | – | – | – | (15,018) | (15,018) |
| Other comprehensive income: | | | | | | |
| Transfer surplus on revaluation of properties | – | – | – | (17,105) | 17,105 | – |
| Transfer on disposal of property | – | – | – | 5,010 | – | 5,010 |
| Remeasurement on defined benefit pension scheme | – | – | – | – | (485) | (485) |
| **Total comprehensive income in the period** | **–** | **–** | **–** | **(12,095)** | **1,602** | **(10,493)** |
| Issue of new shares net of costs | 15 | – | – | – | (15) | – |
| Dividends paid in period | – | – | – | – | (4,148) | (4,148) |
| Deferred bonus | – | – | – | – | 47 | 47 |
| Costs of share-based payments | – | – | – | – | 170 | 170 |
| **At 30 September 2020** | **18,868** | **–** | **75,541** | **121,146** | **79,187** | **294,742** |
| Loss for the period | – | – | – | – | (1,432) | (1,432) |
| Other comprehensive income: | | | | | | |
| Transfer surplus on revaluation of properties | – | – | – | (6,251) | 6,251 | – |
| Transfer on disposal of property | – | – | – | – | – | – |
| Remeasurement on defined benefit pension scheme | – | – | – | – | 207 | 207 |
| **Total comprehensive income in the period** | **–** | **–** | **–** | **(6,251)** | **5,026** | **(1,225)** |
| Issue of new shares net of costs | – | – | – | – | – | – |
| Share buybacks in period | (108) | 108 | – | – | (1,247) | (1,247) |
| Dividends paid in period | – | – | – | – | (2,641) | (2,641) |
| Deferred bonus | – | – | – | – | 47 | 47 |
| Cost of share-based payments | – | – | – | – | 226 | 226 |
| **At 31 March 2021** | **18,760** | **108** | **75,541** | **114,895** | **80,598** | **289,902** |
| Profit for the period | – | – | – | – | 15,442 | 15,442 |
| Other comprehensive income: | | | | | | |
| Transfer surplus on revaluation of properties | – | – | – | 11,204 | (11,204) | – |
| Remeasurement on defined benefit pension scheme | – | – | – | – | 80 | 80 |
| **Total comprehensive income in the period** | **–** | **–** | **–** | **11,204** | **4,318** | **15,522** |
| Issue of new shares net of costs | 13 | – | – | – | (13) | – |
| Share buybacks in period | (418) | 418 | – | – | (4,716) | (4,716) |
| Dividends paid in period | – | – | – | – | (5,116) | (5,116) |
| Deferred bonus | – | – | – | – | 28 | 28 |
| Cost of share-based payments | – | – | – | – | 226 | 226 |
| **At 30 September 2021** | **18,355** | **526** | **75,541** | **126,099** | **75,325** | **295,846** |

# Notes to the Financial Statements

Six months to 30 September 2021

## 1 General information

The information for the year ended 31 March 2021 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of the Companies. The auditors reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) and (3) of the Companies Act 2006.

## 2 Accounting policies

### Basis of preparation

The annual financial statements of McKay Securities Plc ("the Group") will be prepared in accordance with United Kingdom adopted International Financial Reporting Standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34 'Interim Financial Reporting'.

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 31 March 2021.

The changes to IFRS standards that became effective in the period do not have a material impact on the Group.

The Board approved the unaudited interim financial statements on 15 November 2021.

## 3 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 to allow greater comparability between periods but do not consider them to be a substitute for, or superior to, IFRS measures. For a full description of APMs see page 110 in the 2021 Annual Report and Financial Statements. For September 2021, adjusted profit before tax is in note 4, EPRA earnings per share is in note 7 and EPRA net tangible asset per share is in note 12.

### Total property return

| | **6 months to 30 September 2021 (Unaudited) £'000** | 6 months to 30 September 2020 (Unaudited) £'000 |
|---|---|---|
| Valuation surplus/(deficit) | 11,762 | (15,645) |
| Profit/(loss) realised on disposal | – | (3,128) |
| Income from investment properties | 10,237 | 11,286 |
| | 21,999 | (7,487) |
| Book value | 443,188 | 454,595 |
| **Total property return** | **5.0%** | **-1.6%** |

### Debt to portfolio value (LTV)

| | **30 September 2021 (Unaudited) £'000** | 31 March 2021 (Audited) £'000 |
|---|---|---|
| Net debt – bank debt net of cash balances | 152,653 | 141,751 |
| Valuation as reported by external valuers | 454,950 | 437,900 |
| **LTV** | **33.6%** | **32.4%** |

