STRONG OPERATIONAL PERFORMANCE LEAVES McKAY WELL POSITIONED WITH A FOCUSED PORTFOLIO INVESTED IN RESILIENT MARKETS

McKay Securities Plc, the only UK REIT specialising entirely in the office, industrial and logistics markets of the South East and London, today announces its Full Year results for the year ended 31 March 2020.

Financial Highlights

- NAV (EPRA) up 0.9% to 329 pence per share (March 2019: 326 pence)
- NAV (IFRS) down 0.9% to 328 pence per share (March 2019: 331 pence)
- Adjusted profit before tax up 5.0% to £9.73 million (March 2019: £9.27 million)
- IFRS profit before tax of £9.49 million (March 2019: £13.19 million), lower mainly as a result of the positive revaluation surplus being smaller than the prior year
- Adjusted basic earnings per share up 4.8% to 10.32 pence (March 2019: 9.85 pence)
- IFRS basic earnings per share of 8.6 pence (March 2019: 14.0 pence)
- Gross rental income up by 16.4% to £25.16 million (March 2019: £21.61 million), following annualised contributions from prior year development projects and active asset management
- Loan to value ratio of 37.6% (March 2019: 33.3%), which will reduce to c.28.0% following completion of the conditional disposal of 30 Lombard Street, EC3
- Final recommended dividend of 4.4 pence per share (March 2019: 7.4 pence), reduced by 40.5% to maintain a higher cash position ahead of greater visibility of market conditions and business progress in response to COVID-19
- Total dividend for the year of 7.2 pence per share (2019: 10.2 pence), down 29.4%

Portfolio Highlights

- Portfolio valuation of £510.00 million (March 2019: £482.70 million), resulting in a valuation surplus of £0.11 million (March 2019: £6.47 million)
- Total portfolio return of 4.7%, significantly outperforming the MSCI Index of -0.1%
- Completion of 134,430 sq ft speculative warehouse development at Theale Logistics Park, on Junction 12 of the M4, shortly after the year end
- 22 open market lettings at a combined contracted rent of £1.31 million pa (1.4% ahead of ERV) completed, in addition to 12 lease renewals 12.0% ahead of prior contracted rents
- 2.4% increase in rental value (LFL), taking portfolio ERV to £34.91 million pa (net)
- Portfolio reversion of 23.3% (£6.58 million pa) replenished, providing potential to deliver future value and income growth.
- Substantial transaction activity during the period, which will position the business well to capitalise on future opportunities:
    - Agreed disposal of 30 Lombard Street, EC3 for £76.50 million (yield of 4.16%) which, upon completion (est. Q3/2020), will reduce LTV to c.28.0% and provide further capacity to reinvest proceeds into higher yielding assets as opportunities become available
    - Opportunistic disposal of Station Plaza, Theale for £8.23 million, representing a 32.7% premium to book value
    - Acquisition of Rivergate House, Newbury, a multi-let office building, with rental growth prospects, for £15.50 million (yield of 7.5%)
- Undrawn facilities of £51.00 million combined with agreed and completed disposal proceeds provides the Company with substantial capital flexibility and retained potential firepower of c. £100.00 million
- Defensively positioned to undertake portfolio expenditure and new acquisitions at a potentially opportune time in the market

Covid-19 Update

- 73.0% of the rent due for the quarter to 30 June 2020 collected, which increases to 95.0% when including rent which is now being paid monthly, or is subject to agreed deferment plans
  All assets have remained open, whilst complying with Government guidelines on providing safe office space

Richard Grainger, Chairman of McKay, said:

"The financial results for the year under review reflect another productive period for McKay. The investment in our portfolio over recent years has delivered strong growth in earnings, and we ended the period with significant existing portfolio potential together with substantial funds for future investment to capitalise on potential opportunities as prospects become clearer. This performance has since been overshadowed by Covid-19 at the very end of the reporting period. We face this period of uncertainty with the benefit of a high-quality portfolio invested in resilient markets and sectors, and with characteristics that could benefit in the post Covid-19 world.

Simon Perkins, Chief Executive of McKay, said:

"The positive momentum maintained over the latest financial year has since been disrupted by Covid-19. As a result of the strategic decisions taken during this and previous years, we have many strengths to cushion the impact and to respond to the opportunities that future changes in working practices will bring. We continue to benefit from our consistent focus on the more robust office, industrial and logistics markets of the South East and London. We expect to see an acceleration of many of the trends we have positioned the portfolio to respond to over recent years, such as flexible lease structure, competitive rents, smart technology, strong sustainability credentials and high standards of customer service. If factors such as lower occupational costs, flexible transport options and generous car parking result in further decentralisation post Covid-19, we are well placed to take advantage."

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Date: 9 June 2020

<u>NOTE:</u>

For reconciliation of adjusted profit before tax see note 4 below
For reconciliation of adjusted basic earnings per share see note 9 below
For reconciliation of NAV (EPRA) see note 22 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 proven markets of the South East of England and London. The portfolio at 31 March 2020 comprised 33 properties valued at £510.00m, located in established areas, predominantly along the M4 corridor, where McKay has deep expertise, with a focus on satellite towns benefitting from strong connectively to London and robust demand amongst leading occupiers.

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 final dividend of the Ordinary Shares is as follows:

Ex dividend date	18 June 2020
Record Date for the final dividend	19 June 2020
Report and Financial Statements dispatched to Shareholders with Notice of AGM	23 June 2020
Annual General Meeting to be held at 10.30am at 20 Greyfriars Road, Reading, RG1 1NL (no shareholder attendance)	23 July 2020
Final dividend paid	13 August 2020

A final dividend per share of 4.4 pence is recommended by the Board making a total dividend for the year of 7.2 pence per share (2019: 10.2 pence). The final dividend will be paid as an Ordinary Dividend.

Chairman's Statement

We are clearly operating in an unprecedented and challenging environment, imposed on global economies by the arrival of Covid-19 in recent months. In normal circumstances this statement would be focused on the past financial year, but in view of the scale of impact of the current pandemic there are important new considerations for the year ahead which warrant my attention below.

The financial results for the year under review reflect another productive period for the Company. The strategic investment in our portfolio activity over recent years has delivered strong growth in earnings, and we ended the period with significant existing portfolio potential and substantial funds for future investment. However, this successful continuation of our growth strategy over the financial year has since been overshadowed by Covid-19 at the very end of the reporting period. The serious implications of the virus are already being seen across all our lives and are going to be far reaching, but before considering these further, there are many positive areas to report on from the year under review.

Review of the year

We maintained our strategic focus on the office, industrial and logistics sectors of the South East and London, with three key priorities:

- Delivering our development programme
- Generating income from the substantial potential created within the portfolio
- Improving our scope for future growth by capitalising on our progress to date.

This focus has delivered an increase in rental income and adjusted profit before tax, a strengthened balance sheet position and outperformance of the MSCI Monthly Index (All Property) at portfolio level in terms of rental and capital values and total property return.

The net rental income generated by the portfolio increased by 16.3% to £21.98 million (March 2019: £18.90 million) due to lettings secured at recently completed development projects and other portfolio initiatives. This led to adjusted profit before tax increasing by 5.0% to £9.73 million (March 2019: £9.27 million). IFRS profit before tax reduced to £9.49 million (March 2019: £13.19 million), due to a lower positive valuation movement than the prior year.

The independent valuation of the portfolio at the year end totalled £510.00 million. This represented a 5.7% increase overall (March 2019: £482.70 million), and generated a small surplus of £0.11 million after taking into account portfolio expenditure, acquisitions and disposals (March 2019: £6.47 million surplus). Our valuers, Knight Frank, included a material uncertainty clause, which is in line with the latest RICS recommendation to all valuers. This reflects the limited evidence of the impact of Covid-19 on the market at the valuation date, and the challenge of estimating rental and capital values at such an uncertain time.

Reflecting the limited valuation movement, Shareholder's funds remained steady at £309.17 million (March 2019: £311.08 million) with net asset value per share (EPRA) of 329 pence (March 2019: 326 pence), and IFRS net asset value per share of 328 pence (March 2019: 331 pence).

We continued to position our portfolio to meet the changing needs of modern business, contributing to growth and outperformance. The portfolio rental value (ERV) increased to £34.91 million pa (March 2019: £33.83 million pa) representing a 2.4% increase on a like-for-like basis, and the total property return totalled 4.7%. This compares favourably with the MSCI Monthly Index (All Property) which reported a 4.8% fall in capital values, a 0.3% fall in rental values, and a negative total return 0.1%.

We were pleased to complete our 134,430 sq ft speculative warehouse development at Theale Logistics Park shortly after the year end. This is a project with great potential and an excellent addition to the portfolio, which will further increase earnings once let. Virus related movement restrictions have delayed the full launch of our marketing programme, but we have been able to engage potential occupiers with virtual tours and other promotional material and look forward to further constructive discussions as restrictions are lifted. This completion leaves us with no development or refurbishment projects on-site, removing exposure to construction risk and committed capital expenditure which we believe to be a prudent position in the current environment.

This and other projects take the capital expenditure invested on portfolio projects and seven acquisitions since our 2014 Capital Raise to £186.19 million. Over the same period, we completed 13 disposals, which included Station Plaza, Theale this year. These generated combined sale proceeds of £76.20 million and a combined 24.3% surplus over book value of £18.52 million.

This disciplined and proactive approach to the recycling of capital, and our successful property initiatives have enhanced the scale and quality of our portfolio and contributed to a 43.5% increase in shareholders' funds of £93.67 million since 2015. This approach has also ensured that we have retained funds available to reinvest in new opportunities and maintained an acceptable loan to value ('LTV'), which ended the year at 37.6% (March 2019: 33.3%).

Our scope for future investment improved during the year when we increased our loan facilities by £55.00 million to £245.00 million. However, it remained a competitive market to acquire new properties for the portfolio, as the weight of investor demand was well ahead of the limited stock available. We appraised 161 potential acquisitions that met our investment criteria, and, although we were encouraged that value-add opportunities were becoming more attractive, prospects providing acceptable returns were limited. With the benefit of the increased loan facilities, and the recycling of sale proceeds from Station Plaza, Theale, this selective approach led to a single acquisition in the year of Rivergate, a multi-let office building fronting Newbury Business Park, for £15.50 million at an attractive initial yield of 7.5%. This maintained the number of portfolio assets at the year end at 33.

In view of the strong market, and in line with our approach to recycling capital, we took the decision in the autumn to test investor interest in 30 Lombard Street, EC3, our largest development project over recent years, which was let on completion in January 2019. We could see that the strength of overseas interest at that time provided an opportunity to capture the high value generated as a result of the long lease term and high rental value we were able to achieve during the construction of this exceptional building.

The sale, which remains conditional on the completion of a highways agreement, will deliver net proceeds of circa £65.00 million (based on a headline sale price of £76.50 million), representing an excellent disposal yield of 4.16%. Completion, which has been delayed as a result of Covid-19 and is now anticipated in Q3/2020, will reduce our LTV to 28.0% (based on March 2020 values) and provide us with the ability to reinvest proceeds into higher yielding assets at what could be an opportune time in the market.

The combination of undrawn facilities and potential disposal proceeds from 30 Lombard Street, EC3 positions the Company well with substantial retained potential firepower for portfolio expenditure and new acquisitions of over £100.00 million. Although market conditions will dictate the pace of investment, this provides significant scope for future growth in earnings and returns beyond the reversionary portfolio potential that already exists.

This has also been the first year of our new sustainability framework. We recognised the increasing importance of sustainable buildings to the occupier market in 2013 when we adopted our first formal sustainability strategy. This has served us well, but after a comprehensive review, we updated it at the beginning of the year with a three pillared approach to the full range of environmental, social and governance issues ('ESG') considerations under our new policy: The Right Choice for a Sustainable Business. This has helped us maintain a positive and proactive framework and will continue to permeate through all Company activities.

Covid-19

The election result in December provided a welcome boost to our markets with a pick-up in business confidence and investor appetite. Unfortunately, this was short lived due to the rapid and far reaching consequences of Covid-19. The full impact of this unprecedented event on the Company remains to be seen, and although it is creating significant levels of uncertainty as well as some obvious threats, it may also create opportunities for a business of our size, with the benefit of our sector and geographic focus.

In the short term, occupier relocation decisions are likely to be put on hold, while businesses review operating models and cashflow. Investment activity has already been significantly reduced and is likely to remain subdued while investors take stock of the situation and try to assess the balance between risk and return. The divergence in value between sectors is likely to be exacerbated with the shutdown of high street retail, leisure and hospitality accelerating declines compared with the office, industrial and warehouse sectors.

