McKay Securities PLC

Report and Financial Statements 2004

Contents

Financial Highlights

		2004 £'000	2003 £'000
Operating profit		**10,404**	9,797
Profit before taxation		**7,456**	8,402
Profit after taxation		**5,907**	6,427
Ordinary dividends		**4,073**	3,892
Surplus/(deficit) on revaluation (note 11)		**5,555**	(5,359)
Equity shareholders' funds		**128,471**	119,424
Operating earnings per share	– diluted	**11.8p**	11.0p
	– basic	**11.8p**	11.6p
Earnings per share	– diluted	**13.0p**	14.2p
	– basic	**13.0p**	14.9p
Dividend per share		**9.0p**	8.6p
Adjusted net asset value per share (excluding deferred tax on capital allowances)		**295p**	276p
Net asset value per share		**284p**	264p

McKay Securities PLC is a property development and investment company which develops and refurbishes buildings of quality for its own portfolio, which it retains and manages for long term investment. These include office, warehouse and industrial schemes which are concentrated mainly in the high growth areas of Central London and the South East of England.

The Group, which has a portfolio value of over £211 million, does not trade its properties and therefore there is a hardcore rental stream underpinning profits growth which is further secured from time to time by the sale of investment properties. This policy has rewarded shareholders with above average growth in capital value, earnings and dividend distributions over many years.

Opposite page
Portsoken House, London EC3

Chairman's Statement

Pre-tax profits for the year to 31st March 2004 amounted to £7,456,000 compared with £8,402,000 for the same period last year. At operating level, excluding the surplus on the sale of investment properties, pre-tax profit after interest increased to £6,883,000 from £6,647,000.

A final dividend of 5.9 pence per ordinary share is being recommended by the Directors (2003 - 5.7 pence), payable on 12th August 2004. This makes a total dividend for the year of 9.0 pence (2003 - 8.6 pence); an increase of 4.65%.

The year end valuation of the Group's property portfolio, which excludes those properties in the course of development, resulted in a surplus of £5,555,000 representing an increase of 2.9% after adjusting for acquisitions and disposals. Revaluation surpluses attributable to the 20% interest in Property Investment Holdings Limited (associated company), added a further £2,149,000 to reserves during the year. After taking into account these items, together with retained capital and revenue profits and the dividends referred to above, adjusted net asset value per share has risen to 295 pence from 276 pence at the previous year end.

Review of the year

In this, my first annual statement as Chairman, I am pleased to report a productive year for the Group which has seen profit at operating level and gross rents from the portfolio reach record levels of £6.88m and £14m respectively, good progress with the development programme and an increase of 7.6% in net asset value. Overall pre-tax profit was down on last year's figure on account of the reduced sales programme, which fluctuates from year to year.

Operating income has benefited from successful rent reviews, lease renewals and new lettings, much of which has resulted from refurbishment work carried out over the last few years. Low interest rates have also continued to work in our favour.

Despite low levels of tenant demand, we have achieved a number of lettings across the portfolio which in due course will add £550,000 pa of rental income. Of particular note are the lettings achieved at Newminster House, Bristol (offices - 2,557sq.m) and Bartley House, Hook (offices - 2,016sq.m). After installing air conditioning at Newminster House, the building is now fully let at rental levels in excess of those previously estimated. At Bartley House, a ten year lease has been granted to Westbury Plc for half of the building to be occupied as their new regional headquarters; the marketing of the remaining floor continues.

At Castle Lane, SW1 (offices - 1,304sq.m), implementation of the rolling refurbishment programme of the office and common areas has led to an uplift in rental values within this attractive period building situated just off Buckingham Gate. The first floor was let on completion of the works to the existing ground floor tenant, and there is keen interest in the two remaining floors.

Elsewhere, general external upgrading and refurbishment works carried out to Unit 1 of the McKay Trading Estate, Bicester helped secure the grant of a new ten year lease, taking the Estate (warehousing - 8,051sq.m) to full occupation. Improved landscaping and signage works are also enhancing the quality of the environment at the 3 and 5 Acre industrial estates in Folkestone (warehousing - 9,712sq.m), and at the Oakwood Trade Park in Crawley (warehousing - 4,746sq.m). Oakwood, which is already showing rental growth in excess of the assumptions made at the time of acquisition last year, adjoins our Pegasus Place scheme (offices - 4,711sq.m) where we continue to market two of the three office buildings (3,528sq.m). Since the letting of Pegasus Two shortly after the completion of the development, there has continued to be an encouraging level of activity within the Crawley market and I am confident that the quality of the buildings and their setting will attract occupiers before long.

Increases in operating income have also come from rent reviews, two of which have been particularly successful adding £351,000 pa. At the Runnymede Distribution Centre (8,241sq.m), the demand for large warehouse properties close to Heathrow helped secure a rental increase of £245,000 pa, and at 100 Bothwell Street, Glasgow (offices - 9,315sq.m) an uplift of £106,000 pa has been agreed over part of the building, with a further review at this property later this year.

As well as protecting and enhancing income we continue to look for ways to release both short and long term value from within the portfolio. At Portsoken House, EC3 (offices and shops - 4,466sq.m), we agreed a £1.6m surrender premium with two tenants who were no longer in possession, having fully sublet their floors. We now have direct contact with those in occupation which has given us the opportunity to combine more effective asset management with the needs of the tenants and we are now proceeding with a refurbishment of the reception area and common parts.

Chairman's Statement

Another successful negotiation was in respect of Chancery House, a 5,078sq.m office headquarters building in Sutton, which the Group developed in 1982. At that time the freehold was retained by the Group along with responsibility for letting and management but with 80% of the income passing to Scottish Widows by way of a head lease. This head lease was acquired during the year for £4m giving us the full benefit of our management time, the ability to use the capital invested in the building as security and a yield of 9.8%. The price paid reflected a number of existing and anticipated voids as well as refurbishment work which we will be putting in hand.

On the sales side, a total of four properties were successfully disposed of generating net sale proceeds of £3m, and a book profit of £357,000. These comprised 55/56 St. Mary's Butts, Reading; 103 London Road, Reading; 29 Summers Road, Burnham and Southover Street, Brighton, all of which were considered to have become ex-growth. Property Investment Holdings Limited added a further £216,000 in respect of profit on property sales.

Good progress has been made with our office development schemes in Wimbledon and Westminster. Demolition began at Worple Road, Wimbledon last July and the basement and central core are now well advanced. This scheme, which is known as Wimbledon Gate, will be completed in the spring of 2005, and will comprise 5,435sq. m of space arranged over six floors within granite and glass elevations. At 1 Old Queen Street, Westminster, construction works begin later this month with completion of this 2,000sq.m building due in the autumn of 2005. Specification in both cases is of the highest quality, creating efficient and flexible space designed to make the most of their attractive and prominent settings. Their development is consistent with our approach of producing schemes in established locations for future investment growth.

Looking forward, the development programme contains various other opportunities including the redevelopment of 30/32 Lombard Street, EC3, which was acquired with planning consent to enable a start to be made on expiry of the current leases in December 2005, increasing the floor area from 3,435sq.m to 5,000sq.m. Since acquisition, the City has seen a major reduction in demand for space with a resultant fall in rental values. In view of this we are considering the various options open to us including re-letting the existing airconditioned floor space, which has been continuously upgraded over recent years, or implementing the existing or an improved consent if the market timing is right.

We remain selective in our approach to acquisitions, searching for properties that will enable us to use our development and management skills to create income and capital growth. However, the strong demand for property and the low cost of finance reported at the interim stage still prevail, pushing prices to levels that offer little scope to generate value in the longer term.

Opposite page
Castle Lane, London SW1

Chairman's Statement

Valuation

The annual valuation of the Group's investment portfolio, excluding those properties in the course of development, was £200m, generating a surplus of £5.55m (2.9%) for the year having taken into account sales and acquisitions.

Increases were seen across the portfolio due to the lower yields that investors are currently prepared to accept when acquiring property in the open market and, in particular, where this yield shift has been applied to improved levels of rental income. In addition to these increases, a significant proportion of the surplus was generated from the purchase of the head lease at Chancery House, Sutton and from Great Brighams Mead, Reading where the valuation now reflects the full contractual rent.

Financial

Net debt at the year end stood at £74.8m (2003 - £75.7m) representing gearing of 58% against shareholders funds (2003 - 63%). The Group's financing policy remains one of securing interest only fully revolving facilities at floating rates with well established lenders, with maturities in excess of 7 years. During the year a new £30m facility was agreed with HSBC, taking total facilities available to £109m which, if fully drawn, would take balance sheet gearing to 85%. The Group's exposure to interest rate rises in respect of £52 million of its borrowings is protected by financial instruments. The average cost of borrowing for the year was 5.4% (2003 - 5.5%).

Along with all other listed companies, we are obliged to change the presentation and preparation of our accounts to meet international financial reporting standards (IFRS) which will replace UK accounting standards (UK GAAP) for the year ending 31st March 2006. This will have an impact upon our current accounting policies and will first appear in the half year results to September 2005. Our intention will be to ensure that the presentation of the Group's financial position and performance remains as clear as possible.

The Government have also been progressing their ideas for property investment funds. These are intended to be tax efficient vehicles, within which investment property can be held with reduced levels of tax on income and capital gains. At this stage, the structure and entry cost in particular remain vague, but this is likely to be an initiative of some significance to the sector and we will continue to monitor developments as they unfold.

Board changes and management

In my interim statement I welcomed Steven Morrice to the Board. Steven is responsible for the development programme and his appointment completes the restructuring of the executive team.

It also gives me great pleasure to welcome Andrew Gulliford who was appointed to the Board as an independent non-executive director in April. Andy is Deputy Senior Partner of Cushman & Wakefield Healey & Baker where he headed up their Investment Group for twelve years from 1990. His extensive property and management experience will be a valuable addition to the Board.

Opposite page
Chancery House, Sutton

Chairman's Statement

This appointment is the first of a number that the Board intends to make following a review carried out to address the likely requirement for new independent non-executive directors over the next few years. The Group has been extremely fortunate to have benefited from a stable non-executive presence on the Board and it is intended to maintain continuity as new appointments are made in a gradual and managed way. This exercise has coincided with the publication of the Revised Combined Code on Corporate Governance, which provides advice on Board and Committee structure and process. This has also been reviewed and a number of changes have been made to maintain our compliance with best practice.

At this year's AGM James Chilton will stand down from the Board after twenty-eight years as an executive director and over two years as a non-executive director. As many shareholders will recall, Jamie was in charge of the Group's property portfolio and worked closely with me on the development, acquisition and sales programmes. Much of the successful growth of the Group over that period was achieved as a result of his immense efforts. We wish him all good fortune.