## 4 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 30 September 2021 (Unaudited) £'000** | 6 months to 30 September 2020 (Unaudited) £'000 | 12 months to 31 March 2021 (Audited) £'000 |
|---|---|---|---|
| Profit/(loss) before taxation | 15,442 | (15,018) | (16,583) |
| Movement in revaluation of investment properties | (11,204) | 17,105 | 23,356 |
| Other property income | (401) | (157) | (157) |
| (Profit)/loss on disposal of investment properties | – | 3,128 | 2,854 |
| IFRS 2 adjustment to share-based payments | 254 | 216 | 489 |
| **Adjusted profit before taxation** | **4,091** | **5,274** | **9,959** |

## 5 Administration costs

| | **6 months to 30 September 2021 (Unaudited) £'000** | 6 months to 30 September 2020 (Unaudited) £'000 | 12 months to 31 March 2021 (Audited) £'000 |
|---|---|---|---|
| Administration costs before IFRS 2 | (2,734) | (2,450) | (5,175) |
| IFRS 2 TSR | (226) | (169) | (396) |
| IFRS 2 NAV | – | – | – |
| Deferred bonus | (28) | (46) | (93) |
| Total IFRS 2 | (254) | (215) | (489) |
| **Administration costs including IFRS 2** | **(2,988)** | **(2,665)** | **(5,664)** |

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

## 6 Net rental income from investment properties

| | **6 months to 30 September 2021 (Unaudited) £'000** | 6 months to 30 September 2020 (Unaudited) £'000 | 12 months to 31 March 2021 (Audited) £'000 |
|---|---|---|---|
| Gross rents receivable | 10,622 | 11,292 | 22,854 |
| IFRS 16 adjustment (spreading of rental incentives) | 557 | 1,456 | 1,771 |
| **Gross rental income** | **11,179** | **12,748** | **24,625** |
| Service charges receivable | 1,663 | 1,822 | 3,964 |
| **Gross rents and service charges receivable** | **12,842** | **14,570** | **28,589** |
| Other property income | 401 | 157 | 157 |
| Direct property outgoings | (3,006) | (3,441) | (7,112) |
| **Net rental income from investment properties** | **10,237** | **11,286** | **21,634** |

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

# Notes to the Financial Statements continued

**Six months to 30 September 2021**

## 7 Earnings per share

| | 6 months to 30 September 2021 (Unaudited) pence | 6 months to 30 September 2020 (Unaudited) pence | 12 months to 31 March 2021 (Audited) pence |
|---|---|---|---|
| Basic earnings/(loss) per share | 16.67 | (15.93) | (17.45) |
| Movement in revaluation of investment properties | (12.10) | 18.14 | 24.77 |
| Other property income | (0.43) | (0.17) | (0.17) |
| Loss on disposal of investment properties | – | 3.32 | 3.03 |
| Share-based payments | 0.27 | 0.23 | 0.52 |
| Taxation | – | – | (0.14) |
| **Adjusted earnings per share** | **4.41** | **5.59** | **10.56** |
| Share-based payments | (0.27) | (0.23) | (0.52) |
| Other property income | 0.43 | 0.17 | 0.17 |
| **EPRA earnings per share** | **4.57** | **5.53** | **10.21** |

Basic earnings per share on ordinary shares is calculated on the profit in the half year of £15,442,000 (30 September 2020: loss £15,017,944 and 31 March 2021: loss £16,450,000) and 92,607,295 (30 September 2020: 94,284,620 and 31 March 2021: 94,292,376) shares, being the weighted average number of ordinary shares in issue during the period.

EPRA earnings per share is calculated on the same profit after tax and on the weighted average number of shares in issue during the year of 92,607,295 (30 September 2020: 94,284,620 and 31 March 2021: 94,292,376) shares.

| | 6 months to 30 September 2021 (Unaudited) Number of shares | 6 months to 30 September 2020 (Unaudited) Number of shares | 12 months to 31 March 2021 (Audited) Number of shares |
|---|---|---|---|
| Weighted average number of ordinary shares in issue | 92,607,295 | 94,284,620 | 94,292,376 |
| Number of shares under option | – | – | – |
| Number of shares that would have been issued at fair value | – | – | – |
| **Diluted weighted average number of ordinary shares in issue** | **92,607,295** | **94,284,620** | **94,292,376** |

The following potential ordinary shares are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purpose of diluted earnings per share.

| | 6 months to 30 September 2021 (Unaudited) Number of shares | 6 months to 30 September 2020 (Unaudited) Number of shares | 12 months to 31 March 2021 (Audited) Number of shares |
|---|---|---|---|
| **Number of shares under option** | **88,711** | **282,488** | **144,921** |