Further to our Trading Update on 7 April 2020, and after working closely with our occupiers, 73.0% of the rent due for the quarter to June 2020 has now been collected, increasing to 95.0% including rent which is being paid monthly, or is subject to agreed deferment plans. Our office, industrial and logistics sectors were less affected by the lockdown than other real estate sub-sectors, but it has nevertheless been necessary to provide selective support to some of our occupiers, primarily those with short-term cashflow issues and who generate income directly from their premises, such as serviced offices. As the impact of the lockdown continues, we anticipate that rent collection will remain below historic levels to a varying degree for the remainder of the year.

The longer-term implications of Covid-19 on the commercial property market will be determined by its impact on the UK and global economy, and the extent of structural change that the virus necessitates for working practices.

The industrial and logistics sector has proved resilient and our assets may indeed benefit from increased demand generated by an acceleration of the shift to online retail. The inadequacies of global supply chains have been exposed, which may also lead to operating reviews and further support demand.

Office occupiers are likely to be faced with more challenging decisions regarding future operations and requirements, having to take into account factors including culture, cost, transportation and staff retention. Despite the ability of many businesses, including our own, to work remotely, we do not see this as the end of the office as a place of collaboration and cohesive business.

There will inevitably be shifts in office working practices, and we expect this to lead to an acceleration of many of the trends we have positioned the portfolio to respond to over recent years, such as a flexible lease structure, competitive operating costs, smart technology and high standards of customer service. Occupational costs in the South East are significantly lower than central London. Travel to work options are also more varied, with generous car parking at many of our office assets and local transport networks that avoid reliance on the most congested public transport networks. If these factors result in further decentralisation, as widely speculated, we are well placed to take advantage with our existing portfolio, sector knowledge and substantial funds for investment.

Dividend

The Board is recommending a final dividend of 4.4 pence per share. This represents a 40.5% reduction as compared to the final dividend paid last year (March 2019:7.4 pence). The full year dividend therefore totals 7.2 pence per share, a 29.4% reduction from last year (March 2019:10.2pence).

At a time of such economic uncertainty, the Board considers the lower distribution represents a prudent and balanced approach. This will maintain a higher cash position until we achieve greater visibility of market conditions and business progress, including rent collection. In the meantime, future dividend policy will remain under review.

Outlook

While there remains insufficient clarity on the potential duration and impact of Covid-19 to provide a meaningful outlook for the year ahead, economic conditions and the operating environment are going to be challenging. The full impact of Covid-19 on the market generally and on rental and capital values specifically remains to be seen, and much will depend on the pace at which businesses recover and decide on future operational practices.

We face this period of uncertainty with a high quality portfolio invested in resilient markets and sectors, and with characteristics that could benefit in the post Covid-19 world. We have retained our funds for investment and with unrivalled knowledge of our markets, have the agility to respond to a variety of conditions and capitalise on potential opportunities as prospects become clearer.

Richard Grainger
Chairman

Chief Executive's Review

These results reflect the benefit of capital investment in our development and refurbishment programme, which over the last five years has totalled £96.90 million.

Overview

The review of an otherwise productive and successful year is inevitably qualified by the global impact of Covid-19 and the lockdown that commenced on 23 March 2020. The full impact of the virus on the UK economy and our markets remains to be seen, and will depend to a great extent on the duration and nature of restrictions and the effectiveness of government policy in support of the economy. As a result of strategic decisions taken during this and previous years, we have many strengths to cushion the impact on the Company and to respond to the opportunities that future changes in working practices may bring.

During the year, we maintained our strategic focus on the office, industrial and logistics markets of the South East and London. These are the markets that we know well after many years of focused experience, and which proved to be the most resilient sectors over the period, in the strongest economic regions of the country.

Prior to lockdown, these markets were beginning to emerge from protracted political uncertainty, with investors showing greater confidence in the prospects for growth in rental and capital values. Although this momentum has since been impacted by Covid-19, our results reflect another positive year, based on the strategic priorities of completing our development programme, releasing portfolio potential and enhancing scope for future growth of the portfolio and the business. Good progress was made on all fronts as covered in more detail below.

The headline value of our assets increased by 5.7% to £510.00 million over the year, our contracted rental income increased by 4.1% to £28.33 million pa, and portfolio rental value (ERV) increased by 3.2% to £34.91 million pa. The difference of £6.58 million pa between contracted rent and ERV reflects the significant reversionary potential to grow portfolio income by a further 23.3%. This is based on our valuer's opinions of ERV at the valuation date of 31 March 2020, where it was too early to estimate the impact of Covid-19.
This reflects our valuer's opinion of ERV at the valuation date of 31 March 2020, when it was too early to estimate the impact of Covid-19.
These results reflect the benefit of capital investment in our development and refurbishment programme, which over the last five years has totalled £96.90 million. This has improved the quality of the portfolio, and has been selectively invested with the objective of ensuring that we can continue to meet market demand with good quality, well specified space for modern business needs. Of this capital expenditure, £16.84 million was invested over the year to complete our 134,430 sq ft speculative logistics warehouse development at Theale Logistics Park, and to implement refurbishment projects at 17 portfolio properties. These projects, which have added to the potential for further income and capital growth, were substantially completed prior to lockdown, leaving us with no current development exposure across the portfolio.

We took the decision last autumn to put the long leasehold interest of 30 Lombard Street, EC3 on the market, to take advantage of the strong investment demand in the City at that time from overseas buyers. The marketing exercise generated strong competition, with investors attracted by the 15-year lease that we had been able to secure prior to completion of the redevelopment in January 2019, and the overall quality of the building in such a core City location. This enabled us to achieve a headline price of £76.50 million, representing an outstanding yield of 4.16%, and an exchange of contracts in December 2019. The sale, which remains conditional on finalising an outstanding highways agreement, will allow us to capture the development gains we have generated from the success of the scheme, reduce our weighting in this single City asset and enable us to reduce debt and the Company's LTV. We will then be in a position to replace the income lost on disposal by reinvesting the sale proceeds of circa £65.00 million (net), targeting higher yielding assets with greater growth potential, and at a potentially opportune time.

We also took the decision to sell Station Plaza, Theale earlier in the year, having been offered an excellent price of £8.23 million by an owner occupier, which realised a substantial 29.9% (£1.86 million net) surplus over book value net of sale costs. These funds were recycled into the £15.50 million acquisition of Rivergate House, Newbury, a multi-let office building, which was identified as having better growth prospects.

Gains from these disposals, as well as the unrealised portfolio gains from our development and refurbishment projects, remain an integral part of our capital discipline to maintain balance sheet resilience and a low LTV. At the end of the period, LTV was 37.6% (March 2019: 33.3%), which will reduce to circa 28% on receipt of sale proceeds from 30 Lombard Street, EC3 (based on March 2020 values).

As a landlord, we continue to work with a wide cross-section of occupiers from different sectors to ensure that we are providing the best environment for their businesses to thrive. Full consideration of ESG issues remains at the heart of this, and is integral to the manner in which we conduct our business. We committed over the year to a set of service guidelines to emphasise the benefits of this approach to existing and future occupiers; one of our key stakeholder groups. We also completed a full scale review of our 2013 Sustainability Strategy and, at the beginning of the year, replaced this with our 2019 Sustainability Framework – The Right Choice for a Sustainable Business. This covers a wide range of ESG objectives and targets which we report fully on our website, and has proved to be an invaluable guide to help align our business with our corporate vision, mission and purpose, enabling us to exceed the sustainability requirements of our target markets and to address the ESG considerations of other stakeholders more generally.

Simon Perkins
Chief Executive Officer

Property and Financial Review

A positive year with a sound platform to grow.

Market review

Over the year investor appetite for real estate and rental growth was tempered by an uncertain political climate. After the election delivered a majority government, there was a definite pick-up in both occupier and investor demand, which was subsequently cancelled out by Covid-19. Since then, the majority of investment and leasing transactions have been put on hold.

With this low growth environment, the market as a whole was generally flat over the year, with the MSCI Monthly Index (All Property) registering a 4.8% decline in capital values, a 0.3% decline in rental values and a total return of -0.1%.

The headline numbers mask the performance of the different sectors of the Index, with shopping centres declining in value by 20.5% compared with an increase of 1.0% for the industrial and logistics sector. With our sector weighting, and with the benefit of our active management, refurbishment and development initiatives, our portfolio outperformed the Index with a slight valuation surplus, like-for-like rental growth of 2.4% and a total return of 4.7%.

The largest segment of our portfolio is South East offices, located predominantly in the M4 corridor. This market is characterised by historically low levels of vacancy and supply, resulting in a limited choice of modern floorspace. The vacancy rate across the market of 7.3% (2019: 7.6%) has halved from 14.2% in 2014, and the vacancy rate for new floorspace of 1.8% is a further reduction on the historic low of 1.9% reported last year.

The constrained choice for occupiers is likely to become more acute as over half the office stock in the South East (within the MSCI Index) is now older than the generally held design lifespan of 25 years. These buildings, many of which remain occupied, are becoming increasingly unfit for the demands of modern business, and if refurbishment is unviable, will be lost to alternative uses such as residential.

Table 1
Location and sector (by value: 31 March 2020)

Location/sector	Number of assets	Percentage of total portfolio by value (£510.00m)
South East Offices	17	52%
London Offices	4	25%
South East industrial/Logistics	8	18%
Other	4	5%

By comparison, all our buildings would be described as Grade A in their respective markets as a result of our proactive refurbishment programmes.

The development pipeline of new and refurbished office buildings in the South East remains limited, with a total of 1.29 million sq ft currently under construction and due for completion in the next two years. This additional supply is well below the five-year average take-up for new and Grade A stock of 1.73 million sq ft, and on this basis will be insufficient to overcome supply constraints in the major centres.

Occupier demand for offices within the South East remained steady over the year at around 3.0 million sq ft. Over the last five years, 83.5% of office lettings have been for unit sizes below 60,000 sq ft. This trend was maintained in 2019, with take-up of 1.68 million sq ft in this size range, representing 94.2% of lettings. However, total lettings for the year of 1.73 million sq ft were 14.2% below the five year average, with only one letting over 60,000 sq ft compared with six in 2019, highlighting the lack of larger lettings likely due to the political and economic uncertainty during the year. We have deliberately positioned our portfolio to meet this trend over many years, with the average size of our South East office assets being 43,000 sq ft.

Of the total take-up, 90% was for new and Grade A floorspace, also maintaining a trend that we have been tracking, which emphasises that in the event of an office move, occupiers have been looking to improve working environments.

Our four London office properties account for 24.7% of the portfolio (by value). On completion of the disposal of 30 Lombard Street, EC3 this will reduce to 13.2% (based on March 2020 values). Stable market conditions were maintained over the period, also supported by a shortage of Grade A supply. The vacancy rate in central London stands at 5.7%, below the ten-year average of 6.7%.

The combination of a clear preference from occupiers for Grade A product and a shortage of supply across the South East and London office markets is likely to cushion rental falls in the short term as occupiers review their requirements post Covid-19. Named demand in the market since lockdown has remained steady, with occupiers still evaluating the often limited alternatives available. However, new lettings are likely to be deferred while businesses review working practices and resulting space requirements, which would support our already high levels of occupier retention. If occupiers decide to decentralise in order to reduce exposure to congested public transport, the regional markets of the South East can provide alternative business locations at significantly lower occupational costs. Furthermore, the anticipated requirement for more space per employee as a consequence of Covid-19 should help support the office sector resilience.

The industrial and logistics sector remained buoyant over the year, driven by the distribution space required to meet growing online demand. Demand could increase further as the move to online retail accelerates, and as a result of the Covid-19 crisis highlighting pressures on supply chains and the possible need for on-shoring greater storage capacity. Total supply in the South East of 5.80 million sq ft reflects a vacancy rate of 5.0% – the lowest of any region in the UK. This represents just under one year's take-up based on the five-year average of 5.92 million sq ft.

The structural shift in retailing and the shortage of supply support a positive outlook for this segment of our portfolio (18.1% by value) and for the letting prospects of our recently completed warehouse scheme at Theale Logistics Park.

Development programme

Having developed and successfully let three major office schemes in prior periods, our final development borne out of the 2014 capital raise is the 134,430 sq ft distribution warehouse at Junction 12 of the M4 near Reading, known as 135 Theale Logistics Park. This highly specified, fit for purpose unit reached practical completion shortly after the year end, and is ideally placed to meet the unrivalled growth in demand for conveniently located units with large, self contained yards. Marketing is under way with an active interest schedule, though the Covid-19 crisis is temporarily hindering building inspections and progress with leasing prospects.

Asset management

Sustainability and flexibility have never been more important as priorities for office occupiers. At McKay, we began both our sustainability drive and flexible office concept in earnest back in 2014. Since then we have been awarded Global Real Estate Sustainability Benchmark ('GRESB') green star status for the past four consecutive years and have evolved a well received flexible leasing model across several of our South East office properties.