Future prospects

There are continuing signs of improving tenant demand with the supply of better quality space becoming more limited. Although this recovery is still fragile, it is welcome and will assist in our efforts to secure further lettings and income from the portfolio whilst progressing those projects within the development programme and looking for new opportunities. Much of the Group's past growth has come from the successful implementation of a selective development programme, underpinned by the security of income from completed projects retained within the investment portfolio. The extent and pace of future progress is largely dependent upon how quickly we can let the two remaining buildings at Pegasus Place, Crawley and, in due course, the developments now under construction at Wimbledon and Westminster which will have a combined estimated rent roll of over £3m per annum. When income producing, these projects will add substantially to shareholder value, and your Board remains optimistic that the Group is well placed to realise this potential growth as the market continues to improve.

E. S. G. Lloyd
Chairman

17th June 2004

Opposite page
Wimbledon Gate, Worple Road, Wimbledon

Board of Directors

Eric Lloyd *F.C.A.*
Chairman

Aged 65. Appointed non-executive Chairman in July 2003, having been Managing Director since 1972. Chartered Accountant.

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

Aged 39. Joined the Company in 2000. Appointed a Director in April 2001, and Managing Director in January 2003. Member of the Nomination Committee.

Alan Childs
Finance Director

Aged 54. Joined the Company in 1973. Appointed Company Secretary in 1987 and a Director in 1996.

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

Aged 36. Joined the Company in 2001. Appointed a Director in August 2002. Responsible for portfolio management and lettings.

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

Aged 40. Joined the Company in 2002. Appointed a Director in September 2003. Responsible for the development programme.

Iain McKay
Non-executive

Aged 65. Appointed a non-executive Director in 1968 and non-executive Chairman from 1986 to 2003. Director of Farringdon Property Trust Limited and Ronnoco Export Development Company Limited.

James Chilton
Non-executive

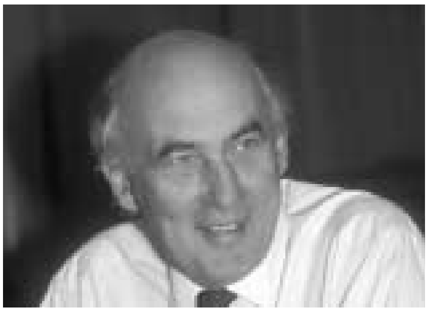
Aged 63. Joined the Company in 1968. Appointed an executive Director in 1973. Responsible for portfolio management and lettings until October 2001, when he became a non-executive Director.

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

Aged 58. Appointed a non-executive Director in 1986. Chartered Surveyor and Director of Capital and Continental SARL. Chairman of the Nomination and Remuneration Committees and a member of the Audit Committee.

Ian Menzies *M.A., C.A.*
Non-executive

Aged 63. Appointed a non-executive Director in 1989. Chartered Accountant, Director of Poles Limited. Chairman of the Audit Committee and a member of the Nomination and Remuneration Committees.

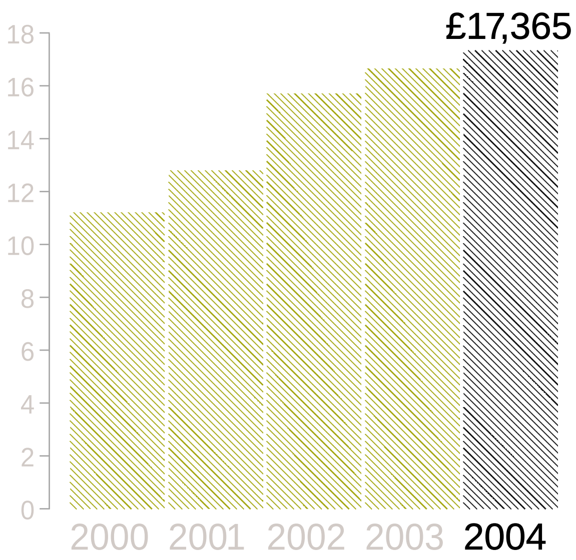


Andrew Gulliford *F.R.I.C.S.*
Non-executive

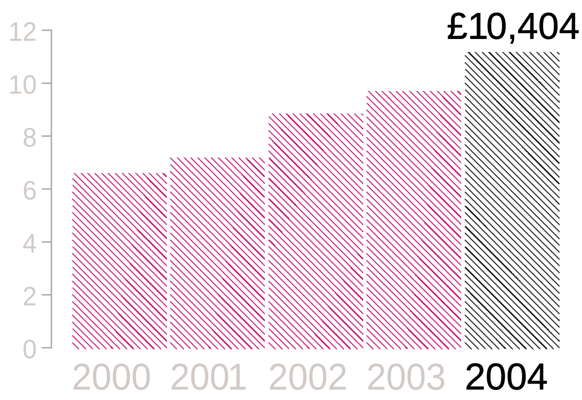
Aged 57. Appointed a non-executive Director in 2004. Chartered Surveyor and Deputy Senior Partner of Cushman & Wakefield Healey & Baker. Member of the Audit, Nomination and Remuneration Committees.

Five Year Summary

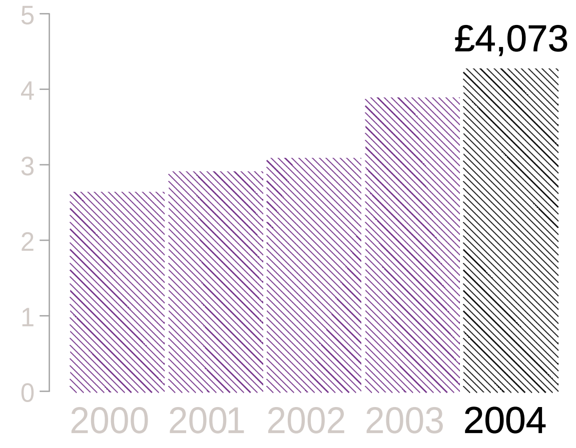
	2004 £'000	2003 £'000	2002 £'000	2001 £'000	2000 £'000
Gross rents and service charges receivable	**17,365**	16,666	15,724	12,809	11,229
Operating profit	**10,404**	9,797	8,970	7,403	6,987
Profit before taxation	**7,456**	8,402	6,836	7,927	9,828
Profit after taxation	**5,907**	6,427	5,151	5,347	7,463
Ordinary dividends *(excluding special dividends)*	**4,073**	3,892	3,143	2,903	2,626
Equity shareholders' funds	**128,471**	119,424	133,458	124,927	104,551
Earnings per share – diluted *(on total issued capital)*	**13.0p**	14.2p	11.4p	11.9p	16.9p
Earnings per share – basic	**13.0p**	14.9p	13.3p	13.8p	19.3p
Operating earnings per share – diluted *(on total issued capital)*	**11.8p**	11.0p	9.3p	8.2p	9.4p
Operating earnings per share – basic	**11.8p**	11.6p	10.8p	9.4p	10.8p
Net asset value per share *(on total issued capital)*	**284p**	264p	297p	279p	236p



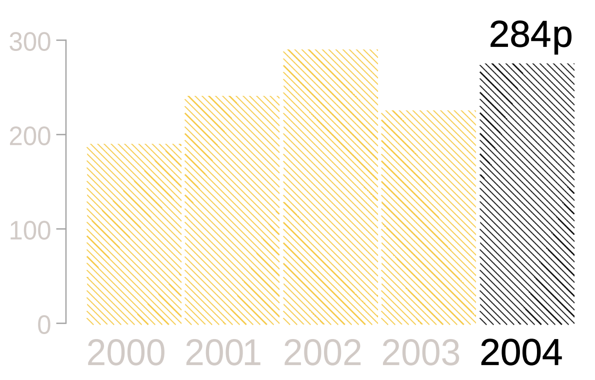
Gross rents and service charges receivable (£'000)



Operating profit (£'000)



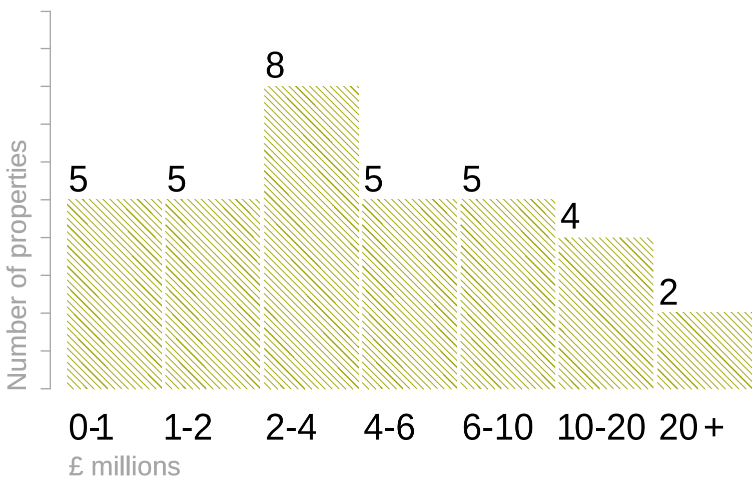
Ordinary dividends (£'000)
(excluding special dividends)



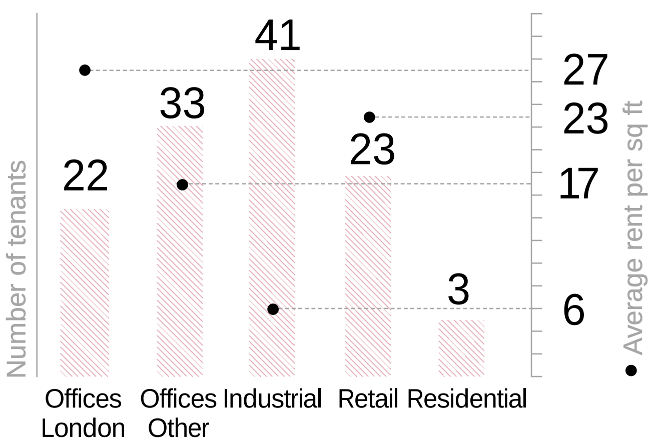
Net assets value per share (pence)
(on total issued capital)

Investment Portfolio Analysis
At 31st March 2004

Sector	Number of Properties	Capital Value (£m)	Capital Value (%)	Floor Area (sq.m)	Floor Area (%)
London Offices	6	42	21	12,800	12
South East Offices	12	81	40	29,800	29
Regional Offices	2	29	15	11,900	11
Offices (total)	20	152	76	54,500	52
Industrial	8	40	20	46,900	45
Retail	2	4	2	3,500	3
Residential	4	4	2	500	—
Portfolio Total	34	200	100	105,400	100



Building profile



Tenant profile

Principal Investment Properties

London

		Area (NIA)
EC3	30/32 Lombard Street (office)	3,435 sq.m
EC3	Portsoken House, 155/157 Minories and 83/86 Aldgate High Street (office and retail)	4,466 sq.m
SE1	Great Surrey House, 203/8 Blackfriars Road (office)	1,968 sq.m
SW1	1 Castle Lane (office)	1,304 sq.m
SW1	19 Dacre Street (office and retail)	1,426 sq.m