### Diluted earnings per share

| | 6 months to 30 September 2021 (Unaudited) pence | 6 months to 30 September 2020 (Unaudited) pence | 12 months to 31 March 2021 (Audited) pence |
|---|---|---|---|
| Basic earnings/(loss) per share | 16.67 | (15.93) | (17.45) |
| Effect of dilutive potential ordinary shares under option | 0.00 | 0.00 | 0.00 |
| | 16.67 | (15.93) | (17.45) |
| Movement in revaluation of investment properties | (12.10) | 18.14 | 24.77 |
| Other property income | (0.43) | (0.17) | (0.17) |
| Loss on disposal of investment properties | – | 3.32 | 3.03 |
| Share-based payments | 0.27 | 0.23 | 0.52 |
| Taxation | – | – | (0.14) |
| **Adjusted diluted earnings per share** | **4.41** | **5.59** | **10.56** |

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 92,607,295 (30 September 2020: 94,284,620 and 31 March 2021: 94,292,376) shares, which takes into account the number of potential ordinary shares under option.

Adjusted earnings per share excludes the after tax effect of loss or profit from the disposal of investment properties, share-based payments, taxation, other property income and the movement in revaluation of investment properties.

## 8 Net finance costs

| | **6 months to 30 September 2021 (Unaudited) £'000** | 6 months to 30 September 2020 (Unaudited) £'000 | 12 months to 31 March 2021 (Audited) £'000 |
|---|---|---|---|
| Interest on bank overdraft and loans | 2,105 | 2,607 | 4,606 |
| Commitment fee | 343 | 189 | 564 |
| Lease interest on leasehold property obligations | 115 | 167 | 282 |
| Finance arrangement costs | 449 | 451 | 899 |
| Capitalised interest | – | – | – |
| | **3,012** | **3,414** | **6,351** |
| Interest receivable | (1) | (8) | (8) |
| **Net finance costs** | **3,011** | **3,406** | **6,343** |

## 9 Taxation

There is no taxation charge in the Consolidated Profit and Loss and Other Comprehensive Income Statement.

## 10 Investment properties

| | **As at 30 September 2021 (Unaudited) £'000** | As at 30 September 2020 (Unaudited) £'000 | As at 31 March 2021 (Audited) £'000 |
|---|---|---|---|
| **Valuation** | | | |
| At 1 April | 434,179 | 503,766 | 503,766 |
| Additions – purchases and developments | 5,288 | 12,595 | 17,479 |
| Revaluation surplus/(deficit) | 11,763 | (15,645) | (21,579) |
| Adjustment for rents recognised in advance under IFRS 16 | (559) | (1,460) | (1,776) |
| Disposals | – | (69,520) | (69,520) |
| IFRS 16 write off on disposal | – | 5,009 | 5,009 |
| Headlease adjustment | – | 801 | 801 |
| Amortisation of grossed up headlease liabilities | – | – | (1) |
| **Book value including assets held for sale** | **450,671** | **435,546** | **434,179** |
| | | | |
| Adjustment for grossing up of headlease liabilities | (3,682) | (3,683) | (3,682) |
| Adjustment for rents recognised in advance under IFRS 16 | 7,961 | 7,087 | 7,403 |
| **Valuation as reported by valuers** | **454,950** | **438,950** | **437,900** |

## 10 Investment properties continued

In accordance with the Group's accounting policy on properties there was an external valuation at 30 September 2021. 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 is The Planets, Woking, with a value of £13.50 million.

The valuation surplus after adjustment for IFRS 16 is £11,204,000.

# Notes to the Financial Statements continued

Six months to 30 September 2021

## 11 Dividends

| | 6 months to 30 September 2021 (Unaudited) £'000 | 6 months to 30 September 2020 (Unaudited) £'000 | 12 months to 31 March 2021 (Audited) £'000 |
|---|---|---|---|
| **Final dividend** | | | |
| Year ended 31 March 2021 | 5,116 | – | – |
| Year ended 31 March 2020 | – | 4,148 | 4,148 |
| **Interim dividend** | | | |
| Year ended 31 March 2021 | – | – | 2,642 |
| | **5,116** | **4,148** | **6,790** |

The final dividend of 5.5 pence per share (£5,116,000) for the year ended 31 March 2021 was paid on 22 July 2021.

The Directors have declared an interim dividend of 2.9 pence per share (2020: 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 2.9 pence per share will be paid as a PID. Further REIT information is available on the Company's website.

## 12 Net asset value per share

In October 2019, EPRA issued new best practice reporting guidelines for Net Asset Value ("NAV") metrics. These recommendations are effective for accounting periods starting on 1 January 2020 and have been adopted by the Group. See page 126 of the 31 March 2021 Annual Report and Financial Statements for supplementary EPRA information.