We constantly strive to provide best in class, relevant, good value business space with excellent customer service for our occupiers. All our property and asset management is undertaken in-house giving us direct access to our occupiers, enabling strong relationships and quick decisions. In the second half of the year we formally introduced 'The McKay Way' which sets out our customer service commitment to our occupiers. This approach contributed to improved portfolio occupancy (excluding developments) at the year end of 92.6% (March 2019: 91.0%) and helped us to maintain a high occupier retention rate (where occupiers elected to stay at lease expiry or break) of 80.0% (March 2019: 75.8%), and a 6.4% increase in passing rent for those retained.

The year will be remembered as a first half of Brexit uncertainty, followed by a sharp recovery after the clear election majority in December, only to be cut short by the Covid-19 lockdown. In spite of this uncertain and often turbulent 12-month period we completed 22 open market lettings at a combined contracted rent of £1.31 million pa, 1.4% ahead of ERV. This increased the portfolio contracted rent (net) to £28.33 million pa (March 2019: £27.22 million), still with a healthy potential reversion of £6.58 million pa of growth to income based on March 2020 rental values. Overall, our total portfolio return of 4.7% significantly outperformed the MSCI Index of -0.1%.

In addition to our day-to-day proactive asset management, we completed two major office refurbishments in Crawley and Staines, as well as improving rental values with rolling refurbishment programmes in Brentford, Bracknell, Woking and Victoria SW1. At our industrial and logistics assets we carried out a significant refurbishment in Folkestone and continued to drive rents upwards at our trade parks.

The refurbishment of the entirety of Pegasus 2 at our Pegasus Place office park in Crawley (12,720 sq ft) was rewarded with a pre-let of the ground floor at a record Crawley rent of £27.00 psf (£0.10 million pa) to an expanding sub-tenant of neighbouring Pegasus 3, which contributed to ERV growth for the entire Pegasus Place estate (50,790 sq ft) of 10.3% compared to the benchmark of 0.9%. Likewise at Mallard Court, Staines (21,860 sq ft) we carried out a major refurbishment and secured an early letting of the part first floor at a new rental high for the building of £31.50 psf (£0.06 million pa) reflecting the appeal of not only the improved reception and office space, but also the latest building technology. This included the Mallard app which enabled all users and visitors to access the building using mobile phones and giving temperature and lighting control and information on local amenities to the occupiers. This impressive technology also negated the need for a receptionist, thereby reducing the service charge and in turn improving the affordability.

At One Castle Lane (14,250 sq ft) in Victoria, SW1, we continued to push rental growth ahead of the benchmark. On the third floor we took an early surrender payment having simultaneously agreed terms to let it to an expanding occupier at ERV, securing a 25.0% increase in rent. Another occupier, a leading firm of chartered surveyors in Victoria, renewed its lease for an additional five years (£0.10 million pa) further endorsing the building.

Over the year, we continued to evolve ways to facilitate occupancy which included the introduction of short-form leases and flexible leasing terms. We have also trialled partially fitting out vacant office floors to assist marketing, branded as McKay +, and McKay ++ where the floors are fully fitted out. We demonstrated the success of this at Portsoken House, EC3 (49,570 sq ft) with lettings ahead of ERV and minimal rent free. We also introduced McKay ++ to part of our refurbishment of The Mille at Brentford (96,700 sq ft) and successfully let a suite of 1,451 sq ft at a new rental high for the building of £27.50 psf (£0.05 million pa) with minimal rent free on a five-year lease term.

Our flexible suites at One Crown Square, Woking (50,190 sq ft) ranging in size from 500 sq ft to 2,500 sq ft remained in demand, with nine lettings and renewals achieved during the period. Of particular note was a letting to Handelsbanken for their new local office of 2,153 sq ft (£0.06 million pa) where they committed to a ten-year lease with a break at the end of the fifth year.

At the 5 Acre Estate in Folkestone, one of the larger industrial units (17,845 sq ft) became vacant after a considerable period of continuous occupation. Prior to expiry, we agreed terms to carry out modernisation works for an expanding tenant on the estate who signed a ten-year lease at ERV (£0.09 million pa). At the McKay Trading Estate in Poyle (73,955 sq ft), near Heathrow, our largest occupier (32,251 sq ft) extended three leases for a year, ahead of ongoing discussions for a further five years at ERV (£0.44 million pa).

As refurbishments of our office and industrial space create rental growth and new rental evidence, this in turn feeds through to rent reviews. During the period we settled ten rent reviews (£2.31 million pa contracted rent), 4.1% ahead of ERV and 13.9% ahead of the prior rent.

Acquisitions and disposals

Throughout the year the demand for office, industrial and logistics investments in our markets exceeded the low supply, thereby supporting and enhancing capital values up until the onset of Covid-19. This demand – supply imbalance made for a competitive environment, presenting difficulties in securing good value opportunities.

We took advantage of the strength of investor demand with the sale of the long leasehold interest in 30 Lombard Street, EC3, our recently completed 58,590 sq ft office development which we pre-let to St James's Place plc on a 15-year lease without breaks on completion of the scheme in January 2019. The headline sale price of £76.50 million (estimated at circa £65.00 million after deductions for unexpired letting incentives and fees) reflects a net initial yield of 4.16% and will conclude this successful project which began with the purchase of a 36,000 sq ft 1960s office building in 1999. While maintaining income, we secured planning consent, increasing the lettable area by 62% and began development with funds from the 2014 capital raise. The sale remains conditional on completion of a revised highways agreement which is progressing, though taking longer than first anticipated due to Covid-19 restrictions. We hope to be able to meet this condition and complete the sale in Q3/2020, ahead of the 12-month longstop in December 2020.

We also achieved a good sale price for Station Plaza (41,420 sq ft), a freehold office asset in Theale, near Reading of £8.23 million. The three building campus was bought in 2014 while fully let to a single tenant with a lease expiry in July 2019, generating a 10.1% income yield (£0.91 million pa rent). In the lead up to lease expiry, a number of asset management options had been analysed, the most suitable being a comprehensive office refurbishment. However, the sale to an owner occupier, 32.7% ahead of valuation, delivered the anticipated refurbishment profit with no letting or construction risk.

In addition to the above, the disposal of The Planets (98,255 sq ft) in Woking, a two-storey town centre leisure facility let to Woking Borough Council until September 2021, remained conditional on the receipt of planning consent at the end of the year. We exchanged sale contracts in 2019 with a housebuilder who is obliged to pursue planning consent, with the end sale price to be based on the number of consented residential units. The purchaser, at its own cost, applied for a 28-storey, high density residential development in September 2019, which was recommended by officers for approval at the planning committee hearing in March 2020. However, the committee members went against the recommendation and, as a result, an appeal currently looks probable, enabling the sale to complete ahead of the longstop date of September 2021 if successful.

As noted above, it has been a competitive investment market with a range of buyers attracted by the potential returns available and improving growth prospects. Over the course of the year we continued to analyse both on and off market investment opportunities where we believe we can add value through development, refurbishment and other asset management initiatives. We appraised 161 opportunities and formally inspected 25. The main reason for discarding the majority of these related to the potential cost of entry providing limited returns either on an initial yield basis or after forecasted capital expenditure and letting risk.

The one opportunity that we did acquire came through market contacts in October 2019, when we purchased Rivergate (61,385 sq ft) a multi-let office building fronting Newbury Business Park, for £15.50 million. The property had benefitted from a recent comprehensive refurbishment and has very generous on-site parking. It is fully let to six occupiers with an average unexpired lease term of 8.8 years (6.7 years to break), at an overall rent of just £21.40 psf. The purchase price reflected a net initial yield of 7.5% and at the year end, five months after purchase, the independent valuer of the portfolio assessed its value 7.1% higher than the purchase cost.

Table 2
Portfolio yields and reversions

	31 March 2020			31 March 2019		
	£m pa	**Yield**[2]	**Occupancy**[3]	£m pa	Yield[2]	Occupancy[3]
Current rental income[1]	21.90	4.0%		21.24	4.1%	
Contracted rental income[1]	28.33	5.2%	88.7%	27.22	5.3%	88.0%
Uplifts at rent review/lease expiry	2.62			2.53		
Void properties (excluding developments[3])	2.48		7.4%	2.60		9.0%
Void (developments)	1.48		3.9%	1.48		3.0%
Portfolio reversion	6.58			6.61		
Total portfolio ERV	**34.91**	**6.4%**		**33.83**	**6.6%**	
Equivalent yield		5.7%			5.7%	

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

Valuation

Knight Frank's independent valuation of the Company's property portfolio as at 31 March 2020 totalled £510.00 million, resulting in a small valuation surplus of £0.11 million for the year.

After a 1.0% valuation surplus at 30 September 2019 for the first half of the year, the market continued to improve with the clear election majority until Covid-19 emerged. This pulled values back, contributing to a second half deficit for our portfolio of 1.0%. Bearing in mind the lockdown came only eight days prior to the year end, this was a challenging time to determine market value, with very little market evidence on the impact of Covid-19 on rental and capital values.

As a result, the 31 March 2020 valuation contained a material valuation uncertainty clause in accordance with the guidance issued to all valuers by the RICS.

As at 31 March 2020 the portfolio net initial yield was 4.0% (March 2019: 4.1%) rising to 5.2% on the expiry of outstanding rent free periods (March 2019: 5.3%). The reversionary yield at full ERV reduced to 6.4% (March 2019: 6.6%) reflecting new lettings achieved over the year, thereby reducing the reversion and increasing the capital value.

Any growth has come from proactive asset management and development demonstrated by the equivalent yield staying flat over the 12 month period at 5.7%.

Our London office portfolio outperformed the sector Index both in terms of rental and capital growth. 30 Lombard Street, EC3, showed 5.1% capital growth over the period reflecting the conditional sale price ahead of the prior valuation, and the leasing success at One Castle Lane, SW1 delivered rental growth of 5.8% with corresponding capital growth of 4.9%.

Through our refurbishment programme of upgrading assets and adapting them to meet relevant occupational demand, our ERV growth in South East offices of 3.0% significantly outperformed the Index of 0.9%. However, the capital growth of -4.3% was below the sector Index (-2.0%). This was mainly due to valuation assumptions reflecting lease expiries at two of our larger assets over the next two years, and the inclusion of potential capital expenditure at a further asset. Valuations reduce in these circumstances, before increasing on lease renewal or reletting.

Our industrial portfolio performed strongly in line with the sector Index, showing both good rental growth (2.9%) and capital growth (3.3%), reflecting the quality of our assets.

135 Theale Logistics Park (134,430 sq ft) was our only asset in development over the period. This contributed a significant 18.4% (£3.72 million) capital surplus, with the enhanced value reflecting reduced development risk as it reaches practical completion.

Dividends

The final dividend of 4.4 pence per share (March 2019: 7.4 pps) will be paid on 13 August 2020 to those on the register on 19 June 2020. With the interim dividend of 2.8 pence per share, this takes the total dividend for the year to 7.2 pence per share, a decrease of 29.4% on the previous year.

As a REIT, the Company is required to distribute at least 90.0% of rental income profits arising each financial year by way of a Property Income Distribution ('PID'). After taking into account allowable costs the final dividend will be paid as an ordinary dividend rather than a PID.

Income statement

Profit before tax (IFRS) reduced to £9.49 million (March 2019: £13.19 million), mainly as a result of the valuation surplus of £0.11 million being lower than the prior year (March 2019: surplus £6.47 million). After IFRS 16 adjustment, the reported movement on valuation reduced to a deficit of £2.20 million (March 2019: surplus £4.83 million).

Table 3

Capital value movement

12 months to 31 March 2020[1]	**2020 portfolio valuation £m**	2019 portfolio valuation £m	12 month[1] movement	MSCI[2] movement
London offices	**125.80**	120.80	3.7%	1.1%
South East offices	**249.70**	255.70	-4.3%	-2.0%
Total offices	**375.50**	376.50	-1.8%	-0.8%
South East industrial/logistics	**68.35**	65.65	3.3%	2.4%
Other	**24.55**	24.55	-1.2%	–
Total (excluding developments)	**486.40**	466.70	-1.1%	-4.8%[3]
Developments[4]	**24.00**	9.80	18.4%	
Total portfolio (like-for-like)	**492.40**	476.50	-0.2%	-4.8%
Disposals	**–**	6.20		
Acquisitions	**17.60**	–		
Total (overall)	**510.00**	482.70	0.0%	-4.8%

1 Valuation movements (%) after allowing for capex incurred during the period.
2 MSCI Monthly Index by relevant sector MSCI London = City sector.
3 MSCI Monthly Index (All Property).
4 Theale Logistics Park.