Regions

Aldershot	The Arcade and Wellington Street (retail and office)	3,120 sq.m
Bicester	McKay Trading Estate (warehouse and office)	8,051 sq.m
Bristol	Newminster House (office)	2,557 sq.m
Burnham	Summers Road (office)	283 sq.m
Chobham	Castle Grove Road (warehouse and office)	4,645 sq.m
Crawley	Oakwood Trade Park (warehouse)	4,746 sq.m
Crawley	Pegasus Place (office)	4,711 sq.m
Folkestone	3 Acre and 5 Acre Estates (warehouse)	9,712 sq.m
Glasgow	100 Bothwell Street (office)	9,315 sq.m
Hook	Bartley House (office)	2,016 sq.m
Newbury	Access House, Strawberry Hill (office) Albion House, Oxford Road (office) Strawberry Hill House, Bath Road (office)	1,583 sq.m 624 sq.m 1,131 sq.m
Petersfield	Paris House (warehouses and office)	4,606 sq.m
Poyle	McKay Trading Estate (warehouse and office)	6,939 sq.m
Reading	Great Brighams Mead (office) 20/38 Greyfriars Road (office)	7,819 sq.m 3,050 sq.m
Runnymede	Windsor Road (warehouse and office)	8,241 sq.m
Staines	Mallard Court, Market Square/Clarence Street (office and retail)	2,438 sq.m
Sutton	Chancery House, St. Nicholas Way (office)	5,078 sq.m
Thatcham	Coombe Square (office)	1,510 sq.m

Principal Development Properties

SW1	1 Old Queen Street (office)	2,000 sq.m
SW19	Wimbledon Gate, Wimbledon (office and retail)	5,435 sq.m

Directors' Report

The Directors have pleasure in submitting their report and audited financial statements for the year ended 31st March 2004.

Profit and distribution

The profit for the year and appropriations are set out in the consolidated profit and loss account. Profit before tax was £7,455,434 (2003 - £8,402,486). The Directors recommend a final dividend of 5.9p per share making a total for the year of 9.0p per share (2003 - 8.6p). If approved at the Annual General Meeting the dividend will be paid on 12th August 2004 to shareholders on the register at the close of business on 25th June 2004.

Activity and assets

The business of the Group is that of property investment and development principally in the United Kingdom. The Group also holds various investments in other companies and details of these are shown in the notes to the financial statements.

A review of the business and likely future developments is given in the Chairman's Statement on pages 2 to 8.

The Group's properties were valued by external professional valuers at 31st March 2004. The overall increase in value as at 31st March 2004 was £5,555,312, equal to 2.9%, which has been credited to the Revaluation Reserve in the financial statements. A further £2,149,047, being the revaluation surplus from our associated undertaking, has also been taken to the Revaluation Reserve.

After taking into account retained profits and dividends, the Group's net asset value per share is 284 pence (2003 - 264 pence).

Directors and Directors' interests

The present members of the Board are shown on pages 10 and 11.

Mr S. Morrice was appointed to the Board on 1st September 2003 and Mr A.E.G. Gulliford was appointed to the Board on 26th April 2004 and in accordance with the Group's Articles of Association both will retire from the Board and, being eligible, offer themselves for re-election.

In accordance with the Group's Articles of Association and the Revised Combined Code on Corporate Governance, Mr E.S.G. Lloyd, Mr I.A. McKay, Mr M.J.C. Hawkes and Mr I.C. Menzies retire by rotation, and being eligible, offer themselves for re-election.

Apart from service contracts and share options, details of which are set out in the Directors' Remuneration Report on pages 21 to 26, no Director had a material business interest during the year in any contract with the Company.

Substantial shareholdings

Apart from the Directors' interests referred to in the Directors' Remuneration Report on pages 21 to 26 the Group has been advised of the following notifiable interests in its issued share capital (see note 16) as at 17th June 2004:

	Shares	%
Aviva plc	9,701,278	21.44
Farringdon Property Trust Limited	5,327,903	11.77
The G.F. McKay Trust	2,782,534	6.15
Schroder Investment Management Limited	2,104,038	4.65
The William Pears Group of Companies Limited	1,614,000	3.57

Payments policy

It is the policy of the Group that, in the absence of dispute, amounts due to trade and other suppliers are settled promptly within their terms of payment. The Group does not follow any code or standard in payment practice. At the year end amounts owed to trade creditors in the accounts were equivalent to 10 days purchases.

Donations

The Group's policy is to support generally smaller charities with a local emphasis.

During the year the Group made charitable donations of £22,545 (2003 – £11,833). No political donations were made during the year (2003 – £nil).

Power to allot shares

At the forthcoming Annual General Meeting a resolution will be proposed to renew the authority on the same terms as approved at the Annual General Meeting held on 29th July 2003 for the Board to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) and to allot equity securities (within the meaning of Section 94 of the Companies Act 1985) for cash otherwise than pro rata to existing shareholders. The full text of the resolutions is contained in the Notice to the Annual General Meeting.

Annual General Meeting

The fifty-eighth Annual General Meeting of the Company will be held at The Royal Thames Yacht Club, 60 Knightsbridge, London SW1 on 28th July 2004 at 12.00 noon.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution concerning the re-appointment of KPMG Audit Plc as auditors and their remuneration will be proposed at the forthcoming Annual General Meeting.

Directors' responsibilities for the financial statements

Directors are required by Company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for that year. In preparing the financial statements, the Directors consider that appropriate accounting policies have been used and applied consistently, and that reasonable and prudent judgements and estimates have been made. Applicable accounting standards have been followed (subject to any material departures disclosed and explained in the financial statements) and the financial statements have been prepared on the going concern basis as it is appropriate to presume that the Group will continue in business.

The Directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and which enable them to ensure that the financial statements comply with the Companies Act 1985. The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

17th June 2004
Reading

By Order of the Board
A.S. Childs
Secretary

Corporate Governance Report

The Board considers that the Company has complied throughout the year with the provisions of The Combined Code (1998) with the exceptions as stated within this Corporate Governance Report and the Directors' Remuneration Report.

In July 2003, the Revised Combined Code on Corporate Governance (The Revised Code) was published and applies for reporting years beginning on or after 1st November 2003. The Group has undertaken a comprehensive review of the Code, and made changes where appropriate, including the structure of its committees which are now as set out below.

The Board

The Board of Directors comprises four executive and six non-executive Directors, their biographical details being set out on pages 10 and 11. Mr M.J.C. Hawkes is appointed as senior non-executive Director. Since the year end Mr A.E.G. Gulliford has been appointed to the Board as an independent non-executive Director. Mr M.J.C. Hawkes and Mr I.C. Menzies are considered by the Board to be independent non executive Directors despite serving on the Board for in excess of nine years as both Directors remain independent in character and judgement and continue to apply their extensive and relevant business experience in a challenging, positive manner of benefit to the Group. The Board meets regularly at least six times a year and is provided with full and timely information in order to discharge its duties. A schedule of matters specifically reserved for the Board has been adopted which includes dividend policy, major capital expenditure, investments and disposals.

The roles of the Chairman and Chief Executive are and will continue to be separate with Mr E.S.G. Lloyd being appointed Chairman on 29th July 2003. Whilst the revised Code states that a Chief Executive should not go on to be Chairman of the same company the Board believes that Mr E.S.G. Lloyd, who was previously Managing Director of the Group, has expertise, experience and knowledge of the Group that is a valuable asset and of benefit to the role of Company Chairman. This appointment was first referred to in the Interim Statement dated 12th December 2002. Moving forward the Group is implementing a strategy to introduce new independent non-executive Directors to the Board.

Induction training is available to new Directors and continuing professional development training is available for existing Directors as necessary. The Chairman conducts a process whereby the Board undertakes an informal annual evaluation of its own performance and that of its committees.
This approach is considered appropriate for the Group.
Board members have access to the advice and services of the Company Secretary and independent legal advice at the Company's expense, if required.

There are three committees that make their recommendations to the Board, all of which have clear terms of reference that comply with The Revised Code; these are available on the Company's website, www.mckaysecurities.plc.uk.

Nomination Committee

This Committee meets at least twice a year and its members are Mr M.J.C. Hawkes (Chairman), Mr I.C. Menzies, Mr S.C. Perkins and Mr A.E.G. Gulliford. The Committee is responsible for the selection and approval of candidates and makes recommendations to the Board. External search consultants and advertising are used as appropriate in the recruitment of Directors and senior executives.

Remuneration Committee

This Committee meets at least twice a year and its members and policy are set out in the Directors' Remuneration Report on pages 21 to 26. Also contained in the Remuneration Report are details addressing Corporate Governance issues such as appointments and remuneration.

Audit Committee

This Committee meets at least twice a year and its members comprise Mr I.C. Menzies (Chairman), Mr M.J.C. Hawkes and Mr A.E.G. Gulliford. Its responsibilities include reviews and recommendations on internal control including half yearly management reports, external audit, the group's financial statements and accounting policies.

Relations with shareholders

The Directors meet with institutional shareholders and shareholders have an opportunity to question the Board at the Group's Annual General Meeting. Shareholders are given not less than 21 days notice of the Annual General Meeting. The Chairmen of the Audit Committee, Remuneration Committee and Nomination Committee attend the Annual

General Meeting to answer questions. Shareholders are given the opportunity of voting separately on each proposal and proxy votes are announced after each resolution. In addition there is also a comprehensive investor relations section on the Company's website which was implemented during the year, www.mckaysecurities.plc.uk. This includes annual and interim reports, stock exchange releases and details of the Group's portfolio, and day to day contact details for the Managing Director and Company Secretary.

Internal control

The Board is responsible for establishing and reviewing the Group's system of internal control to safeguard shareholders' investment and the Group's assets.

In accordance with the Turnbull guidance, an ongoing process for identifying, evaluating and managing the significant risks faced by the Group was in place throughout the year to 31st March 2004 and up to the date of approval of the annual report and accounts. The executive Directors and senior management meet at least monthly and are responsible for identifying key risks and assessing their likelihood to impact on the Group. The Group has an established system of internal financial control which is designed to ensure the maintenance of proper accounting records and the reliability of financial information used within the business. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The system of internal control includes:

Investment and development appraisal
Control of capital expenditure and progress on developments and all property acquisitions and disposals including detailed appraisals, sensitivity analysis and due diligence requirements are presented to the Board.

Close involvement of executive Directors
The Group has a small management team operating from one location. Accordingly, the Board exercises close control over the Group's activities and this enables the close involvement of the executive Directors with the day to day operational matters of the Group, and therefore the Board considers there is no necessity at the present time for an internal audit function.

