McKay Securities PLC

Report and Financial Statements 2001

Contents

McKay Securities is a property development and investment company which develops and refurbishes buildings of quality for its own portfolio, which it retains for long term investment. These include office, warehouse and industrial schemes which are concentrated mainly in the high growth areas of the West End and City of London, M25 and South East of England and other prime locations.

The company, which has a portfolio value of over £195 million, does not trade or deal in 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.

Financial Highlights	2001 £'000	2000 £'000
Profit before taxation	**7,927**	9,828
Profit after taxation	**6,291**	8,193
Ordinary dividends	**2,903**	2,626
Equity shareholders' funds	**129,569**	108,249
Earnings per share	**14.1p**	18.5p
Operating earnings per share	**11.9p**	12.7p
Dividend per share	**7.5p**	6.8p
Surplus on revaluation	**18,429**	8,762
Net asset value per share	**290p**	244p

Chairman's Statement

1-2 Castle Lane,
off Buckingham Gate,
London SW1

Pre-tax profits for the year to 31st March 2001 amounted to £7,927,000 compared with £9,828,000 for the same period last year. At pre-tax operating level, after interest and excluding the surplus on disposal of investment properties, the figure was £5,191,000, compared with £5,589,000 for the previous year.

A final dividend of 5.0 pence per ordinary share is being recommended (2000 - 4.5 pence) making a total dividend of 7.5 pence (2000 - 6.8 pence) an increase of 10.3 %.

The annual revaluation of the Group's property portfolio, excluding those properties in the course of development, as at 31st March 2001 has resulted in an increase of 10.5%. Together with retained capital and revenue profits and taking account of the dividends set out above, net asset value per share has risen to 290 pence from 244 pence, an increase of 18.8%.

30-32 Lombard Street,
London EC3

Great Brighams Mead,
Caversham Road, Reading

Review of the Year

As anticipated in my previous report, pre-tax profits have fallen short of last year's figures, mainly as a result of the reduced level of sales of investment properties, which do not form part of the Group's core income. At operating level, the figures have been affected by the high level of development activity during the period; in particular the carrying costs of recently completed schemes awaiting letting. When let, Great Brighams Mead, Reading (7,740 sq.m. offices), Bartley House, Hook (2,050 sq.m. offices) and 23 Buckingham Gate, London (1,115 sq.m. offices) will together add over £3.3 million on an annual basis to gross rents.

Sales of investment properties during the year included five flats at Parkside and the office complex at Northlake Boulevard, Florida. As a result of the strong housing market we also received approximately £1.6 million in overage payments as additional consideration in respect of the previous sale of the residential site adjoining our office scheme at Great Brighams Mead, Reading.

The external professional valuation of the Group's properties as at 31st March 2001 has resulted in an increase of approximately 10.5% over the book value. The successful completion of the various development schemes in hand has added substantial value to shareholders' funds, with Great Brighams Mead alone adding nearly £8 million to book value. Further value is likely to be added once these properties are fully let. The rest of the portfolio has shown good increases in value particularly at Southwark, Staines, Glasgow, Poyle and Victoria, all of which are in areas of substantial rental growth. The slow-down in the technology related sector of the economy has not assisted in the letting of either Great Brighams Mead, Reading or Bartley House, Hook, where in each case we have had two false starts with potential tenants not completing their leases. However, both these schemes are of top quality with current interest in each and we remain optimistic of successful lettings. The offices and warehouse (2,300 sq.m.) forming part of the complex at Poyle, near Heathrow Airport, which were recently the subject of major refurbishment are now fully let, as is 23 Buckingham Gate with the exception of one floor.

During the year, we have made various property acquisitions including 30-32 Lombard Street, EC3 (3,450 sq.m. offices), 1-2 Castle Lane, SW1 (1,300 sq.m. offices) and a 2.6 acre site at Crawley, close to Gatwick Airport. Lombard Street, where

Chairman's Statement

existing leases expire in 2005, has the benefit of a planning consent for redevelopment for 5,000 sq.m. of office space. Castle Lane, which is currently let in floors at an average rent of £247 per sq.m. has various leases which expire over the next five years allowing for a planned programme of refurbishment. For example, following the recent refurbishment of the ground floor, a letting has now been completed at £425 sq.m. At Crawley, a full planning consent has been received for a development comprising 4,688 sq.m. of offices in three separate buildings arranged in a landscaped setting. Demolition has taken place and construction will commence in July with completion in the summer of next year.