Table 4
Rental value movement

12 months to 31 March 2020	**2020 portfolio ERV £m pa**	2019 portfolio ERV £m pa	12 month movement	MSCI[1] movement
London offices	**7.15**	7.08	1.0%	1.6%
South East offices	**19.72**	19.13	3.0%	0.9%
Total offices	**26.87**	26.21	2.5%	1.6%
South East industrial/logistics	**3.96**	3.85	2.9%	3.4%
Other	**1.17**	1.15	1.4%	–
Total (excluding developments)	**32.00**	31.21	2.5%	-0.3%[2]
Developments[3]	**1.48**	1.48	0.0%	
Total portfolio (like-for-like)	**33.48**	32.69	2.4%	-0.3%
Disposals	**–**	1.14		
Acquisitions	**1.43**	–		
Total (overall)	**34.91**	33.83	3.2%	-0.3%

1 MSCI Monthly Index – by relevant sector. London = MSCI City sector.
2 MSCI Monthly index (All Property).
3 Theale Logistics Park.

Adjusted profit before tax, our measure of recurring profit, increased by £0.46 million (5.0%) to £9.73 million (March 2019: £9.27 million) primarily due to increased portfolio rental income. Adjusted basic earnings per share increased by 4.8% to 10.32 pps (March 2019: 9.85 pps).

Gross rents, including IFRS 16 adjustments, increased by 16.4% (£3.55 million) to £25.16 million (March 2019: £21.61 million). This was due to increased income from a number of portfolio properties, but particularly from 30 Lombard Street, EC3, which accounted for £2.42 million of the increase as a result of a full year contribution, supported by good lettings at One Crown Square, Woking and The Mille, Brentford.

The acquisition of Rivergate, Newbury further contributed to rental income (£0.48 million), partially offsetting the income lost as a result of the disposal of Station Plaza, Theale (£0.62 million).

Property costs for the year of £3.25 million were up £0.47 million on the previous year (March 2019: £2.78 million) mainly due to higher non recoverable costs from our void properties, which reduced as the year progressed.

Administration costs reduced to £5.16 million (March 2019: £6.05 million), primarily due to a downward adjustment to the IFRS 2 (share-based payments) forecast.

The interest cost (before capitalised interest) for the year increased to £7.36 million (March 2019: £6.13 million), due to higher drawings, the April 2019 refinancing costs and increased headroom resulting in a higher commitment fee (until the monies are drawn). The positive benefit of capitalised interest on development projects has also reduced as a result of the development programme nearing completion. The weighted average cost of debt prior to amortisation and finance lease interest remained constant at 3.3% (March 2019: 3.3%).

Balance sheet

Shareholders' funds decreased from £311.08 million to £309.17 million over the period, principally due to a £1.39 million deferred tax liability relating to the conditional sale of 30 Lombard Street, EC3.

EPRA NAV per share increased by 0.9% over the period to 329 pence (March 2019: 326 pence). NNNAV per share increased to 327 pence (March 2019: 326 pence) and IFRS NAV per share reduced by 0.9% to 328 pence (March 2019: 331 pence).

On 8 April 2019, we announced an increase in the level of bank facilities available to the Company. Building on strong relationships with our banking group, three bilateral facilities (£125.00 million) were replaced by one club facility of £180.00 million. The club comprises Barclays, Lloyds, NatWest and Santander, all contributing equally.

As a result, debt facilities at the year end increased to £245.00 million (March 2019: £190.00 million). Drawn debt totalled £194.00 million (March 2019: £165.00 million), providing £51.00 million of headroom over our current drawings to support operational flexibility, deliver further portfolio initiatives and provide increased scope for new investments. This headroom will be increased by circa £65.00 million on completion of the agreed sale of 30 Lombard Street, EC3.

The gearing ratio of net debt to portfolio value (LTV) at the year end was 37.6% (March 2019: 33.3%). The increase in drawings over the year was primarily a result of £16.84 million of capital expenditure on portfolio development and refurbishment projects, and the investment of a further £16.44 million (including costs) on the acquisition of Rivergate, Newbury. We have very limited committed portfolio capital expenditure, having completed our current development and refurbishment programme. Future decisions regarding expenditure will continue to be made on a selective case by case basis.

Net cash inflow from operating activities was £6.81 million (March 2019: inflow £8.70 million) and interest cover based on adjusted profit plus finance costs as a ratio to finance costs was 2.28x (March 2019: 2.08x).

As a REIT, the Company is tax exempt in respect of qualifying capital gains and qualifying rental income, which covers the majority of the Company's activities. Any residual income has been offset by allowable costs, and there is therefore no tax charge for the period (March 2019: nil). There is however a deferred tax provision of £1.39 million relating to the planned sale of 30 Lombard Street, EC3, as the anticipated completion of the sale would be within three years of practical completion and would therefore trigger a chargeable capital gain under REIT regulations.

Defined benefit pension scheme

Under the application of accounting standard IAS19, the Company's pension deficit slightly reduced over the period from £2.11 million to £2.10 million.

A triennial valuation is due for the period to 31 March 2020, the results of which should be available later in the year. The previous triennial valuation showed a funding level of 87.5% on a continuing valuation basis, resulting in an annual cash contribution to the scheme which remains at £0.24 million. The scheme was closed to new entrants in the 1980s, and now consists of six pensioners and no active members.

Financial risks

The financial risks are documented in the principal risks and uncertainty section of the Strategic Report within the 2020 Report and Financial Statements.

Signed on behalf of the Board of Directors

T Elliott
Property Director

G Salmon
Chief Financial Officer

Table 5
Five year summary

Financial measure	**2020**	2019	2018	2017	2016
Gross rental income (£'000)	**25,164**	21,608	21,844	20,790	20,159
Net rental income from investment properties (£'000)	**21,981**	19,906	20,453	19,871	17,664
Profit before taxation (£'000)	**9,487**	13,190	43,443	17,594	53,160
Adjusted profit before taxation (£'000)[1]	**9,727**	9,272	9,067	8,605	7,943
Investment properties (£'000)	**510,000**	482,700	460,150	429,915	401,170
Loans and borrowings (£'000)	**(190,505)**	(163,176)	(144,598)	(134,100)	(113,701)
Total equity (£'000)	**309,166**	311,083	306,440	270,792	261,223
Ordinary dividends per share (pence)	**7.2**	10.2	10.0	9.0	8.8
Earnings per share – basic (pence)	**8.6**	14.0	46.3	18.8	57.2
Earnings per share – adjusted basic (pence)[1]	**10.3**	9.9	9.7	9.2	8.5
Net asset value per share (pence)	**328**	331	326	289	280
EPRA net asset value per share (pence)[1]	**329**	326	322	303	301
Interest cover	**2.2**	2.1	2.0	2.0	1.9
Loan to value	**38**	33	32	32	29

1 See Note 4 of the Financial Statements for APMs .

Consolidated Profit and Loss and Other Comprehensive Income
For the year ended 31 March 2020

	Notes	2020 £'000	2019 £'000
Gross rents and service charges receivable	2	**29,296**	**25,344**
Other property income		69	73
Direct property outgoings		(7,384)	(6,321)
Net rental income from investment properties	2	**21,981**	**19,096**
Administration costs	3	(5,163)	(6,245)
Operating profit before gains on investment properties		**16,818**	**12,851**
Profit on disposal of investment properties		1,668	–
Revaluation of investment properties	11	(2,199)	4,833
Operating profit		**16,287**	**17,684**
Finance costs	6	(6,805)	(4,498)
Finance income	6	5	4
Profit before taxation		**9,487**	**13,190**
Taxation	7	(1,392)	–
Profit for the year	4	**8,095**	**13,190**
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement on defined benefit pension scheme		(185)	(135)
Total comprehensive income for the year		**7,910**	**13,055**
Earnings per share	9		
Basic		8.59p	14.02p
Diluted		8.57p	13.91p
Adjusted earnings per share figures are shown in note 9			
Dividends	10		
31 March 2019 final dividend of 7.4 pence (31 March 2018: 7.2 pence) paid during the year		6,965	6,765
30 September 2019 interim dividend of 2.8 pence (30 September 2018: 2.8 pence) paid during the year		2,639	2,635
Proposed final dividend of 4.4 pence (31 March 2019: 7.4 pence)		**4,148**	**6,965**

The total comprehensive income for the year is all attributable to the equity holders of the Parent Company.

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Financial Position
As at 31 March 2020

	Notes	2020 £'000	Restated[1] 2019 £'000
Non-current assets			
Investment properties – Valuation as reported by the valuers		510,000	482,700
– Adjustment for tenant incentives recognised under IFRS 16/SIC-15		(10,637)	(8,326)
– Assets held for sale		(79,365)	(14,400)
– Adjustment for grossing up of headleases	16	4,403	4,404
	11	**424,401**	**464,378**
Plant and equipment	12	148	71
Other receivables	14	6,982	10,292
Total non-current assets		**431,531**	**474,741**
Current assets			
Trade and other receivables	14	3,200	3,501
Assets held for sale	11	83,020	14,400
Cash		2,245	4,363
Total current assets		**88,465**	**22,264**
Total assets		**519,996**	**497,005**
Current liabilities			
Trade and other payables	15	(12,433)	(16,234)
Lease liabilities	16	(180)	(285)
Liabilities directly associated with assets classified as held for sale	16	(1,520)	–
Total current liabilities		**(14,133)**	**(16,519)**
Non-current liabilities			
Loans and other borrowings	15	(190,505)	(163,176)
Pension fund deficit	24	(2,097)	(2,108)
Deferred tax liability	7	(1,392)	–
Lease liabilities	16	(2,703)	(4,119)
Total non-current liabilities		**(196,697)**	**(169,403)**
Total liabilities		**(210,830)**	**(185,922)**
Net assets		**309,166**	**311,083**
Equity			
Called up share capital	19	18,853	18,825
Share premium account		75,541	75,541
Retained earnings		81,531	84,092
Revaluation reserve		133,241	132,625
Total equity		**309,166**	**311,083**
Net asset value per share	22	**328p**	**331p**
EPRA net asset value per share	22	**329p**	**326p**

1. See note 1 for restatement details.

The accompanying notes form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 8 June 2020 and were signed on its behalf by R Grainger and S Perkins.

Company Statement of Financial Position
As at 31 March 2020

Registration number 421479

	Notes	2020 £'000	Restated[1] 2019 £'000
Non-current assets			
Investment properties – Valuation as reported by the valuers		437,500	413,650
– Adjustment for tenant incentives recognised under IFRS 16/SIC-15		(6,982)	(7,618)
– Assets held for sale		(13,500)	(13,500)
– Adjustment for grossing up of head leases		2,883	2,883
	11	**419,901**	**395,415**
Plant and equipment	12	84	71
Investments in subsidiary	13	–	–
Other receivables	14	6,982	6,839
Total non-current assets		**426,967**	**402,325**
Current assets			
Trade and other receivables	14	46,933	43,339
Assets held for sale	11	13,500	13,500
Cash		2,245	4,363
Total current assets		**62,678**	**61,202**
Total assets		**489,645**	**463,527**
Current liabilities			
Trade and other payables	15	(12,423)	(11,749)
Lease liabilities		(180)	(180)
Total current liabilities		**(12,603)**	**(11,929)**
Non-current liabilities			
Loans and other borrowings	15	(190,505)	(163,176)
Pension fund deficit	24	(2,097)	(2,108)
Lease liabilities		(2,703)	(2,703)
Trade and other payables		–	(203)
Total non-current liabilities		**(195,305)**	**(168,190)**
Total liabilities		**(207,908)**	**(180,119)**
Net assets		**281,737**	**283,408**
Equity			
Called up share capital	19	18,853	18,825
Share premium account		75,541	75,541
Retained earnings		65,181	67,491
Revaluation reserve		122,162	121,551
Total equity		**281,737**	**283,408**

1. See note 1 for restatement details.

The accompanying notes form an integral part of these financial statements.

The profit for the financial year ended 31st March 2020 was £8,340,645 (2019: £9,417,624).

These financial statements were approved by the Board of Directors on 8 June 2020 and were signed on its behalf by R Grainger and S Perkins.

Consolidated Cashflow Statement
For the year ended 31 March 2020

	2020	2019
	£'000	£'000
Operating activities		
Profit before tax	8,095	13,190
Adjustments for:		
Depreciation	50	46
Amortisation of leasehold properties	1	1
Deferred bonus write-off	68	110
Fair value of share options	(290)	878
Letting fees amortisation	668	687
Fair value movement in defined benefit pension scheme	44	49
Profit on sale of investment properties	(1,668)	–
Movement in revaluation of investment properties	2,199	(4,833)
Net finance costs	6,800	4,494
Cashflow from operations before changes in working capital	**15,967**	**14,622**
(Increase) in debtors	(203)	(6,274)
(Decrease)/increase in creditors	(2,903)	5,623
Cash generated from operations	**12,861**	**13,971**
Interest paid	(6,061)	(5,275)
Interest received	5	4
Cashflows from operating activities	**6,805**	**8,700**
Investing activities		
Proceeds from sale of investment properties	8,056	–
Purchase and development of investment properties	(33,395)	(14,304)
Purchase of other fixed assets	(126)	(76)
Cashflows from investing activities	**(25,465)**	**(14,380)**
Financing activities		
Increase in borrowings	29,000	18,000
Bank facility fees paid	(2,569)	3
Equity dividends paid	(9,604)	(9,400)
Headlease interest and capital paid	(285)	(285)
Cashflows from financing activities	**16,542**	**8,318**
(Decrease)/net increase in cash and cash equivalents	(2,118)	2,638
Cash and cash equivalents at the beginning of the year	4,363	1,725
Cash and cash equivalents at the end of the year	**2,245**	**4,363**

The accompanying notes form an integral part of these financial statements.