Identification of business risks
The risks facing the Group are kept under constant review. Important areas including risk management, corporate taxation, legal matters, detailed insurance cover and contracts including maintenance and property management come under the direct control of the executive Directors and are reviewed on an ongoing basis. All matters are reported to the Board on a regular basis.

Health and safety
The Group operates and continually reviews its health and safety policy, which includes the Disability Discrimination Act and asbestos related considerations, and incorporates current and proposed legislative changes to ensure that appropriate safety standards are maintained. The Director designated to be responsible for health and safety issues is Mr S.R. Mew.

Financial reporting
Annual and long term revenue, cash flow and capital forecasts are updated quarterly during the year. Results and forecasts are reviewed against budgets and regular reports are made to the Board on all financial and treasury matters.

Financial instruments
The Group's financial instruments comprise borrowings, some cash in liquid resources and various items such as trade debtors, trade creditors etc., that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are interest and liquidity risks. The Board reviews and agrees policies for management of these risks and they are summarised below. The policies remain under constant review. The Group finances it's operations through a mixture of retained profits, sales of investment properties and bank borrowings. The Group's policy is to borrow at floating rates of interest and considers these and interest rate swaps to generate the desired interest rate profile in order to manage the Group's exposure to interest rate fluctuations.

In order to reduce the risk to interest rate fluctuations and to take advantage of the current low interest rate environment the Group entered into participating swap structures. In 2003 the Group entered into a 9 year Participating Swap for a principal sum of £25 million, where the cap was 5.25% with a

Corporate Governance Report

floor of 3%. During 2004, a further 12 year Participating Swap was entered into for a principal sum of £20 million, where the cap was 5.07%, with a floor of 2.95%. This type of instrument allows the Group to benefit from the present low interest rates whilst providing a good level of protection against the possibility of future interest rate rises. At the year end, 48% of the Group's facilities were either at fixed rates or hedged with the weighted average interest rate of fixed rate financial liabilities being 5.69% and the average period was 7.85 years. Floating rate financial liabilities comprise sterling demoninated bank borrowings that bear interest at rates based on LIBOR period of between one and twelve months. At the same time, the weighted average cost of borrowing was 5.4% and the fair value adjustment figure arising from these hedging instruments was a gain of £700,576.

In order to maintain liquidity and to ensure continuity of funding, the Group continues to extend the maturity of its borrowings and during the year, a new 7 year £30 million facility was put in place with HSBC Bank PLC replacing the existing facilities with them and The Sumitomo Trust & Banking Co. Limited. At the year end, 64% of the Group's facilities were due to mature in more than five years. Short term flexibility is achieved by overdraft facilities and rollover profile.

The Group has no financial assets, other than short term debtors and cash at bank and no foreign currency loans.

The details of the Group's financial liabilities are set out in Note 14 on pages 45 and 46.

The Directors confirm that they have specifically reviewed the framework and effectiveness of the system of internal control for the year ended 31st March 2004.

Going concern

After making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Directors' Remuneration Report

The Remuneration Committee ("the committee") consists solely of the non-executive Directors. The members of the committee during the year were:

Mr M.J.C. Hawkes (Chairman from 16th March 2004)

Mr I.C. Menzies

Mr. A.E.G. Gulliford (appointed on 29th April 2004)

Mr. I.A. McKay (until 16th March 2004)

Mr E.S.G. Lloyd (until 16th March 2004)

Mr J.R. Chilton (until 16th March 2004)

No member has any personal interest in the matters decided by the committee, nor any day to day involvement in the running of the business and therefore all members are considered to be independent. The committee members have no personal financial interest, other than as shareholders, in the matters to be decided.

The committee meets at least four times a year to consider the terms and conditions of employment of the executive Directors and senior executives and to set remuneration packages and to operate the Group's performance related bonus and share option schemes. The committee refers to other comparable companies within the property sector with regard to information on compensation and salary of executive Directors and senior executives with similar responsibilities.

Policy

The interests of the executive Directors are aligned with those of shareholders by structuring the levels of basic salary and remuneration to attract, retain and motivate executive Directors of the quality required and with appropriate skills to manage and develop the Group successfully. In this regard when determining the level of remuneration the committee aims to provide a proportion of the Directors' remuneration through performance related elements, being a share option scheme and a bonus scheme. The remuneration package is reviewed on 1st April annually and consists of:

i) Basic salary and benefits
Basic annual salaries for executive Directors are reviewed annually on 1st April. These are reviewed on the basis of the performance of the individual executive Director and the comparability with other similar sized companies within the sector. Benefits include a car allowance, and medical and life insurance. See Table 1.

ii) Share option schemes
Currently the Group operates the 1984 Executive Share Option Scheme and the 2001 Executive Share Option Schemes, all of which have been formally approved by shareholders. Eligibility is at the discretion of the committee and no performance criteria is required.

The 1984 Executive Share Option Scheme is Inland Revenue approved and non performance related, under which no further grants will be made but the final grant issued in 1994 must be exercised by 2nd August 2004. The Schemes approved in 2001 are part Inland Revenue approved and part unapproved. The grants of the approved scheme are non performance related whereas under the unapproved scheme, 50% of the initial grants have a condition requiring an increase in Net Asset Value ("NAV") per share over the initial 3 year period during which options cannot be exercised (calculated using the NAV per share last published prior to the date of grant of the relevant option and the NAV per share last published prior to the proposed date of exercise of the relevant option) equal to or greater than the Retail Prices Index over the same time period plus 6%.

Directors' Remuneration Report

Policy (continued)

iii) Bonus Scheme

The Group operates an annual cash bonus scheme for executive Directors and other employees, which was approved by shareholders at the Annual General Meeting in July 2002. The Scheme provides that, where the Group's NAV increases by at least 6% more than the increase in RPI, an amount equal to 2% of the increase in NAV is distributed to employees, or, if the NAV increases by at least 3% more than RPI, an amount equal to 1% of the increase in NAV is distributed to employees. Any bonuses are not pensionable.

A payment will be made for the year ended 31st March 2004 as the 3% target has been achieved. The total amount to be distributed to employees will be a maximum of £91,108, which has been charged in the current year, and will be payable in the year ending 31st March 2005.

The performance criteria for the bonus scheme and the 2001 Unapproved Share Option Scheme has been set at a level to provide an appropriate motivational framework which more closely aligns the interests of the executive Directors and employees with the performance of the Group and the interests of the shareholders.

iv) Pension Contribution

The Group operates an Inland Revenue approved final salary non contributory pension scheme which provides pension and protection in the forms of life cover and lump sums and dependants' pension in the event of death in service or in retirement. Pensionable salary is basic salary excluding any benefits. The cost of the executive Directors' pensions of £113,672 (2003 - £97,729) is calculated by reference to the Company's contribution rate in respect of the members of that scheme.

Since 1989 no new members have been admitted to the approved final salary non contributory scheme. The Company operates a money purchase pension scheme. Contributions for Mr S.C. Perkins were £49,552 and £16,953 and £11,167 respectively for Mr S.R. Mew and Mr S. Morrice.

The Company does not operate a long term incentive plan.

Service contracts

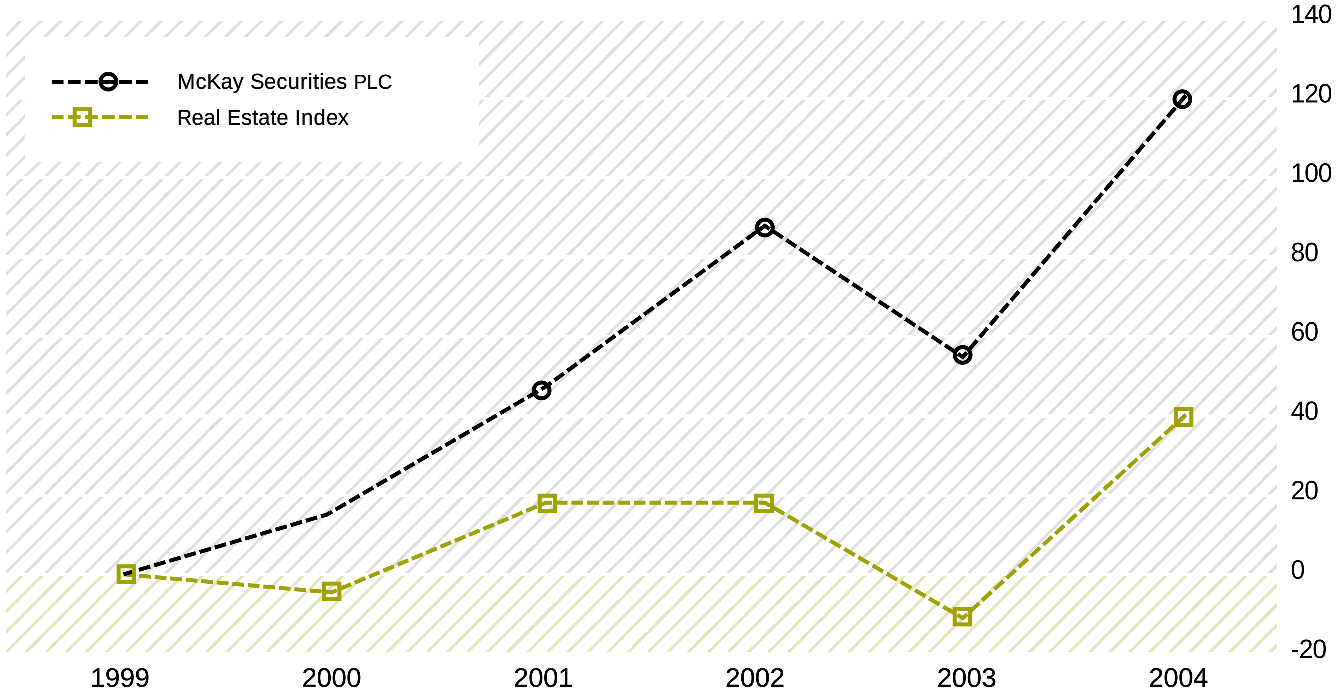
The service contracts for Mr S.C. Perkins, Mr A.S. Childs, Mr S.R. Mew and Mr S. Morrice are dated 16th March 2004. The service contracts are terminable by the Company on not less than one year's notice.

During the year, Mr S.C. Perkins, Mr A.S. Childs and Mr S.R. Mew received payments in consideration for the reduction in their respective notice periods by the Company from two years to one year. The amount payable in each case was equal to 10% (net) of one year's salary, the total gross payment was £80,509. This sum was paid as additional salary and is reflected in Table 1 below.

The committee has fully considered the compensation commitments contained within the existing service contracts. In each case the contracts are subject to six months' notice by the executive Director. The committee considers all proposals for the early termination of the service contracts for executive Directors and senior executives and would observe the principle of mitigation.

Performance graph

Total shareholder return compared to the FTSE Real Estate Index over the past five years.