EPRA have introduced three new NAV metrics: Net Tangible Assets ("NTA"), Net Reinvestment Value ("NRV") and Net Disposal Value ("NDV"). EPRA NTA is considered to be the most appropriate measure for McKay's operating activity and is now the primary measure of net asset value, replacing EPRA NAV.

| | 30 September 2021 (Unaudited) | | |
|---|---|---|---|
| | Net assets £'000 | Shares '000 | Per share pence |
| Basic | 295,846 | 91,775 | 322 |
| Number of shares under option | – | 89 | – |
| **Diluted/EPRA NDV** | **295,846** | **91,864** | **322** |
| Taxation | – | – | – |
| **EPRA NTA** | **295,846** | **91,864** | **322** |

| | 30 September 2020 (Unaudited) | | |
|---|---|---|---|
| | Net assets £'000 | Shares '000 | Per share pence |
| Basic | 294,742 | 94,339 | 312 |
| Number of shares under option | – | 282 | (1) |
| **Diluted/EPRA NDV** | **294,742** | **94,621** | **311** |
| Taxation | 1,392 | – | 2 |
| **EPRA NTA** | **296,134** | **94,621** | **313** |

| | 31 March 2021 (Audited) | | |
|---|---|---|---|
| | Net assets £'000 | Shares '000 | Per share pence |
| Basic | 289,902 | 93,801 | 309 |
| Number of shares under option | – | 145 | – |
| **Diluted/EPRA NDV** | **289,902** | **93,946** | **309** |
| Taxation | – | – | – |
| **EPRA NTA** | **289,902** | **93,946** | **309** |

## 13 Event after balance sheet date

The acquisition of a property in Richmond for £14.75 million on 8 October 2021.

# Directors and Company Information

### Directors
Richard Grainger ACA
Chairman

Simon Perkins MRICS
Chief Executive Officer

Giles Salmon FCA
Chief Financial Officer

Tom Elliott MRICS
Property Director

Jon Austen FCA
Senior Independent Director

Jeremy Bates MRICS
Non-Executive

Helen Sachdev FCMA
Non-Executive

Nick Shepherd FRICS
Non-Executive

### Secretary
Joanne McKeown AGA

### Registered Office
20 Greyfriars Road
Reading
Berkshire RG1 1NL
Tel: 0118 950 2333

### Registered Number
421479

### Website
mckaysecurities.plc.uk

### Registered Auditor
Deloitte LLP
Hill House
1 Little New Street
London EC4A 3TR

### Corporate Solicitors
Slaughter and May
One Bunhill Row
London EC1Y 8YY

### Registrar and Transfer Office
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
UK: 0371 384 2101
Overseas: 44 (0)121 415 7047

Lines are open 8.30am to 5.30pm, Monday to Friday, excluding public holidays in England and Wales.

### Disclaimer
The Interim Report of McKay Securities Plc for the six months to 30 September 2021 has been drawn up and presented for the purposes of complying with English law. If any issue were to arise in relation to any liability under or in connection with the Interim Report for the six months to 30 September 2021, it would also be determined in accordance with English law.

### Interim Report
The Interim Report is being posted to all shareholders on 26 November 2021. 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.

Enquiries relating to shareholders, such as queries concerning notification of change of address, dividend payments and lost share certificates, should be made to the Company's registrars. The Company has a share account management and dealing facility for all shareholders via Equiniti Limited Shareview. This offers shareholders secure access to their account details held on the share register to amend address information and payment instructions directly, as well as providing a simple and convenient way of buying and selling the Company's ordinary shares. For internet services visit shareview.co.uk or the investor relations sections of the Company's website. The Shareview Dealing service is also available by telephone on 0345 603 7037 between 8.30am and 4.30pm Monday to Friday.

The best way to ensure that dividends are received as quickly as possible is to instruct the Company's registrars to pay them directly into a bank or building society account; tax vouchers are then mailed to shareholders separately. Dividend mandate forms are available from the registrars. This method also avoids the risk of dividend cheques being delayed or lost in the post.

Financial information about the Company including the Annual and Interim Reports, public announcements and share price data are available from the Company's website at mckaysecurities.plc.uk and on the internet at morningstar.co.uk.

### McKay Securities Plc
20 Greyfriars Road
Reading
Berkshire RG1 1NL
T. 0118 950 2333
mckaysecurities.plc.uk

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**McKay Securities Plc**

20 Greyfriars Road,
Reading, Berkshire RG1 1NL

T. 0118 950 2333
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