The headlease interest and capital paid was previously presented as a cashflow from operating activities. The current year balance and the prior year comparative have been reclassified to cashflows from financing activities on the basis that this is considered to be a more appropriate presentation of the nature of this liability.

Company Cashflow Statement
For the year ended 31 March 2020

	2020	2019
	£'000	£'000
Operating activities		
Profit before tax	8,341	9,417
Adjustments for:		
Depreciation	34	46
Amortisation of leasehold properties	1	1
Deferred bonus write-off	68	110
Fair value of share options	(290)	878
Letting fees amortisation	617	666
Fair value movement in defined benefit pensions scheme	44	49
Profit on sale of investment properties	(1,668)	–
Movement in revaluation of investment properties	2,205	(1,041)
Net finance costs	5,374	4,457
Cashflow from operations before changes in working capital	**14,726**	**14,583**
(Increase) in debtors	(3,893)	(9,181)
(Decrease)/increase in creditors	(27)	1,306
Cash generated from operations	**10,806**	**6,708**
Interest paid	(6,061)	(5,320)
Interest received	1,327	1,243
Cashflows from operating activities	**6,072**	**2,631**
Investing activities		
Proceeds from sale of investment properties	8,056	–
Purchase and development of investment properties	(32,847)	(8,340)
Purchase of other fixed assets	(46)	(76)
Cashflows from investing activities	**(24,837)**	**(8,416)**
Financing activities		
Increase in borrowings	29,000	18,003
Bank facility fees paid	(2,569)	3
Headlease interest and capital paid	(180)	(180)
Equity dividends paid	(9,604)	(9,400)
Cashflows from financing activities	**16,647**	**8,423**
Net increase/(decrease) in cash and cash equivalents	(2,118)	2,638
Cash and cash equivalents at the beginning of the year	4,363	1,725
Cash and cash equivalents at the end of the year	**2,245**	**4,363**

The accompanying notes form an integral part of these financial statements.

The headlease interest and capital paid was previously presented as a cashflow from operating activities. The current year balance and the prior year comparative have been reclassified to cashflows from financing activities on the basis that this is considered to be a more appropriate presentation of the nature of this liability.

Consolidated Statement of Changes in Equity
For the year ended 31 March 2020

	Attributable to equity holders of the Parent Company				
	Share capital £'000	*Restated Share premium £'000	Revaluation reserve £'000	*Restated Retained earnings £'000	Total equity £'000
At 31 March 2018 – as previously reported	18,791	79,235	127,792	80,622	306,440
Restatement	–	(3,694)	–	3,694	–
As at 31 March 2018 (restated)	18,791	75,541	127,792	84,316	306,440
Profit for the year	–	–	–	13,190	13,190
Other comprehensive income:					
Transfer surplus on revaluation of properties	–	–	4,833	(4,833)	–
Remeasurement on defined benefit pension scheme	–	–	–	(135)	(135)
Total comprehensive income for the year	**–**	**–**	**4,833**	**8,222**	**13,055**
Issue of new shares net of costs	34	–	–	(34)	–
Dividends paid in year	–	–	–	(9,400)	(9,400)
Deferred bonus	–	–	–	110	110
Costs of share-based payments	–	–	–	878	878
At 31 March 2019	**18,825**	**75,541**	**132,625**	**84,092**	**311,083**
Profit for the year	–	–	–	8,095	8,095
Other comprehensive income:					
Transfer surplus on revaluation of properties	–	–	(2,200)	2,200	–
Transfer on disposal of investment property	–	–	2,816	(2,816)	–
Remeasurement on defined benefit pension scheme	–	–	–	(185)	(185)
Total comprehensive income for the year	**–**	**–**	**616**	**7,294**	**7,910**
Issue of new shares net of costs	28	–	–	(28)	–
Dividends paid in year	–	–	–	(9,605)	(9,605)
Deferred bonus	–	–	–	68	68
Costs of share-based payments	–	–	–	(290)	(290)
At 31 March 2020	**18,853**	**75,541**	**133,241**	**81,531**	**309,166**

* See note 1 for restatement details.

The accompanying notes form an integral part of these financial statements.

Company Statement of Changes in Equity
For the year ended 31 March 2020

	Share capital £'000	*Restated Share premium £'000	Revaluation reserve £'000	*Restated Retained earnings £'000	Total equity £'000
At 31 March 2018 – as previously reported	18,791	79,235	120,510	64,002	282,538
Restatement	–	(3,694)	–	3,694	–
As at 31 March 2018 (restated)	18,791	75,541	120,510	67,696	282,538
Profit for the year	–	–	–	9,417	9,417
Other comprehensive income:					
Transfer surplus on revaluation of properties	–	–	1,041	(1,041)	–
Remeasurement on defined benefit pension scheme	–	–	–	(135)	(135)
Total comprehensive income for the year	**–**	**–**	**1,041**	**8,241**	**9,282**
Issue of new shares net of costs	34	–	–	(34)	–
Dividends paid in year	–	–	–	(9,400)	(9,400)
Deferred bonus	–	–	–	110	110
Costs of share-based payments	–	–	–	878	878
At 31 March 2019	**18,825**	**75,541**	**121,551**	**67,491**	**283,408**
Profit for the year	–	–	–	8,341	8,341
Other comprehensive income:					
Transfer surplus on revaluation of properties	–	–	(2,205)	2,205	–
Transfer on disposal of investment properties	–	–	2,816	(2,816)	–
Remeasurement on defined benefit pension scheme	–	–	–	(185)	(185)
Total comprehensive income for the year	**–**	**–**	**611**	**7,545**	**8,156**
Issue of new shares net of costs	28	–	–	(28)	–
Dividends paid in year	–	–	–	(9,605)	(9,605)
Deferred bonus	–	–	–	68	68
Costs of share-based payments	–	–	–	(290)	(290)
At 31 March 2020	**18,853**	**75,541**	**122,162**	**65,181**	**281,737**

* See note 1 for restatement details.

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements
For the year ended 31 March 2020

1 Accounting policies
Basis of preparation
The financial information set out in the final results announcement does not constitute the Group's statutory accounts for the year ended 31 March 2019 or 2018 but is derived from those accounts. The statutory accounts for the period ended 31 March 2019 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The statutory accounts for the year ended 31 March 2018 have been delivered to the Registrar of Companies. The auditors have reported on the accounts for both the years ended 31 March 2019 and 2018; their reports were (i) unqualified (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards as adopted by the European Union (IFRS), this announcement does not itself contain sufficient information to comply with IFRS.

McKay Securities Plc ('the Company') is a public company limited by shares incorporated in the United Kingdom under the Companies Act and is registered in England and Wales. The address of the Company's registered office is 20 Greyfriars Road, Reading, Berkshire RG1 1NL

These financial statements are presented in GBP sterling, which is the currency of the primary economic environment in which the Group operates and are rounded to the nearest thousand.

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

The accounts have been prepared on a going concern basis.

In accordance with Section 408 Companies Act 2006 a separate Profit and Loss and Other Comprehensive Income for the Company is not presented. The profit for the year after tax of the Company is £8,340,645 (2019: £9,417,624).

The consolidated financial statements of the Company and its subsidiary (the Group) have been prepared on a historical cost basis, except for investment property which is measured at fair value through the Profit and Loss and Other Comprehensive Income.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 and leasing transactions that are within the scope of IFRS 16.

The Group is required to adopt IFRS 16 Leases effective from 1 January 2019.

Newly effective accounting standards
Management has considered the impact on the Group of new standards, IFRS 16, amendments to standards and interpretations that are endorsed by the EU. The Group's assessment of the impact of these new standards is set out below.

IFRS 16 Leases
IFRS 16 Leases was issued in January 2016, and was endorsed by the EU in 2017. IFRS 16 introduces a single on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a corresponding lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items.

Standards issued but not yet effective
At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS that have been issued but are not yet effective:

- IFRS 17 Insurance Contracts
- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IFRS 3 Definition of a business
- Amendments to IAS 1 and IAS 8 Definition of material
- Conceptual Framework Amendments to References to the Conceptual Framework in IFRS

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for annual periods beginning on or after 1 January 2019.

The Group adopted the modified retrospective method of adoption for IFRS 16 with no material impact on the Group results.

The financial statements are prepared on a going concern basis.

Restatement
The balance sheets have been restated to remove share premium on the exercise of share options following a review of our share-based payments accounting treatment of the nil cost options. Share premium and retained earnings have been restated to remove the share premium entry recorded on the exercise of share options. The impact of this change is to reduce share premium by £3.7 million, from £79.2 million to £75.5 million at 1 April 2018, with a corresponding increase to retained earnings, from £80.6 million to £84.3 million. This change also reversed the accounting entry of £0.42 million recorded between share premium and retained earnings during the year to 31 March 2019, such that the share premium reserve has been reduced from £79.6 million to £75.5 million at this date, with a corresponding increase to retained earnings, from £80.0 million to £84.1 million.

Basis of consolidation
The subsidiary company is under the control of the Company. Control means being exposed or have rights to variable returns from its involvement and has the ability to affect those returns through its power over the subsidiary.

Control is achieved when the Company: has the power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affects its returns.

All intra-Group assets and liabilities, equity, income, expenses and cashflows relating to transactions between the members of the Group are eliminated on consolidation.

Critical accounting judgements and key sources of estimation uncertainty
In the process of preparing the Group's financial statements management is required to make judgements, estimates and assumptions when applying accounting policies that may affect the reported amounts of revenues, expenses, assets and liabilities. Any judgements, estimates and associated assumptions used in the preparation of the financial statements are based on management's best information at the time, however actual outcomes may differ from estimates used. Management do not consider there to be any critical accounting judgements in the preparation of the Group's financial statements. Management considers that the valuation of investment property represents a key source of estimation uncertainty, for which qualified external advisers are used. As a result of Covid-19, the level of estimation has increased, as reflected by the inclusion of a material uncertainty clause within the valuation report. See further detail below and in note 11.

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

Properties purchased are recognised on legal completion in the accounting period and measured initially at cost including transaction costs. Sales of properties are recognised on legal completion. Gains and losses arising on the disposal of investment properties are recognised in the Profit and Loss and Other Comprehensive Income, being the difference between net sale proceeds and the carrying value of the property.

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

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

The Group owns a number of properties under long leaseholds. These are leased out to tenants under operating leases and included in the balance sheet at fair value (disclosed as head leases). The obligation to the freeholder for the buildings element of the leasehold is included in the balance sheet at the present value of the minimum lease payments at inception. The minimum lease payments are apportioned between finance charges in the Profit and Loss and Other Comprehensive Income and the reduction of the Group Statement of Financial Position liability. Contingent rents are charged as an expense in the Profit and Loss and Other Comprehensive Income in the period incurred.

Assets held for sale
Properties held for sale are classified as non-current assets if their carrying amount will be recovered principally through sale rather than through continuing use, they are available for immediate sale and sale is highly probable within one year.

Investment properties held for sale are carried at fair value in the Statement of Financial Position. Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated.

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

Cash
Cash comprises cash at bank and short-term deposits held on call.

Financial assets
Financial assets do not carry any interest and are stated initially at fair value and subsequently at amortised cost as reduced by appropriate credit loss allowances. The Group always recognises lifetime expected credit losses ('ECL') on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. The Group derecognises a financial asset when the contractual right to the cashflows of the asset expire or on transfer of the asset and the associated risks and rewards to another party.

Trade and other payables
Trade and other payables are not interest bearing and are initially recognised at fair value and subsequently at amortised cost. The Group derecognises trade and other payables liabilities when they are extinguished, which occurs when the obligation associated with the liability is discharged, cancelled or expires.

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

Reserves
The revaluation reserve represents the unrealised surpluses and deficits arising on fair value measurement of the Group's properties and is not available for distribution until realised through sale. This forms part of retained earnings.

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

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

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

The revenue recognition policy for the following revenue streams are in line with IFRS 15, as revenue is recognised when it transfers control over a product or service to a customer.