This graph shows the percentage change in value of £100 invested in McKay Securities PLC on 1st April 1999 compared with £100 invested in the FTSE Real Estate Index, assuming re-investment of dividends. This index is chosen by the Remuneration Committee as it is considered the most appropriate benchmark against which to assess the relative performance of the Group.

- The Total Shareholder Return for the five year period ended 31st March 2004 was 120%. £100 invested on 1st April 1999 would now be worth £220.
- The Total Shareholder Return for the year ended 31st March 2004 was 42%.

Directors' Remuneration Report

Non-executive Directors

The remuneration of Non-executive Directors is recommended by the Board within the levels set in the Articles of Association. Non-executive Directors are not eligible for any other benefits apart from Mr E.S.G. Lloyd, who is provided with a car allowance and medical insurance and holds outstanding share options, Mr I.A. McKay, who is provided with a car allowance, and Mr J.R. Chilton, who holds outstanding share options. Non-executive Directors are not appointed for specific terms as required by provision A.6.1 of the Combined Code (1998), because it is not considered to be in the best interests of the Group. The Non-executive Directors have rolling contracts providing for them to retire by rotation in accordance with the Articles of Association. To comply with the Revised Combined Code all Directors will submit themselves for re-election at least once every 3 years or, annually having served nine years or more on the Board. The contracts for the non-executive Directors are dated 16th March 2004 in respect of Messrs Lloyd, McKay, Hawkes, Menzies and Chilton and 29th April 2004 in respect of Mr A.E.G. Gulliford.

Individual aspects of remuneration

The auditors are required to report on the information contained in this section of the report.

Details of individual Directors' remuneration are given in Table 1 below:

Table 1

	Salary/ fees £	Benefits £	Estimated bonus £	31st March 2004 Total £	31st March 2003 Total £
Executive					
S.C. Perkins	235,436	17,623	22,595	275,654	146,443
A.S. Childs	177,227	11,926	16,946	206,099	145,655
S.R. Mew	147,736	11,248	14,122	173,106	73,427
S. Morrice (from 1.9.03)	59,463	6,879	11,297	77,639	—
E.S.G. Lloyd	—	—	—	—	189,750
Non-executive					
E.S.G. Lloyd	36,500	13,188	—	49,688	7,466
I.A. McKay	29,333	10,500	—	39,833	48,274
J.R. Chilton	24,000	—	—	24,000	21,750
M.J.C. Hawkes	24,000	—	—	24,000	21,750
I.C. Menzies	24,000	—	—	24,000	21,750
Total	757,695	71,364	64,960	894,019	676,265

Details of the share options held by Directors are as follows:

Table 2

1984 Executive Share Option Scheme

	31st March 2004	31st March 2003	Exercise price	Date from which exercisable	Expiry date
E.S.G. Lloyd	67,200	67,200	124.00p	03.08.97	02.08.04
J.R. Chilton	43,500	43,500	124.00p	03.08.97	02.08.04
A.S. Childs	37,500	37,500	124.00p	03.08.97	02.08.04
Employees	147,300	147,300	124.00p	03.08.97	02.08.04
Total	295,500	295,500			

2001 Executive Share Option Scheme

		Approved scheme	Unapproved scheme		Approved scheme	Unapproved scheme	
		Non-performance related 2004 £	Performance related 2004 £	Non-performance related 2004 £	Non-performance related 2003 £	Performance related 2003 £	Non-performance related 2003 £
S.C. Perkins	(a)	16,807	36,975	20,168	16,807	36,975	20,168
	(b)	—	57,971	57,971	—	—	—
A.S. Childs	(a)	—	36,975	36,975	—	36,975	36,975
	(b)	—	43,478	43,478	—	—	—
S.R. Mew	(a)	16,807	20,308	3,501	16,807	20,308	3,501
	(b)	—	36,232	36,232	—	—	—
S.Morrice	(a)	16,807	20,308	3,501	16,807	—	—
	(b)	—	21,014	21,014	—	—	—
Employees	(a)	34,257	61,987	27,731	38,879	86,917	31,232
	(b)	10,812	69,276	58,464	—	—	—
Total	(a)	84,678	176,553	91,876	89,300	181,175	91,876
	(b)	10,812	227,971	217,159	—	—	—
Scheme total		95,490	404,524	309,035	89,300	181,175	91,876

(a) Options granted under the 2001 Executive Share Option Schemes - First Tranche July 2002. The exercise price is 178.50p and the options are exercisable between 26th July 2005 and 25th July 2012.

(b) Options granted under the 2001 Executive Share Option Schemes - Second Tranche July 2003. The exercise price is 172.50p and the options are exercisable between 1st July 2006 and 30th June 2013.

Options over 455,942 ordinary shares were granted to Directors and employees during the year in accordance with the 2001 Executive Share Option Schemes. The total number of options over ordinary shares outstanding at 31st March 2004 was 1,104,549 (2003 - 657,851).

No options were exercised during the year (2003 - nil) and 9,244 options lapsed during the year (2003 - 15,000).

The middle market price of the ordinary shares at 31st March 2004 was 210p. The range of middle market prices of the ordinary shares during the year was 150p to 210p.

Directors' pension entitlements

The Company provides pension entitlements to Mr A.S. Childs which are defined benefit in nature. All other executive Directors are members of money purchase schemes.

The pension benefits earned by Mr A.S. Childs during the year are as follows:	Accumulated accrued pension at year end £	Increase in accrued pension during the year £	Transfer value of accrued pension at start of the year £	Transfer value of accrued pension at the end of the year £	Increase in transfer value over the year £
	84,112	10,557	586,409	870,208	283,799

Directors' share interests

The interests in the shares of the Company of each Director were as follows:

	At 31st March 2004		At 31st March 2003	
Beneficial	Ordinary shares	Percentage	Ordinary shares	Percentage
E.S.G. Lloyd	410,777	0.908	410,777	0.908
S.C. Perkins	40,492	0.089	40,492	0.089
A.S. Childs	9,418	0.021	9,418	0.021
S.R. Mew	2,817	0.006	2,187	0.005
S.Morrice	3,300	0.007	—	—
I.A. McKay	2,318,025	5.120	2,318,025	5.120
J.R. Chilton	1,875,664	4.140	1,875,664	4.140
M.J.C. Hawkes	301,066	0.665	301,066	0.665
I.C. Menzies	25,000	0.050	25,000	0.050
Non beneficial				
E.S.G. Lloyd	1,593,500	3.521	1,500,000	3.314
S.C. Perkins	93,500	0.207	—	—
A.S. Childs	93,500	0.207	93,500	0.207
I.A. McKay	2,861,699	6.323	2,994,199	6.616
J.R. Chilton	2,240,837	4.951	2,170,837	4.797
M.J C. Hawkes	232,832	0.574	232,832	0.574

The non-beneficial holdings of Mr E.S.G. Lloyd, Mr S.C. Perkins and Mr A.S. Childs reflect their interest in 93,500 ordinary shares held as Trustees of the McKay Securities PLC Pension and Life Assurance Scheme.

In addition, Mr I.A. McKay and Mr J.R. Chilton are interested as connected persons in 5,327,903 ordinary shares held by Farringdon Property Trust Limited. Mr I.A. McKay is also interested in 300,000 ordinary shares held by Ronnoco Export Development Company Limited.

17th June 2004

By Order of the Board
M.J.C. Hawkes
Chairman of the Remuneration Committee

Report of the Independent Auditors

To the members of McKay Securities PLC

We have audited the financial statements on pages 30 to 52. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report and the Directors' Remuneration Report. As described on page 17, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on pages 18 to 22 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement and the unaudited part of the Directors' Remuneration Report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st March 2004 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

17th June 2004
KPMG Audit Plc
Reading
Chartered Accountants
Registered Auditor

Financial Statements 2004

Contents

Consolidated Profit and Loss Account

For the year ended 31st March 2004

	Notes	2004 £'000	2003 £'000
Gross rents and service charges receivable	2	17,365	16,666
Direct property outgoings	2	(4,260)	(4,283)
Income from investment properties	2	13,105	12,383
Administration costs	3	(2,701)	(2,586)
Operating profit		10,404	9,797
Share of operating profit of associated undertakings		305	189
Profit on disposal of investment properties	7	573	1,755
Profit on ordinary activities before interest and taxation		11,282	11,741
Net interest payable	5	(3,826)	(3,339)
Profit on ordinary activities before taxation		7,456	8,402
Taxation	6	(1,549)	(1,975)
Profit on ordinary activities after taxation		5,907	6,427
Special dividend paid out of capital reserves	9	—	(9,956)
Dividends	9	(4,073)	(3,892)
Net increase/(reduction) in reserves		1,834	(7,421)
Transfer to capital reserve on disposal of properties	7	(556)	(1,425)
Transfer from capital reserve for distribution to shareholders	18	—	9,956
Net amount transferred to profit and loss account reserve	19	1,278	1,110
Earnings per share			
Basic	10	13.05p	14.90p
Diluted		13.01p	14.20p
Adjusted earnings per share			
Basic	10	14.06p	15.47p
Diluted		14.02p	14.74p
Operating earnings per share			
Basic	10	11.82p	11.60p
Diluted		11.78p	11.05p
Adjusted operating earnings per share			
Basic	10	12.83p	12.17p
Diluted		12.79p	11.59p
Dividend per share – excluding special dividend		9.0p	8.6p

The results for both the current and preceding year related entirely to continuing operations.