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

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

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

Operating profit
Operating profit is identified in the income statement and represents the profit on activities before finance costs and taxation.

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

Share-based payments
The Group operates an equity-settled share-based performance plan outlined in the Directors’ Remuneration Report under which Directors and employees are able to acquire shares in the Company. Equity-settled share-based payments to employee’s services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 18.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group’s estimate of the number of equity instruments that will eventually vest. At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserves.

Post employment benefits
The Group operates two pension schemes. The defined benefit scheme is based on final pensionable pay and has been closed to new entrants since 1989. The assets of the scheme are held separately from those of the Group and are measured at fair value, the scheme obligations being calculated at discounted present value, with any net surplus or deficit recognised in the Group Statement of Financial Position. Current service cost and net interest on scheme liabilities and scheme assets are recognised as an expense in the Profit and Loss and Other Comprehensive Income. Actuarial gains and losses on scheme assets and liabilities are recognised in equity through the Profit and Loss and Other Comprehensive Income. The assumptions used by a qualified actuary are outlined in note 24.

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

Taxation

Any tax charge recognised in the Profit and Loss and Other Comprehensive Income comprises current and deferred tax except to the extent that it relates to items recognised directly in equity, in which case the related tax is recognised in equity.

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

Deferred tax is the tax expected to be paid or recovered on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Tax liabilities are recognised for all taxable temporary differences and tax assets to the extent that future taxable profits will be available against which the asset can be utilised.

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

2 Net rental income from investment properties

	2020	2019
	£'000	£'000
Gross rents receivable	22,873	20,287
IFRS 16/SIC-15 adjustment (spreading of rental incentives)	2,291	1,321
Gross rental income	**25,164**	**21,608**
Service charges receivable	4,132	3,736
	29,296	**25,344**
Other property income	69	73
Direct property outgoings	(7,384)	(6,321)
	21,981	**19,096**

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

3 Administration costs

		2020 £'000	2019 £'000
Group			
Directors'	– remuneration	1,240	1,290
	– bonus[1, 4]	523	561
Staff	– costs	1,167	1,043
	– bonus	239	339
Management fee service charge[3]		(293)	(191)
National Insurance		507	502
Pension costs	– defined benefit scheme	44	49
	– defined contributions	275	194
Share-based payment accounting charge (IFRS 2)[2, 4]		(222)	716
		3,480	**4,503**
Depreciation (note 12)		50	46
Office costs		575	560
Legal and professional fees		1,007	936
General expenses		51	10
		5,163	**6,055**

1. Amount charged to income in year to 31 March 2020.
2. Including prior year deferred bonus charges and adjustments in March 2019.
3. Management fees have been reclassified during the year from property outgoings into administration costs. The prior year number before proforma reclassification was £6.25m.
4. The prior year bonus for Directors included the IFRS 2 amount in the share based accounting charge. This now is included, for 2019 and 2020 in the Directors' bonus line.

The average number of persons employed by the Group and Company during the year was 19 (2019: 20).

In advance of each audit, the Committee obtains confirmation from the external auditor that it remains independent and that the level and nature of non-audit fees are not an independence threat. Note 3 details the total fees paid to the auditor. The Committee considers the current auditor Deloitte and the previous auditor, KPMG to be independent of the Group and Company.

	2020 £'000	2019 £'000
Fees paid to auditor		
Statutory audit services		
McKay Securities Plc audit	130	73
Subsidiary audits	10	2
Assurance services		
Interim review	30	19
Service charge audits	15	6
	185	**100**

4 Alternative performance measures

APM	IFRS	Note reference
Adjusted profit before tax The Group adjusts to present recurring profits by removing items not under management control	***Profit before tax IFRS***	Note 4
Total property return (TPR)		
Management's indicator of return on portfolio during the period excluding developments. See note 5		Note 5
Debt to portfolio value (LTV)		
Management guide to gearing levels . See note 5		Note 5
EPRA net asset value per share A future looking matrix by adding in share options that may vest	***Net asset value per share***	Note 22
EPRA triple (NNNAV)		Note 22
EPRA NNNAV is the EPRA NAV adjusted to reflect the fair value of debt and Derivatives and to include deferred taxation		
Adjusted earnings per share Adjusted earnings as above by using recurring profits	***Basic earnings per share***	Note 9
EPRA earnings per share		Note 9
Adjusted diluted earnings per share except for surrender premiums (included in other property income) and share based payments are added back		

Portfolio valuation

Valuation of total property portfolio at period end as per Knight Frank valuation

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. The Directors consider adjusted profit before tax to be an additional informative measure of the ongoing profits from core rental activities before taxation, adjusted as set out. See further detail in the glossary.

These alternative performance measures are commonly used within the property sector.

	2020 £'000	2019 £'000
Profit before tax	9,487	13,190
Movement in revaluation of investment properties (see note 11)	2,199	(4,833)
Other property income (see note 2)	(69)	(73)
Profit on disposal of investment properties	(1,668)	–
IFRS 2 adjustment to share-based payments	(222)	988
Adjusted profit before tax	**9,727**	**9,272**

5 Total property return (TPR)

(excluding developments)

	2020 **£'000**	2019 £'000
Valuation (deficit)/surplus (excluding developments)	(3,615)	3,015
Profit realised on disposal	1,668	–
Income from investment properties	22,073	19,309
	20,126	22,324
Book value (excluding developments)	489,615	406,285
Total property return	4.1%	5.5%

Debt to portfolio value (LTV)

	2020 **£'000**	2019 £'000
Drawn debt	194,000	165,000
Cash balances	(2,245)	(4,364)
Net debt – bank debt net of cash balances	191,755	160,636
Valuation as reported by external valuers	510,000	482,700
LTV	37.6%	33.3%

6 Net finance costs

	2020 **£'000**	2019 £'000
Interest on bank overdraft and loans	5,602	5,025
Commitment fee	462	250
Lease interest on leasehold property obligations	397	285
Finance arrangement costs	895	575
Capitalised interest (note 8)	(551)	(1,637)
	6,805	**4,498**
Interest receivable	(5)	(4)
Net finance costs	**6,800**	**4,494**

The capitalisation of interest has no effect on taxation.

7 Taxation

	2020 £'000	2019 £'000
Total tax in the Consolidated Profit and Loss and Other Comprehensive Income	**(1,392)**	**–**
Reconciliation to effective rate of tax:		
Profit on ordinary activities before tax	**9,487**	**13,190**
Tax charge on profit at 19% (2019: 19%)	**1,803**	**2,506**
Effects of:		
REIT tax exemption	(1,803)	(2,506)
Deferred tax provision	(1,392)	–
Tax for period (as above)	**(1,392)**	**–**

The taxation charge in the Consolidated Profit and Loss and Other Comprehensive Income relates to a deferred taxation provision of £1,391,655 on the expected sale of 30 Lombard Street, EC3. As a REIT, the Group is tax exempt in respect of qualifying capital gains and qualifying rental income, which covers the majority of the Company's activities. The deferred tax provision relating to the expected sale of 30 Lombard St arises as the expected completion of the sale would be within three years of practical completion and would therefore trigger a chargeable capital gain under REIT regulations.

8 Capitalised interest

Interest relating to investment properties in the course of development is dealt with as explained in note 1.

Interest capitalised during the year amounted to £550,933 (2019: £1,637,218) and relates to works to Theale, Brunel Road.

Total development interest capitalised amounts to £14,737,480 (2019: £14,186,547).

Interest is capitalised using the Group's weighted average cost of borrowings and the effective rate applied in the year was 3.35% (2019: 3.34%).

9 Earnings per share

	2020 pence	2019 pence
Basic earnings per share	8.59	14.02
Movement in revaluation of investment properties	2.33	(5.14)
Other property income	(0.07)	(0.08)
Profit on disposal of investment properties	(1.77)	–
Deferred taxation	1.48	–
Share-based payments	(0.24)	1.05
Adjusted earnings per share	**10.32**	**9.85**

Basic earnings per share on ordinary shares is calculated on the profit in the year of £8,095,205 (2019: £13,190,000) and 94,234,253 (2019: 94,087,315) shares, being the weighted average number of ordinary shares in issue during the year.

	2020 Number of shares	2019 Number of shares
Weighted average number of ordinary shares in issue	94,234,253	94,087,315
Number of shares under option	463,819	1,721,064
Number of shares that would have been issued at fair value	(244,272)	(974,797)
Diluted weighted average number of ordinary shares in issue	**94,453,800**	**94,833,582**

Diluted earnings per share:	**2020 pence**	2019 pence
Basic earnings/(loss) per share	8.59	14.02
Effect of dilutive potential ordinary shares under option	(0.02)	(0.11)
	8.57	13.91
Movement in revaluation of investment properties	2.33	(5.10)
Other property income	(0.07)	(0.08)
(Profit) on disposal of investment properties	(1.77)	–
Share-based payments	(0.24)	1.04
Deferred tax	1.47	–
Adjusted diluted earnings per share	10.29	9.77p
Share-based payments	0.24	(1.04)
Surrender premiums	0.07	0.08
EPRA earnings per share	**10.60**	8.81

	2020 pence	2019 pence
Basic earnings per share	8.59	14.02
Effect of dilutive potential ordinary shares under option	(0.02)	(0.11)
Diluted earnings per share	8.57	13.91
Movement in revaluation of investment properties	2.33	(5.10)
Deferred taxation	1.47	–
Profit on disposal of investment properties	(1.77)	–
EPRA earnings per share	**10.60**	**8.81**

EPRA earnings per share is calculated on the same profit after tax and on the weighted average diluted number of shares in issue during the year of 94,453,800 (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, share-based payments, deferred taxation, other property income, the change in fair value of derivatives and the movement in revaluation of investment property. The EPRA measure includes all of these adjustments except surrender premiums included in other property income, which are added back, and share-based payments.

The taxation charge in the Consolidated Profit and Loss and Other Comprehensive Income relates to a deferred taxation provision of £1,391,655 on the expected sale of 30 Lombard Street, EC3.

10 Dividends

The final dividend is not included in the accounts as a liability as at 31 March 2020, as it is subject to shareholder approval at the Annual General Meeting. The final dividend for 2019 and interim for 2019 paid in the year are included in the Consolidated Statement of Changes in Equity.

	2020	2019
	£'000	£'000
Ordinary dividends		
31 March 2019 final dividend of 7.4 pence (31 March 2018: 7.2 pence) paid during the year	6,965	6,765
30 September 2019 interim dividend of 2.8 pence (30 September 2018: 2.8 pence) paid during the year	2,639	2,635
Total recognised in financial statements	**9,604**	**9,400**
Proposed final dividend of 4.4 pence (31 March 2019: 7.4 pence)	**4,148**	**6,965**

11 Investment properties

	Group			Company		
	Freehold	Long leasehold	Total	Freehold	Long leasehold	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Valuation						
At 1 April 2019	378,125	100,653	478,778	378,125	30,790	408,915
Additions – development	16,396	555	16,951	16,396	57	16,453
Additions – purchases	16,438	–	16,438	16,438	–	16,438
Revaluation surplus/(deficit)	(3,235)	3,346	111	(3,235)	393	(2,842)
Adjustment for tenant incentives recognised in advance under IFRS 16	474	(2,785)	(2,311)	474	163	637
Disposals	(6,200)	–	(6,200)	(6,200)	–	(6,200)
Amortisation of grossed up headlease liabilities	–	(1)	(1)	–	(1)	(1)
Book value as at 31 March 2020	**401,998**	**101,768**	**503,766**	**401,988**	**31,402**	**433,400**
Adjustment for grossing up of headlease liabilities	–	(4,403)	(4,403)	–	(2,882)	(2,882)
Adjustment for tenant incentives recognised in advance under IFRS 16	6,852	3,785	10,637	6,852	130	6,982
Valuation as at 31 March 2020	**408,850**	**101,150**	**510,000**	**408,850**	**28,650**	**437,500**

	Group			Company		
	Freehold £'000	Long leasehold £'000	Total £'000	Freehold £'000	Long leasehold £'000	Total £'000
Valuation						
At 1 April 2018	368,957	88,906	457,863	368,957	30,085	399,042
Additions – development	8,213	7,869	16,082	8,213	619	8,832
Revaluation surplus/(deficit)	1,987	4,481	6,468	1,987	(19)	1,968
Adjustment for tenant incentives recognised in advance under SIC 15	(1,032)	(602)	(1,634)	(1,032)	105	(927)
Amortisation of grossed up headlease liabilities	–	(1)	(1)	–	–	–
Book value as at 31 March 2019	**378,125**	**100,653**	**478,778**	**378,125**	**30,790**	**408,915**
Adjustment for grossing up of headlease liabilities	–	(4,404)	(4,404)	–	(2,883)	(2,883)
Adjustment for tenant incentives recognised in advance under SIC-15	7,325	1,001	8,326	7,325	293	7,618
Valuation as at 31 March 2019	**385,450**	**97,250**	**482,700**	**385,450**	**28,200**	**413,650**

In accordance with the Group's accounting policy on properties there was an external valuation at 31 March 2020. These valuations were carried out by Knight Frank LLP, Chartered Surveyors and Valuers. All valuations were carried out in accordance with the Appraisal and Valuation Standards of RICS, on an open market basis.