Consolidated Statement of Total Recognised Gains and Losses

	2004 £'000	2003 £'000
Profit for the year	5,907	6,427
Unrealised surplus/(deficit) on revaluation of properties	5,291	(5,940)
Unrealised surplus on revaluation of properties in associated undertaking	2,149	—
Share of associated company prior year adjustment to deferred tax provision	(191)	—
Taxation on previously recognised gains (note 6)	(36)	(673)
Total recognised gains/(losses) relating to the year	13,120	(186)

Consolidated Historical Cost Profits and Losses

	2004 £'000	2003 £'000
Reported profit before taxation	7,456	8,402
Realisation of property revaluation surpluses of previous years	464	4,597
Historical cost profit before taxation	7,920	12,999
Historical cost profit/(loss) for year retained after taxation and dividends	2,262	(3,497)

Consolidated Reconciliation of Movements in Shareholders' Funds

	2004 £'000	2003 £'000
Profit for the year	5,907	6,427
Dividends (note 9)	(4,073)	(13,848)
	1,834	(7,421)
Unrealised surplus/(deficit) on revaluation of properties	5,291	(5,940)
Unrealised surplus on revaluation of properties in associated undertaking	2,149	—
Share of associated company prior year adjustment to deferred tax provision	(191)	—
Taxation on previously recognised gains (note 6)	(36)	(673)
Net addition/(reduction) to shareholders' funds	9,047	(14,034)
Opening shareholders' funds	119,424	133,458
Closing shareholders' funds	128,471	119,424

Consolidated Balance Sheet

At 31st March 2004

	Notes	2004 £'000	2003 £'000
Fixed assets			
Tangible assets – properties and other fixed assets	11	211,975	200,911
Investments	12	4,564	2,294
		216,539	203,205
Current assets			
Debtors	13	2,660	6,285
Cash at bank and in hand		1,607	3,414
		4,267	9,699
Creditors			
Amounts falling due within one year	14	(22,324)	(13,511)
Net current liabilities		(18,057)	(3,812)
Total assets less current liabilities		198,482	199,393
Creditors			
Amounts falling due after one year	14	(64,520)	(74,515)
Provisions for liabilities and charges			
Deferred taxation	15	(5,491)	(5,454)
Net assets		128,471	119,424
Capital and reserves			
Called up share capital	16	9,051	9,051
Share premium account	17	1,808	1,808
Revaluation reserve	18	56,983	51,027
Other capital reserves	18	36,677	35,853
Profit and loss account	19	23,952	21,685
Equity shareholders' funds		128,471	119,424
Net asset value per share		284p	264p
Effect of FRS 19		11p	12p
Adjusted net asset value per share		295p	276p

Company Balance Sheet

At 31st March 2004

	Notes	2004 £'000	2003 £'000
Fixed assets			
Tangible assets – properties and other fixed assets	11	152,224	141,180
Investments	12	44,544	44,544
		196,768	185,724
Current assets			
Debtors	13	14,780	19,538
Cash at bank and in hand		958	3,099
		15,738	22,637
Creditors			
Amounts falling due within one year	14	(42,404)	(33,522)
Net current liabilities		(26,666)	(10,885)
Total assets less current liabilities		170,102	174,839
Creditors			
Amounts falling due after one year	14	(57,800)	(67,450)
Provisions for liabilities and charges			
Deferred taxation	15	(3,976)	(3,602)
Net assets		108,326	103,787
Capital and reserves			
Called up share capital	16	9,051	9,051
Share premium account	17	1,808	1,808
Revaluation reserve	18	59,133	54,021
Other capital reserves	18	10,808	10,545
Profit and loss account	19	27,526	28,362
Equity shareholders' funds		108,326	103,787

These financial statements were approved by the Board of Directors on 17th June 2004 and were signed on its behalf by E.S.G. Lloyd and S.C. Perkins.

Consolidated Cash Flow Statement

For the year ended 31st March 2004

	Notes	2004		2003	
		£'000	£'000	£'000	£'000
Net cash inflow from operating activities	20		15,532		5,962
Dividends received from associated undertaking			103		122
Returns on investments and servicing of finance					
Interest received		85		136	
Interest paid		(3,651)		(4,211)	
Dividends received		1		1	
Net cash outflow from returns on investments and servicing of finance			(3,565)		(4,074)
Taxation					
Corporation tax refund		189		42	
Corporation tax paid		(1,923)		(2,657)	
			(1,734)		(2,615)
Capital expenditure					
Purchase and development of investment properties		(8,578)		(8,848)	
Purchase of other fixed assets		(30)		(62)	
Sales of investment properties		3,268		9,125	
Net cash (outflow)/inflow for capital expenditure			(5,340)		215
Equity dividends paid			(3,983)		(13,364)
Cash inflow/(outflow) before financing			1,013		(13,754)
(Decrease)/increase in debt			(2,820)		15,605
(Decrease)/increase in cash in year	21		(1,807)		1,851

Notes to the Financial Statements

For the year ended 31st March 2004

1 Statement of accounting policies

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain assets, and in accordance with applicable Accounting Standards and the Companies Act 1985 except as noted below. In accordance with Section 230 of the Companies Act 1985 a separate profit and loss account for McKay Securities PLC is not presented. The profit after tax dealt within the holding company is £3,577,000 (2003 – £19,045,000). The profit in 2003 reflects the release of a provision held against amounts due from subsidiary undertakings which is no longer required.

The Directors have, in accordance with Section 226 of the Companies Act 1985, departed from the standard descriptions of the profit and loss account as set out in Schedule 4 of the Act on the grounds that the prescribed descriptions are not applicable in a property company. The financial statements comply with the requirements of Section 226 and Schedule 4 of the Act in all other circumstances, save in respect of investment properties as mentioned below.

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

Basis of consolidation

The consolidated financial statements include the results of the parent undertaking and all its subsidiary undertakings for the year ended 31st March 2004.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions before 31st March 1998, when FRS10 Goodwill and intangible assets was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill arising on consolidation in respect of acquisitions since 31st March 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life.

Changes to goodwill arising from changes in contingent consideration, deferred consideration or fair value of net assets acquired where permitted under FRS7 are treated in accordance with the accounting policy existing at the date of the acquisition.

Associated undertakings

An associate is an undertaking in which the Group has a long term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence. The Group's share of the profits less losses of associates is included in the consolidated profit and loss account and its interest in their net assets is included in investments in the consolidated balance sheet.

Operating lease incentives

The Group complies with UITF 28 (Operating Lease Incentives) which requires property companies to account for any lease incentives as a revenue cost and for rental income from the commencement of any rent free period.

Investments

Investments in subsidiary undertakings are included at Directors' valuation from time to time determined on the basis of market value.

1 Statement of accounting policies continued

Properties and other fixed assets
In accordance with Statement of Standard Accounting Practice No. 19 Accounting for Investment Properties:

(i) investment properties are revalued annually on an open market basis and the aggregate surplus or deficit is transferred to a revaluation reserve except that any impairment in the value of an investment property is taken to the profit and loss account for the period; and

(ii) no depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years to run.

This treatment, as regards certain of the Group's investment properties, may be a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the Directors consider that systematic annual depreciation would be inappropriate.

The accounting policy adopted is therefore necessary for the accounts to give a true and fair view. Depreciation or amortisation is only one of the many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

The valuation is carried out annually by independent external valuers. Details of the external valuation as at 31st March 2004 are given in note 11.

Any accrued rent receivable recognised as a separate asset in accordance with the Group's accounting policy on lease incentives is deducted from the external valuation as required by UITF 28.

All other fixed assets are depreciated on a straight line basis at rates calculated to write off the cost less estimated residual value over their useful lives, which are estimated to be 5 years.

Development outgoings
Interest and other outgoings, less rental income relating to investment properties in the course of development, are transferred to the cost of properties. Development interest is calculated using the weighted average cost of borrowings for the year relating primarily to current developments. A property ceases to be treated as being in the course of development when substantially all the activities that are necessary to get the tangible fixed asset ready for use are complete.

Surpluses/deficits
Surpluses/deficits on realisation of properties are dealt with as a profit/loss on disposal of investment properties in the profit and loss account and then transferred to/from capital reserve.

Post retirement benefits
The Group operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Group, being invested with insurance companies. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group.

The Group also contributes to certain eligible employees personal pension plans and does not accept any responsibility for the benefits gained from these plans.

FRS 17 provides for a phased implementation period with full implementation by 2006. The Group has complied with the transitional requirements which are additional disclosures over and above those required by SSAP24.

Taxation
The taxation charge in the consolidated profit and loss account is based on the profit for the year.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

1 Statement of accounting policies continued

Tax liabilities on future sales of properties

The surplus on revaluation of properties in 2004 and any surplus/deficit in prior years is included in reserves. No provision has been made for any tax which might be payable in the event of future sales of assets at book values. However, as the properties of the Group are held as long term investments, it is not anticipated that a significant proportion of this contingent liability will become payable in the near future. The potential liability is quantified in note 6 to the financial statements. This is after taking account of the capital allowances deferred tax provision as required by FRS 19.

Foreign currencies

The results of overseas operations have been translated at the average rates ruling throughout the year.

Monetary assets and liabilities in foreign currencies are converted to sterling at the exchange rates ruling at the year end. Adjustments arising from realignment of currencies occurring during the year are included in movements on reserves or, if related to trading, in the profit and loss account.

2 Income from investment properties

	2004 £'000	2003 £'000
Gross rents receivable	14,034	12,981
UITF 28 adjustment	264	581
	14,298	13,562
Service charges receivable	3,067	3,104
	17,365	16,666
Direct property outgoings	(4,260)	(4,283)
	13,105	12,383

Rent receivable under the terms of the leases is adjusted, in accordance with UITF 28, for the effect of any incentives given, which are spread on a straight line basis up to the time when the prevailing market rent will be payable.

The profit on ordinary activities before taxation is attributable to income from investment properties.

3 Administration costs

Profit on ordinary activities before taxation is stated after charging:

	2004 £'000	2003 £'000
Depreciation of tangible fixed assets (note 11)	36	32
Auditors' remuneration		
as auditors – Group	60	58
– Company	40	39
– other services – fees paid to the auditors and its associates	38	138

4 Employees

The average number of persons employed by the Group (including Directors) during the year was 18 (2003 – 25).

Their total remuneration was:

	2004 £'000	2003 £'000
Salaries	1,214	1,209
Social security costs	140	124
Pension costs	170	205
	1,524	1,538

5 Net interest payable

	2004 £'000	2004 £'000	2003 £'000	2003 £'000
Interest payable:				
Bank loans, overdrafts and other loans repayable within five years	2,511		2,475	
All other loans	1,516		1,234	
	4,027		3,709	
Less: Interest relating to properties in the course of development (note 8)	(113)		(232)	
		3,914		3,477
Interest receivable:				
Bank and other short term deposits		(88)		(138)
		3,826		3,339

6 Taxation

	2004		2003	
	£'000	£'000	£'000	£'000
Analysis of charge in period:				
Current tax:				
UK corporation tax on profits for the period	1,588		2,341	
Adjustments in respect of prior periods	(145)		(14)	
Share of associate's tax – current	84		110	
– prior periods	(17)		(12)	
Total current tax		1,510		2,425
Deferred tax (see note 15):				
Origination and reversal of timing differences		37		223
Share of associate		38		—
Tax on profit on ordinary activities		1,585		2,648
Less tax on previously recognised gains		(36)		(673)
		1,549		1,975

Factors affecting the tax charge for the current period:

The current tax charge for the period is lower (2003: lower) than the standard rate of corporation tax in the UK of 30% (2003 – 30%). The differences are explained below.

	2004	2003
	£'000	£'000
Current tax reconciliation:		
Profit on ordinary activities before tax	7,456	8,402
Current tax at 30% (2003 – 30%)	2,237	2,521
Effects of:		
Expenses not deductible for tax purposes	4	1
Pension costs paid in excess of charged to profit and loss	(20)	—
Capital allowances for period in excess of depreciation	(421)	(446)
Deferred rental income taxed as capital gain	(16)	—
Chargeable gains (below)/in excess of profit on disposal of properties	(72)	478
Development interest capitalised	(34)	(70)
Difference on tax rate on share of associate's profits	(6)	(33)
Adjustments to tax charge in respect of prior years	(162)	(26)
Total current tax charge (see above)	1,510	2,425

The net deferred tax charge for the year is low owing to a benefit of £410,000 relating to deferred income which has been taxed as a capital gain.