The historical cost of properties stated at valuation is approximately £377 million (2019: £350 million) for the Group and £315 million (2019: £292 million) for the Company.

The amount of interest capitalised during the year was £550,933 (2019: £1,637,218). The Group is a REIT and therefore does not obtain relief from Corporation Tax.

Investment property valuation method and assumptions

The fair value of the property portfolio has been determined using income capitalisation techniques, whereby contracted and market rental values are capitalised with a market value for properties under development, the fair value is calculated by estimating the fair value of the completed property using the income capitalisation technique less estimated costs to completion and a risk premium. The resulting valuations are cross-checked against the equivalent yields and the fair market values per square foot derived from comparable recent market transactions on arm's length terms.

These techniques are consistent with the principles in IFRS 13 Fair Value Measurement and use significant unobservable inputs such that the fair value measurement of each property within the portfolio has been classified as Level 3 in the fair value hierarchy. There were no transfers in or out of Level 3 for investment properties during the year.

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to £2.2 million (2019: £4.8 million) and are presented in the Group income statement in the line item 'Revaluation of investment properties'.

Due to Covid-19 there is a material uncertainty clause attached to the Knight Frank valuation as detailed below:

The outbreak of the Novel Coronavirus (Covid-19), declared by the World Health Organisation as a 'Global Pandemic' on the 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.

Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weigh to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to Covid-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuation(s) is/are therefore reported on the bases of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that Covid-19 might have on the real estate market, we recommend that you keep the valuation of this fund under frequent review.

Assets held for sale include 30 Lombard Street, EC3, The Planets, Woking and part of Parkside, London, totalling £83.0 million, of which £79.4 million has been reclassified from investment property and £3.6 million from IFRS 16 lease incentive receivables. Liabilities associated with those assets held for sale total £1.52 million, representing associated head lease liabilities. Of those properties held for sale, only The Planets is held by the parent company.

The Planets property remains held for sale at 31 March 2020, with the original exchange of sale contracts in March 2019. This sale remains conditional on the receipt of planning consent being achieved by the purchaser. Whilst the submitted planning consent was not approved on initial submission, management is confident that a successful appeal will be undertaken with an adjusted plan such that the disposal will be able to be completed within 12 months of the balance sheet date.

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the Group's property portfolio, together with the impact of significant movements in these inputs on the fair value measurement, are shown below:

	London offices	South East offices	South East industrial
Valuation technique	Income capitalisation	Income capitalisation	Income capitalisation
Fair value	£125,800,000	£267,300,000	£92,350,000
ERV (psf pa) – average	£56.30	£23.83	£10.63
ERV (psf pa) – range	£10.00-£115.00	£14.50-£55.00	£4.75-£15.75
True equivalent yield – average	4.72%	7.08%	5.69%
True equivalent yield – range	4.33%-5.76%	5.54%-9.06%	4.47%-6.92%
Capital value psf	£937.84	£365.30	£180.48

A further £24.55 million has been designated 'other' and not included in the analysis above.

Definitions for ERV and true equivalent yield are provided in the glossary.

	Change in ERV		Change in equivalent yield	
	+5%	-5%	+0.25%	-0.25%
Sensitivity analysis				
Change in value of investment properties	+£23m	-£26m	-£26m	+£25m

12 Plant and equipment

	2020			2019
	Group	**Company**	Group	Company
	£’000	**£’000**	£’000	£’000
Cost				
Opening	133	133	218	215
Additions	132	52	75	75
Disposals	(34)	(34)	(13)	(13)
Closing	**231**	**151**	**280**	**277**
Depreciation				
Opening	61	61	176	173
Charge for year	50	34	46	46
Disposals	(28)	(28)	(13)	(13)
Closing	**83**	**67**	**209**	**206**
Net book value	**148**	**84**	**71**	**71**

13 Investments

	Shares in subsidiary undertakings £’000
Company	
At 1 April 2019	–
At 31 March 2020	**–**

At 31 March 2020 McKay Securities Plc owned 100% of the ordinary share capital of Baldwin House Limited, representing 100 shares with nominal value of £1. Baldwin House Limited operates in England and is registered in England and Wales with a registered address of 20 Greyfriars Road, Reading, Berkshire RH1 1NL.

The principal activity of the subsidiary undertaking is property investment and development.

The Directors are of the opinion that the investment in the subsidiary undertaking is not worth less than the current book value.

14 Trade and other receivables

	2020 Group £'000	2020 Company £'000	2019 Group £'000	2019 Company £'000
Current				
Rent receivables	2,360	2,360	–	–
Amounts due from subsidiary undertakings	–	43,918	–	40,790
IFRS 16 lease incentives	–	–	–	1,486
Prepayments	822	637	1,063	1,063
Other debtors	18	18	2,438	–
	3,200	**46,933**	**3,501**	**43,339**
Non-current				
IFRS 16 lease incentives	**6,982**	**6,982**	**10,292**	**6,839**

Group trade receivables that were past due but not impaired are as follows:

	2020 £'000	2019 £'000
Less than three months due	2,360	–
Between three and six months due	–	–
Between six and 12 months due	–	–
	2,360	–

The Group holds no collateral in respect of these receivables.

15 Liabilities

	2020 Group £'000	2020 Company £'000	2019 Group £'000	2019 Company £'000
Trade and other payables				
Rent received in advance	5,389	5,389	4,975	4,969
Other taxation and social security costs	1,736	1,726	1,732	1,609
IFRS 16 creditor	–	–	1,964	505
Accruals	4,551	4,551	4,093	4,093
Other creditors	757	757	3,470	573
	12,433	**12,423**	**16,234**	**11,749**

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

Creditor days for the Group were ten days (2019: seven days).

Loans and other borrowings

The analysis of bank loans which are secured on certain of the freehold and leasehold properties of the Group is as follows:

	2020	2019
	£'000	£'000
Group and Company		
Secured bank loans	194,000	165,000
Bank facility fees	(3,495)	(1,824)
	190,505	**163,176**

The bank loans are secured against land and buildings with a carrying amount of £476,750,000 (2019: £403,300,000).

		2020		2019
	Group	**Company**	Group	Company
	£'000	**£'000**	£'000	£'000
Repayable in:				
Less than one year	–	–	–	–
One to two years	–	–	66,698	66,698
Two to five years	126,373	126,373	32,432	32,432
Five to ten years	–	–	–	–
Greater than ten years	64,132	64,132	64,046	64,046
	190,505	**190,505**	**163,176**	**163,176**

	2020	2019
	£'000	£'000
Changes in liabilities arising from financing activities		
Current loans as at 1 April		–
Non-current loans as at 1 April	163,176	144,598
Total loans as at 1 April	**163,176**	**144,598**
Increase in borrowings (cash)	29,000	18,000
Bank facility fees (cash)	(2,569)	3
Facility fee amortisation (non-cash)	898	575
Total loans as at 31 March	**190,505**	**163,176**

	2020	2019
	£'000	£'000
Present value of lease liabilities as at 1 April	4,404	4,405
Headlease cash payments	(285)	(285)
Impact of unwind of discount rate (non-cash)	284	284
Present value of lease liabilities as at 31 March	**4,403**	**4,404**

Borrowing facilities

The Group has various undrawn committed borrowing facilities. The facilities available in respect of which all conditions precedent had been met were as follows:

	2020	2019
	£'000	£'000
Expiring in less than one year	–	–
Expiring in one to two years	–	18,000
Expiring in two to five years	51,000	7,000
Expiring in five to ten years	–	–
	51,000	**25,000**

Liquidity risk

Liquidity risk is managed through committed bank facilities that ensure sufficient funds are available to cover potential liabilities arising against projected cashflows. The Group's facilities are revolving in part, allowing the Group to apply cash surpluses to temporarily reduce debt.

On 8 April 2019 the Company increased total facilities to £245 million (from £190 million). Three bilateral facilities (£125 million) were replaced with one revolving credit facility ('RCF') of £180 million.

The following table details the Group's remaining contractual maturities for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based upon the earliest dates on which the Group can be required to pay. The table includes both interest and principal cash flows. When the amount payable is not fixed, the amount disclosed has been determined by reference to the applicable interest rate as at the balance sheet date.

Financial instrument maturity

	Contractual cashflows					
	Total	2 months or less	2–12 months	1–2 years	2–5 years	More than 5 years
At 31 March 2020						
Non-derivative financial liabilities						
Bank overdraft	–	–	–	–	–	–
Secured bank loans	194,000	–	–	–	129,000	65,000
Bank interest	38,798	–	5,709	5,709	14,040	13,340
Lease liabilities	25,798	–	285	285	857	24,371
Other taxation and social security costs	1,736	–	1,736	–	–	–
Accruals	4,551	–	4,551	–	–	–
Other creditors	757	–	757	–	–	–
	265,640	**–**	**13,038**	**5,994**	**143,897**	**102,711**

	Contractual cashflows					
	Total	2 months or less	2–12 months	1–2 years	2–5 years	More than 5 years
At 31 March 2019						
Non-derivative financial liabilities						
Bank overdraft	–	–	–	–	–	–
Secured bank loans	165,000	–		67,000	33,000	65,000
Bank interest	42,299	–	5,285	5,263	15,776	15,975
Lease liabilities	26,083	–	285	285	857	24,656
Other taxation and social security costs	1,732	–	1,732	–	–	–
Accruals	4,093	–	4,093	–	–	–
Other creditors	3,470	–	3,470	–	–	–
	242,677	**–**	**14,865**	**72,548**	**49,633**	**105,631**

Credit risk
Credit evaluations are performed on all tenants looking to enter into lease or pre-lease agreements with the Group. Credit risk is managed by tenants paying rent in advance. Outstanding tenants' receivables are regularly monitored.

At the Statement of Financial Position date there were no significant concentrations of credit risk, except for the low risk lease commitments which were either government departments or held a top credit rating. The maximum exposure to credit risk is represented by the carrying amount of each financial asset including derivative financial instruments on the Group Statement of Financial Position.

The Group has no exposure to currency risks.

Market risk
The Group is exposed to market risk through changes in interest rates or availability of credit. The Group actively monitors these exposures.

Interest rate risk
The Group adopts a policy of ensuring that its exposure to interest rate fluctuations is mitigated by the use of financial instruments.

A 25 basis points change in interest rate levels would increase or decrease the Group's annual profit and equity £322,500 (2019: £250,000). This sensitivity has been calculated by applying the interest rate change to the variable rate borrowings at the year end. The comparative figure for 2019 was also based on a 25 basis points change in interest rates. The 25 basis points change being used shows how the profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at the year end.

Interest rate derivatives
The Group does not hold any interest rate derivatives as at 31 March 2020.

	2020	2019
Weighted average cost of borrowing	**3.35%**	**3.34%**

There are no liabilities at maturity and no material unrecognised gains or losses.

In both 2020 and 2019 there was no difference between the book value and the fair value of all the other financial assets and liabilities of the Group and Company.

16 Lease liabilities

	Minimum lease payments	
	2020	2019
	£'000	£'000
Group lease liabilities are payable as follows:		
Year one	285	285
Year two	286	285
Year three	286	286
Year four	285	286
Year five	285	285
Greater than five years	24,371	24,656
	25,798	**26,083**
Less future finance charges	(21,395)	(21,679)
Present value of lease obligations	**4,403**	**4,404**

The above lease liabilities relate to investment properties with a carrying value of £95,900,000 (2019: £91,800,000). The terms of these lease agreements are for periods of between 98 and 125 years. There are no restrictions imposed by the lease agreements. No contingent rents are payable.

Lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in event of default.

The annual obligation for the first five years is £285,000 pa.

17 Operating leases

The Group leases out all of its investment properties under operating leases.

The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

	2020	2019
	£'000	£'000
Not later than one year	20,224	22,503
Later than one year but not later than five years	52,964	56,293
Later than five years	55,336	61,519
	128,524	**140,315**

18 Share-based payments

During the year to 31 March 2020, the Group had one share-based payment arrangement, which is described below. In the case of the PSP awards, the expected volatility was determined by calculating historical volatility of the Group's share price.

Performance Share Plan

The performance targets for PSP awards are a combination of TSR and absolute NAV performance over a three-year period. If the performance criteria have not been met at the end of the vesting period then the awards will lapse.