Factors affecting future tax rate:

Capital allowances are claimed on eligible investment assets and calculated on the reducing balance. The availability of capital allowances in excess of depreciation in future years will depend on the Group's ongoing development and acquisition programme.

No provision for deferred tax has been made on gains which would become payable if the Group's investment properties were sold at their year end valuations. The estimate of the contingent tax is £8,708,000 (2003 – £8,627,000).

7 Transfer to capital reserve

	2004 £'000	2003 £'000
Profit on sale of investment properties	573	1,755
Less: Taxation	(17)	(330)
	556	1,425

Included within the profit on sale of investment properties is £216,000 (2003 – £286,000) arising in the associated undertaking.

8 Development outgoings

Interest, net rents and other outgoings relating to investment properties in the course of development are dealt with as explained in note 1 and consist of:

	2004 £'000	2003 £'000
Gross interest (note 5)	113	232

Total development interest capitalised to date amounts to £3,073,000 (2003 – £3,263,000). The rate of interest used is 5.3% (2003 – 5.3%).

9 Dividends

	2004 £'000	2003 £'000
Ordinary shares:		
Special dividend 22.0p paid out of capital reserves	—	9,956
Interim 3.1p (2003 – 2.9p)	1,403	1,312
Proposed 2004 final dividend of 5.9p per share (2003 – 5.7p)	2,670	2,580
	4,073	13,848

10 Earnings per share

Basic earnings per share on ordinary shares are based on profit after tax of £5,906,794 (2003 – £6,426,782) and 45,255,555 (2003 – 43,134,332) shares, being the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share are based on the same profit after tax and on the weighted average number of shares in issue during the period of 45,392,396 (2003 – 45,268,906), which takes into account the number of potential ordinary shares arising from the exercise of share options (and the number of capital shares in issue for 2003 that could be converted to ordinary shares).

Operating earnings of £5,351,239 (2003 – £5,001,809) exclude the profits (net of tax) on the sale of investment properties, investments and other income; operating earnings per share are calculated on the basis of the same number of shares in issue as for earnings per share noted above.

Reconciliation of earnings per share to diluted earnings per share:

		EPS 2004 p	EPS 2003 p
Weighted number of ordinary shares in issue	45,255,555	13.05	14.90
Weighted number of capital shares in issue	—	—	(0.67)
Number of shares under option	1,001,676	(0.28)	(0.17)
Number of shares that would have been issued at fair value	(864,835)	0.24	0.14
	45,392,396	13.01	14.20

	31st March 2004		31st March 2003	
	Basic p	Diluted p	Basic p	Diluted p
Earnings per share	13.05	13.01	14.90	14.20
Effect of FRS 19	1.01	1.01	0.57	0.54
Adjusted earnings per share	14.06	14.02	15.47	14.74
Earnings per share	13.05	13.01	14.90	14.20
Property sales after taxation (note 7)	(1.23)	(1.23)	(3.30)	(3.15)
Operating earnings per share	11.82	11.78	11.60	11.05
Effect of FRS 19	1.01	1.01	0.57	0.54
Adjusted operating earnings per share	12.83	12.79	12.17	11.59

Operating earnings per share have been disclosed to show earnings that reflect the core operating activities of the Group.

Adjusted earnings per share exclude the deferred tax provided in accordance with FRS 19, on capital allowances on properties in development and completed investment properties, where no tax payment is expected to crystallise. Where on the sale of an investment property the agreed value for the plant and machinery disposed of is less than original cost, there is a release of part of the provision. However, in practice it is expected that the full capital allowance provision would be released.

11 Tangible assets – properties and other fixed assets

Group	Freehold £'000	Long leasehold £'000	Other assets £'000	Total £'000
Cost or valuation				
At 1st April 2003	174,573	26,250	439	201,262
Additions	8,661	30	30	8,721
Revaluation surplus/(deficit)	5,371	(80)	—	5,291
Disposals	(2,912)	—	(9)	(2,921)
At 31st March 2004	185,693	26,200	460	212,353
Depreciation				
At 1st April 2003			351	351
Charge for year			36	36
Disposals			(9)	(9)
At 31st March 2004			378	378
Net book value at 31st March 2004	185,693	26,200	82	211,975
Net book value at 31st March 2003	174,573	26,250	88	200,911
Consisting of as at 31st March 2004:				
Investment properties at valuation	172,665	26,200	—	198,865
Properties in development	13,028	—	—	13,028
Other assets	—	—	82	82
	185,693	26,200	82	211,975

The revaluation surplus in the year can be analysed as follows:

	Group £'000	Parent undertaking £'000
Revaluation surplus to open market value based upon external valuation	5,555	5,335
UITF 28 adjustment for amounts included within rents receivable	(264)	(264)
Revaluation surplus	5,291	5,071

11 Tangible assets – properties and other fixed assets continued

Parent undertaking	Freehold £'000	Other assets £'000	Total £'000
Cost or valuation			
At 1st April 2003	141,094	436	141,530
Additions	8,661	30	8,691
Revaluation surplus	5,071	—	5,071
Disposals	(2,683)	(9)	(2,692)
At 31st March 2004	152,143	457	152,600
Depreciation			
At 1st April 2003		350	350
Charge for year		35	35
Disposals		(9)	(9)
At 31st March 2004		376	376
Net book value at 31st March 2004	152,143	81	152,224
Net book value at 31st March 2003	141,094	86	141,180
Consisting of as at 31st March 2004:			
Investment properties at valuation	139,115	—	139,115
Properties in development	13,028	—	13,028
Other assets	—	81	81
	152,143	81	152,224

In accordance with the Group's accounting policy on properties there was an external valuation at 31st March 2004. This valuation was carried out in England by Mellersh and Harding, Chartered Surveyors and Valuers, and in Scotland by CB Richard Ellis, Chartered Surveyors and Valuers, on an open market basis.

The historical cost of properties stated at valuation is approximately £154,000,000 (2003 – £148,000,000) for the Group and £111,000,000 (2003 – £105,000,000) for the Company.

12 Fixed assets – investments

	Shares in subsidiary undertaking £'000	Investment in associated undertaking £'000	Other investments £'000	Total £'000
Parent undertaking				
At 31st March 2003 and 2004	44,442	100	2	44,544
Group				
Valuation at 1st April 2003	—	2,292	2	2,294
Additions	—	2,270	—	2,270
At 31st March 2004	—	4,562	2	4,564

At 31st March 2004 McKay Securities PLC had the following wholly owned subsidiary undertakings all of which operate in England and are registered in England and Wales with the exception of Celina Holdings Limited which is registered in Gibraltar:

Acreway Limited	Baldwin House Limited
Parkside Knightsbridge Limited	McKay Securities Overseas Limited
S. W. Factories Limited	Celina Holdings Limited

The principal activity of the subsidiary undertakings is property investment and development or the holding of investments.

The historical cost of shares in subsidiary undertakings is £23,806,215 (2003 – £23,806,215), and the Directors are of the opinion that the investment in the subsidiary undertakings is worth not less than the current book value.

In addition, through McKay Securities Overseas Limited, the Company held 100% of the issued common stock of McKay International Properties Inc., a company which was incorporated in the United States of America. During the year, the Group sold its final property interest in the U.S.A. and McKay International Properties Inc. was liquidated in January 2004.

The interest in the associated undertaking represents 20% of the issued share capital of 450,000 £1 ordinary shares of Property Investment Holdings Limited. The company is engaged in property investment and development, is unlisted and registered in England and Wales. In 2003 Property Investment Holdings Limited began annual valuations of their property portfolio and in the current year the Group has consolidated £2,149,000 being their 20% of the revaluation surplus for the years 2003 and 2004. The 2003 figure of £1,800,000 was only finalised after the Group accounts for 2003 were published.

Additional information in respect of movements during the year:

Interest in associated undertaking:

	Shares at cost £'000	Share of post acquisition reserves £'000	Total investment £'000
At 1st April 2003	100	2,192	2,292
Share of profits and revaluation surplus for the year, less taxation and dividends received	—	2,270	2,270
At 31st March 2004	100	4,462	4,562

13 Debtors

	2004 Group £'000	2004 Parent undertaking £'000	2003 Group £'000	2003 Parent undertaking £'000
Rents receivable	1,260	1,259	1,027	987
Amounts due from subsidiary undertakings	—	12,528	—	13,692
Other debtors and prepayments	1,400	993	5,258	4,859
	2,660	14,780	6,285	19,538

All the above debtors are receivable within one year except for rents receivable of £801,000 (2003 – £909,000), accrued in accordance with UITF 28.

14 Creditors

	2004 Group £'000	2004 Parent undertaking £'000	2003 Group £'000	2003 Parent undertaking £'000
Bank loans	72,560	65,495	74,850	67,450
Loans from connected parties (note 23)	3,722	3,722	4,233	4,233
Loan notes	78	78	97	97
	76,360	69,295	79,180	71,780
Rent received in advance	2,903	1,858	2,547	1,793
Corporation tax payable	1,158	195	1,450	899
Other taxation and social security costs	3	3	218	218
Amounts owed to subsidiary undertakings	—	24,222	—	22,281
Other creditors and accruals	3,750	1,961	2,051	1,421
Dividends proposed	2,670	2,670	2,580	2,580
	86,844	100,204	88,026	100,972
Analysed as follows:				
Due in less than 1 year	22,324	42,404	13,511	33,522
Due after 1 year	64,520	57,800	74,515	67,450
	86,844	100,204	88,026	100,972

All the above creditors are payable within one year except bank loans of the Group of £64,520,000 (2003 – £74,515,000) and of the parent undertaking of £57,800,000 (2003 – £67,450,000).

14 Creditors continued

The analysis of unsecured loan notes and short term loans, and bank loans which are secured on certain of the freehold and leasehold properties of the Group is as follows:

	2004 £'000	2003 £'000
Parent undertaking		
Secured bank loans repayable at stated dates between 2005 and 2017 at variable rates	65,495	67,450
Unsecured short term loans repayable on demand to connected parties (note 23)	3,722	4,233
Unsecured loan notes repayable at any time up to 2006 at variable rates	78	97
	69,295	71,780
Subsidiary undertakings		
Secured bank loans repayable at stated dates between 2004 and 2007 at variable rates	7,065	7,400
	76,360	79,180

	2004		2003	
Repayable in:	Group £'000	Parent undertaking £'000	Group £'000	Parent undertaking £'000
Less than 1 year	11,840	11,495	4,665	4,330
1-2 years	745	375	13,845	13,500
2-5 years	29,975	23,625	31,470	24,750
More than 5 years	33,800	33,800	29,200	29,200
	76,360	69,295	79,180	71,780

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:

	2004 £'000	2003 £'000
Expiring in less than 1 year	—	—
Expiring in 1 – 2 years	—	1,500
Expiring in more than 2 years	35,880	26,800
	35,880	28,300

The movement in the fair value of the instruments used to hedge the floating rate facilities is summarised below:

	2004 £	2003 £
Loss on interest rate swaps	(231,407)	(724,963)
Gain on interest rate collars	931,983	370,781
Net gain/(loss)	700,576	(354,182)

15 Provisions for liabilities and charges

	Group £'000	Parent undertaking £'000
At 1st April 2003	5,454	3,602
Charged to profit and loss account	37	374
At 31st March 2004	5,491	3,976

	Group		Parent Undertaking	
	2004	2003	2004	2003
Difference between accumulated depreciation and capital allowances	4,979	4,566	3,054	2,714
Other timing differences	512	888	922	888
Deferred tax liability	5,491	5,454	3,976	3,602

16 Called up share capital

	2004		2003	
	Authorised £	Allotted called up and fully paid £	Authorised £	Allotted called up and fully paid £
Ordinary shares of 20p each	9,109,693	9,051,111	9,109,693	9,051,111
Unclassified shares of 20p each	890,307	—	890,307	—
	10,000,000	9,051,111	10,000,000	9,051,111

17 Share premium account

	£'000
At 31st March 2004 and 2003	1,808

18 Capital reserves

	Group		Parent Undertaking	
	Revaluation reserve £'000	Other capital reserve £'000	Revaluation reserve £'000	Other capital reserve £'000
At 1st April 2003	51,027	35,853	54,021	10,545
Surplus on revaluation of properties	5,291	—	5,071	—
Share of surplus on revaluation of properties in associated undertaking	2,149	—	—	—
Transfer on disposal of investment properties	(464)	464	77	(77)
Taxation on previously recognised gains	(36)	—	(36)	—
Profit on sale of properties	—	556	—	340
Share of transfers to profit and loss account in associated undertaking	(984)	(196)	—	—
At 31st March 2004	56,983	36,677	59,133	10,808

Cumulative goodwill written off to other capital reserve amounts to £1,359,000 (2003 – £1,359,000).

19 Profit and loss account

	Group £'000	Parent undertaking £'000
At 1st April 2003	21,685	28,362
Share of associated undertaking prior year adjustment to deferred tax provision	(191)	—
Transfer from revaluation reserve	984	—
Transfer from other capital reserve	196	—
Retained profit/(loss) for the year transferred from profit and loss account	1,278	(836)
At 31st March 2004	23,952	27,526

20 Notes to the cash flow statement

Reconciliation of Group operating profit to net cash inflow from operating activities

	2004 £'000	2003 £'000
Group operating profit	10,404	9,797
Depreciation charge	36	32
Decrease/(increase) in debtors	3,628	(3,644)
Increase/(decrease) in creditors	1,464	(223)
Net cash inflow from operating activities	15,532	5,962

21 Net debt

Reconciliation of net cash flow to movements in net debt

	2004 £'000	2003 £'000
(Decrease)/increase in cash in year	(1,807)	1,851
Cash outflow/(inflow) from changes in debt	2,820	(15,605)
Change in net debt resulting from cash flow	1,013	(13,754)
Non cash changes in debt	—	(15)
Movement in net debt in year	1,013	(13,769)
Net debt at 1st April 2003	(75,766)	(61,997)
Net debt at 31st March 2004	(74,753)	(75,766)

Analysis of net debt

	At 31st March 2004 £'000	Movement in year: Cash flow £'000	Movement in year: Non-Cash £'000	At 1st April 2003 £'000
Cash at bank and in hand	1,607	(1,807)	—	3,414
Debt due within one year (see note 14)	(11,840)	2,545	(9,720)	(4,665)
Debt due after one year (see note 14)	(64,520)	275	9,720	(74,515)
Net debt	(74,753)	1,013	—	(75,766)

22 Commitments and contingent liabilities

	2004		2003	
	Group £'000	Parent undertaking £'000	Group £'000	Parent undertaking £'000
Capital expenditure committed but not provided for	16,984	16,859	1,004	1,004

The capital committments of the Group have increased due mainly to the office development schemes in Wimbledon and Westminster.

23 Transactions involving Directors

During the year the Company received cash deposits from connected parties as follows:

Lender	Relevant Director	Maximum amount deposited in the year £	Balance as at 31st March 2004 £	Balance as at 31st March 2003 £	Basis of interest payable
Aldershot Trust Estates Limited	E. S. G. Lloyd	100,000	50,000	100,000	Base rate
Farringdon Property Trust Limited	I. A. McKay J. R. Chilton	3,145,405	1,390,815	2,790,815	Base rate
Ronnoco Export Development Company Limited	I. A. McKay	23,090	23,090	22,251	Base rate
Mrs. M.A. Chilton	J. R. Chilton	990,000	990,000	990,000	Base rate
E.S.G. Lloyd	E. S. G. Lloyd	330,000	300,000	330,000	Base rate
Mrs J. Perkins	S. C. Perkins	700,000	700,000	—	Base rate
I.A. McKay	I. A. McKay	400,121	268,000	—	Base rate
			3,721,905	4,233,066	

The deposits at the year end are included in creditors as amounts owed to connected parties (see note 14). The amount of interest paid by the Group during the year was £167,492 (2003 – £87,716).

The insurance requirements of the Group are now placed through Marsh UK and commission is no longer paid to Mr. I.A. McKay. In the year ended 31st March 2003 Mr. I.A. McKay received commission of £55,980 of which £14,409 was rebated to the Group.

24 Pensions

The Group operates a defined benefits pension scheme in the U.K. 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. The contributions are determined by a qualified actuary on the basis of a triennial valuation using the attained age method. The most recent valuation was as at 31st March 2002. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rate of increase in salaries. It was assumed that the investment returns would be 7.0% per annum and that salary increases would average 5.0% per annum.

A rate of 47.25% of total pensionable salaries was recommended to meet the cost of accruing liabilities. Premiums for death benefits and scheme administration are in addition to this rate. The most recent actuarial valuation showed that the market value of the scheme's assets was £3,446,000 which represents 89% of the scheme's liabilities, after allowing for future expected increases in earnings.

At the 31st March 2002 actuarial valuation the scheme was 79% funded on the Minimum Funding Requirement basis, as defined by the Pensions Act 1995. Therefore, there was a shortfall of £926,000 in the scheme's Minimum Funding Requirement. The scheme has 3 years from the date of the last valuation to bring the MFR funding level up to 90%, and a further 7 years thereafter to restore the MFR level to 100%. Total pension costs charged to the Profit and Loss Account for the year were £295,426 (2003 – £395,430). Additional amounts have been paid towards making good the deficit in accordance with actuarial advice which has resulted in a prepayment of £417,548 (2003 – £349,546).

24 Pensions continued

The information below sets out the additional disclosures required by FRS 17 Retirement Benefits.

The valuation for the disclosures required by FRS 17 is based on the most recent actuarial valuation at 31st March 2002 and updated by Jardine Lloyd Thompson to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31st March 2004. Scheme assets are stated at their market value at 31st March 2004.

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

	31st March 2004	31st March 2003	31st March 2002
Inflation	3.00%	2.50%	3.00%
Salary increases	4.50%	4.50%	5.00%
Rate of discount	5.50%	5.25%	7.00%
Pension in payment increases	3.00%	2.50%	2.50%
Illustrative balance sheet figures	£'000	£'000	£'000
Assets	3,863	3,353	3,418
Liabilities	(5,134)	(4,437)	(3,863)
Recoverable deficit in scheme	(1,271)	(1,084)	(445)
Related deferred tax asset	381	325	133
Net pension liability	(890)	(759)	(312)

	£'000	£'000	£'000
Assets			
Equities	2,566	1,805	1,959
Property	299	280	267
Gilts	250	699	678
Corporate and overseas bonds	530	259	262
Cash	218	310	252

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

Expected long term rate of return			
Equities	8.00%	9.00%	7.75%
Property	5.50%	5.25%	7.00%
Gilts	4.75%	4.50%	5.25%
Corporate and overseas bonds	5.50%	5.25%	7.00%
Cash	4.00%	4.50%	5.00%

24 Pensions continued

Illustrative charge to the profit and loss account over the financial year

	31st March 2004 £'000	31st March 2003 £'000
Operating profit		
Current service cost	73	45
Less employees contributions	—	—
Past service cost	—	—
Previous unrecognised surplus deducted from past service cost	—	—
Gains and losses on settlements and curtailments	—	—
Previous unrecognised surplus deducted from settlement or curtailment losses	—	—
Total operating charge	73	45
Other finance income		
Expected return on pension scheme assets	(239)	(243)
Interest on pension scheme liabilities	230	256
Net return	(9)	13
Total charge to profit and loss account	64	58

Illustrative amounts which would be included within the statement of total recognised gains and losses

	31st March 2004 £'000		31st March 2003 £'000	
Difference between expected and actual return on assets	158	4.1% of scheme assets	(481)	-14.3% of scheme assets
Experience gains and losses arising on the scheme liabilities	(321)	-6.3% of the present value of the scheme liabilities	97	2.2% of the present value of the scheme liabilities
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities	(276)	-5.4% of the present value of the scheme liabilities	(821)	-18.5% of the present value of the scheme liabilities
Total	(439)	-8.6% of the present value of the scheme liabilities	(1,205)	-27.1% of the present value of the scheme liabilities

Movement in illustrative balance sheet deficit figures during the year

	31st March 2004 £'000	31st March 2003 £'000
Deficit in scheme at beginning of year	(1,084)	(445)
Movement in year:		
Current service cost	(73)	(45)
Net interest/return on assets	9	(13)
Contributions	316	624
Past service costs	—	—
Actuarial loss	(439)	(1,205)
Deficit in scheme at end of year	(1,271)	(1,084)

Company and Shareholder Information

Financial calendar	2004
Annual Report posted to shareholders	1st July
Annual General Meeting	28th July
Final ordinary dividend	12th August
Interim announcement	December
Interim Statement posted to shareholders	December
	2005
Interim ordinary dividend	January
Financial year end	March
Preliminary announcement	June

Secretary
A. S. Childs

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Registrar and Transfer Office
Lloyds TSB Registrars
The Causeway, Worthing
West Sussex BN99 6DA

Enquiries relating to shareholders, such as queries concerning notification of change of address, dividend payments and lost share certificates, should be made to the Company's registrars:

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

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

Financial information about the Company including the Annual and Interim reports, public announcements and share price data are available from the Company's website at www.mckaysecurities.plc.uk and UK Equities Direct on the Internet at www.hemscott.com.

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