The nil cost awards outstanding at 31 March 2020 have been fair valued using a Monte Carlo valuation pricing model using the following main assumptions:

	10 June 2019	8 June 2018	18 July 2017	16 June 2016
Share price	£2.40	£2.67	£2.26	£2.07
Term	3 years	3 years	3 years	3 years
Risk free rate	0.49%	0.80%	0.26%	0.27%
Dividend yield	0%	0%	0%	4.27%
Volatility – Company	31.0%	31.0%	29.0%	21.27%
TSR fair value	£1.34	£1.73	£1.42	£0.77
NAV fair value	£2.40	£2.70	£2.26	£1.81

Share-based payments

	2020 Number of shares	2019 Number of shares
Outstanding at the beginning of the period	**1,732,473**	1,592,727
Granted during the period	**638,465**	564,972
Forfeited during the period	**(18,880)**	(1,966)
Exercised during the period	**(139,573)**	(169,316)
Expired during the period	**(490,656)**	(253,944)
Outstanding at the end of the period	**1,721,829**	1,732,473

During the year 139,573 shares were issued to settle the PSP (Tenth Grant) on 18 June 2019. These shares were issued out of distributable reserves under the Company's Articles of Association.

The above table includes outstanding shares at the end of the year relating to deferred bonus shares of 107,055 (2019: 113,690) of which 50,845 were granted during the year (2019: 56,210) and 57,480 exercised in the period (2019: nil).

The weighted average life of the 1,721,849 shares outstanding is 8.29 years (2019: 8.22 years). The weighted average price on the date of exercise for options exercised during the year was £2.40 (2019: £2.66).

19 Called up share capital

	2020 Issued £	**2020 Number of shares**	2019 Issued £	2019 Number of shares
Ordinary 20 pence shares in issue				
At 1 April	18,824,879	94,124,425	18,791,022	93,955,109
Issue of shares in year[1]	27,915	139,573	33,857	169,316
At 31 March	**18,852,794**	**94,263,998**	**18,824,879**	**94,124,425**

1. During the year 139,573 shares (2019: 169,316) were issued to settle the PSP (Tenth Grant) on 18 June 2019.

20 Capital management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide returns to shareholders and to maintain an appropriate capital structure to minimise the cost of capital. The current capital structure of the Group comprises a mix of equity and debt. Equity comprises issued share capital, reserves and retained earnings, as disclosed in the Group Balance Sheet.

The Group uses a number of key metrics[1] to manage its capital structure, including:

- gearing
- LTV

The Board monitors the ability of the Group to pay dividends out of available cash and distributable profits.

1. See glossary.

21 Related party transactions

	Balance owed to/(owing from)	
	2020	2019
	£'000	£'000
Subsidiary undertakings		
Baldwin House Limited	(43,918)	(40,790)
	(43,918)	**(40,790)**

There were no transactions with Directors, who are considered key management personnel, other than remuneration.

See note 24 for details on the pension scheme.

These related party transactions are between Baldwin House Limited and the Company. They relate to property payments and receipts for the two properties held in Baldwin House Limited. This balance is zero at Group level.

The parent company funded capital expenditure on behalf of Baldwin House in the year amounting to £544,795 (2019: £7,354,000).

	2020	2019
	£'000	£'000
Interest charge by McKay to Baldwin House	1,321	1,239
Management fee charged by McKay	338	392

22 Net asset value per share

	31 March 2020			31 March 2019		
	Net assets £'000	**Shares '000**	**NAV per share pence**	Net assets £'000	Shares '000	NAV per share pence
Basic	309,166	94,264	328	311,083	94,124	331
Number of shares under option	–	143	(1)	1,635	1,732	(5)
Diluted/EPRA NNNAV	**309,166**	**94,407**	**327**	**312,718**	**95,856**	**326**
Deferred taxation	1,392	–	2	–	–	–
EPRA NAV	**310,558**	**94,407**	**329**	**312,718**	**95,856**	**326**

23 Commitments and contingent liabilities

	2020		2019	
	Group	**Company**	Group	Company
	£’000	**£’000**	£’000	£’000
Capital expenditure committed but not provided for	**672**	**672**	**11,381**	**11,381**

These commitments relate to the Group’s one development in place at the end of the year.

24 Pensions

The Group and Company operate a defined benefit pension scheme in the UK providing benefits based on final pensionable salary. The assets of the scheme are held separately from those of the Group, being invested with insurance companies and managed funds. The contributions are determined by a qualified actuary on the basis of a triennial valuation using the attained age method. The most recent actuarial valuation was as at 31 March 2017. The assumption which has the most significant effect on the results of the valuation are those relating to the rate of return on investments. It was assumed that the investment returns would be 5.0% per annum.

The Group contributes £240,000 per annum into the Scheme. This will be reviewed as part of the 2020 triennial valuation.

At the 31 March 2017 actuarial valuation the scheme was 88% funded on the continuing valuation basis. A recovery plan and schedule of contributions has been agreed designed to address this shortfall.

The IAS 19 valuation for the pension scheme disclosures is based on the most recent actuarial valuation at 31 March 2017 and updated by First Actuarial in order to assess the liabilities of the scheme at 31 March 2020. Scheme assets are stated at their market value at 31 March 2020.

The Scheme has been closed to new entrants since 1989.

The assets of the scheme have been taken at market value and the liabilities have been calculated using the following principal actuarial assumptions:

	2020	2019
Inflation	2.6%	3.2%
Salary increases	n/a	n/a
Rate of discount	2.3%	2.2%
Pension in payment increases	2.6%	3.1%

The mortality assumptions adopted at 31 March 2020 imply the following life expectancies for members currently aged 60:

Male = 28.3 years

	2020	2019
	£’000	£’000
The fair value of scheme assets are as follows:		
Equities	1,693	1,909
Gilts	264	334
Corporate and overseas bonds	252	277
Absolute return portfolios	1,984	2,322
Property	120	149
Cash	443	312
Other	83	29
	4,839	**5,332**

99.9% of the equities are in quoted equities.

The asset split is approximated using the current fund splits for each manager.

The plan assets do not expose the entity to any significant concentration risk.

	2020 £'000	2019 £'000
Changes in the value of scheme assets over the year		
Market value of assets at start of year	5,332	5,531
Return on scheme assets	115	131
Actuarial gain	(417)	(148)
Employer contributions	240	240
Benefits paid	(431)	(422)
Market value of assets at end of year	**4,839**	**5,332**

Analysis of changes in the value of the defined benefit obligation over the period:

	2020 £'000	2019 £'000
Value of defined benefit obligation at start of period	**7,440**	**7,695**
Interest cost	159	180
Benefits paid	(431)	(422)
Actuarial gains: experience differing from that assumed	83	(148)
Actuarial gains: changes in demographic assumptions	–	(74)
Actuarial gains: changes in financial assumptions	(315)	209
Value of defined benefit obligation at end of period	**6,936**	**7,440**

Sensitivity analysis

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant. The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated. The RPI inflation assumption sensitivity factors in the impact of inflation on the rate of increase in pension in payment assumptions.

	Change in assumption	Change in defined benefit obligation
Assumption		
Discount rate	+/-0.5% pa	-/+5%
RPI inflation	+/-0.5% pa	+3%/-4%
Assumed life expectancy	+1 year	+5%

Analysis of the amount charged to operating profit:

	2020	2019
	£'000	£'000
Operating profit		
Current service cost	**–**	**–**
Analysis of the amount (credited)/charged to finance costs/(income)		
Return on pension scheme assets	(115)	(131)
Interest on pension scheme liabilities	159	180
Total charge to profit and loss	**44**	**49**

Analysis of the movement in the balance sheet deficit:

	2020	2019
	£'000	£'000
Deficit in scheme at beginning of year	(2,108)	(2,164)
Movement in year:		
Current service cost	–	–
Net interest/return on assets	(44)	(49)
Contributions	240	240
Actuarial gain/(loss)	(185)	(135)
Deficit in scheme at end of year	**(2,097)**	**(2,108)**

The last active member reached retirement age in May 2013.

The weighted average maturity profile of the defined benefit obligation at the end of the year is ten years (2019: 11 years).

25 Post balance sheet events

There has been no material post balance events between the balance sheet date and the signing of the accounts.

The impact of Covid-19 is explained throughout the Annual Report and Accounts.

The Report and Financial Statements will be posted to shareholders on 23 June 2020 with copies available from the Company's registered office at 20 Greyfriars Road, Reading, RG1 1NL from the same date, and from the Company's website www.mckaysecurities.plc.uk.

Glossary

Adjusted EPS

Earnings per share – based on profits and adjusted to exclude certain items as set out in note 9.

Adjusted profit before tax

Profit before tax adjusted to exclude profit from the disposal of investment properties, share-based payments, other property income, the change in fair value of derivatives and the movement in revaluation of investment property. These items are excluded on the basis that they relate to non-core rental activity as set out in note 4.

Book value

The amount at which assets and liabilities are reported in the accounts.

BREEAM

Building Research Establishment Environmental Assessment Method. An environmental standard that rates the sustainability of buildings in the UK.

Carrying value

The value of an asset based on prior valuation with the addition of any subsequent capital expenditure.

Contracted rent

Rent payable under the terms of a lease, less ground rent, with no allowance for the value of incentives granted at lease commencement.

CRC

Carbon Reduction Commitment. A mandatory emissions reduction standard in the UK that covers all forms of energy excluding transportation fuels.

Diluted figures

Reported amount adjusted to include the effects of potential shares issuable under employee share schemes.

Dun and Bradstreet

Provider of business information and risk management insight.

Earnings per share ('EPS')

Profit after taxation attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year.

EPC

Energy Performance Certificate. Certificates carry ratings which measure the energy and carbon emission efficiency of the property using a grade from an 'A' to a 'G'.

EPRA

Standard calculation methods for adjusted EPS, NAV and NNNAV as set out by the European Public Real Estate Association (EPRA) in their Best Practice and Policy Recommendations.

Equivalent yield (true)

The internal rate of return from an investment property, based on the value of the property assuming the current rent passing reverts to ERV and assuming the property becomes fully reoccupied over time. It assumes that rent is received quarterly in advance.

Estimated Rental Value ('ERV')
The valuers estimated amount for which floor space should let on the date of valuation on appropriate lease terms net of ground rents payable. Also known as MRV.

Extensible Business Reporting Language ('XBRL')
A computer language for electronic transmission of business and financial information.

Gearing
Drawn debt to shareholders' funds.

GRESB
Global Real Estate Sustainability Benchmark.

Industrial property
Term used to include light industrial, industrial and distribution warehouse property falling within classes B1c, B2 and B8 of the Town & Country Planning Use Classes Order. The term does not include retail warehousing, falling within class A1 of the Order.

Initial yield
Net rents payable at the valuation date expressed as a percentage of the value of property assets after allowing for notional purchasers' costs.

Interest cover ('ICR')
The number of times Group net interest payable is covered by adjusted profit before interest and taxation.

Interest rate swap
A financial instrument where two parties agree to exchange an interest rate obligation for a pre-determined amount of time.

IPD/MSCI
Investment Property Databank. Leading provider of independent statistical analysis to the commercial property sector.

Loan to value ('LTV')
Drawn debt divided by the value of property assets.

Net asset value ('NAV') per share
Total equity divided by the number of ordinary shares in issue at the period end.

Net debt
Total borrowings less cash credit balances.

Portfolio Capital Return ('PCR')
The annual valuation movement and realised surpluses / deficits from the Company's directly held investment portfolio expressed as a percentage return on the value at the beginning of the period, adjusted for acquisitions and capital expenditure.

Property Income Distribution ('PID')
PID dividend payments are taxable as letting income in the hands of shareholders who pay tax. They are paid after deduction of withholding tax at the basic rate.

Real Estate Investment Trust ('REIT')
A tax efficient structure for the management of property. It must be publicly quoted with 75% of its profits and assets derived from a qualifying property rental business which is exempt from tax on income and gains.

Rental value growth
Increase in rental value, as determined at the valuation date, over the period on a like-for-like basis.

Reversion
Potential uplift in rental value to market rent, as determined at the valuation date, likely to arise from a rent review, lease renewal or letting.

RPIX
Retail Price Index excluding mortgage interest.

Shareholders' funds
Total equity of the Company.

SIC-15
The IFRS treatment in respect of letting incentives. It requires the Company to offset the value of incentives granted to lessees against the total rent due over the length of the lease, or to a break clause if earlier.

Stamp duty land tax
Government tax levied on certain legal transactions including the purchase of property.

Total property return (TPR)
Valuation surplus/(deficit) plus profit on disposal plus income from investment properties divided by the book value.

Total shareholder return ('TSR')
The growth in the value of an ordinary share plus dividends reinvested during the year expressed as a percentage of the share price at the beginning of the year.

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

Weighted average unexpired lease term ('WAULT')
The average lease term remaining to expiry across the portfolio weighted by rental income. This is also disclosed assuming all break clauses are exercised at the earliest date.