I mentioned in the Interim Report that we had acquired a small building immediately adjacent to our existing holding at 203-208 Blackfriars Road, SE1 (2,000 sq.m. offices) which we planned to include in a major refurbishment/redevelopment scheme, comprising the overall island site. In the event the existing tenant has decided to remain in occupation and has now exchanged a new 15 year lease at a greatly enhanced rent. This has increased the present value of this property and avoided the expenditure of substantial capital funds which will be invested elsewhere.

Looking forward, we have various refurbishments of portfolio properties in hand as a result of occupational lease expiries and surrenders. These include Albion House, Newbury, which was fire damaged during the year; 23/24 Lovat Lane EC4; Coombe Square, Thatcham and Unit 1, Bicester. All of these are expected to be relet at improved rents.

Cash flow has remained strong during the financial year with net proceeds from disposals amounting to approximately £10 million. Additions to fixed assets of nearly £29 million include new property acquisitions of £21 million and development costs of around £8 million. At 31st March 2001 net borrowings stood at £60 million compared with £45 million last year representing 47% of shareholders funds. Committed undrawn facilities were £15.5 million.

Share Incentive and Bonus Schemes

At the Annual General Meeting to be held on 24th July 2001 resolutions will be proposed to approve new Share Incentive and Bonus Schemes, details of which accompany these Financial Statements. The previous Executive Share Option Scheme

203/5 Blackfriars Road,
London SE1

Pegasus Place, Crawley

expired for the allocation of fresh grants under that scheme in 1995 and the Board considers that it is essential to put in place a replacement to attract, retain and motivate staff. The form of the new share incentive arrangements will comprise both an Approved and an Unapproved scheme, the latter to take account of grants made over the Inland Revenue limit of £30,000. In addition the Board is proposing a Group Bonus Scheme. Both these schemes will be "all employee schemes" with performance related conditions which include challenging but fair targets.

I believe these schemes to be essential ingredients for ensuring the Group's growth and well being and I strongly urge shareholders to vote for the proposals.

Board Changes

I would like to pay tribute to Derek Bird, who retired as a director on 31st March 2001. Derek, who was associated with us as a project manager prior to joining the Board in 1987 has been instrumental as Development Director in putting in place many of the successful development schemes which form part of today's portfolio. The Board wish him the very best of luck and good health in his retirement. At the same time, I welcome to the team Simon Perkins, aged 36, Chartered Surveyor, who joined us in September of last year and was appointed a director on 1st April 2001. Simon, who will retire at the Annual General Meeting and offers himself for election, comes to us from Arlington Securities PLC.

Future Prospects

The delay in the letting of Great Brighams Mead and Bartley House and the false starts experienced have been frustrating to us all, but the institutional quality of these buildings will attract the right tenants and prove to be excellent investments, as has already become evident in the valuations this year. However, the delay in the letting of these schemes and their holding costs will inevitably delay the impact of the potential net income on operating earnings. Having said this, I am confident that this position will change before long and with the strength of our existing portfolio, the continuing acquisition programme and developments already in hand, the Group will continue to see further strong growth in shareholder value.

I. A. McKay Chairman
13th June 2001

Directors

Executive Directors at Great Brighams Mead, Reading.
Left to right: Simon Perkins, Eric Lloyd, Alan Childs
and James Chilton

Iain McKay

Michael Hawkes

Ian Menzies

I. A. McKay
Chairman

Aged 62. Appointed a non-executive Director in 1968. Appointed non-executive Chairman in 1986. Director of Farringdon Property Trust Limited and Ronnoco Export Development Company Limited. Chairman of the Audit and Remuneration Committees.

E. S. G. Lloyd F.C.A.
Deputy Chairman and Managing Director

Aged 62. Appointed Managing Director in 1972 and Deputy Chairman in 1986. Chartered Accountant.

J. R. Chilton

Aged 60. Joined the Company in 1968. Appointed a Director in 1973. Responsible for portfolio management and lettings.

A. S. Childs
Finance Director

Aged 51. Joined the Company in 1973. Appointed Company Secretary in 1987 and a Director in 1996. Responsible for Group finance.

S. C. Perkins M.R.I.C.S.

Aged 36. Joined the Company in 2000. Appointed a Director in April 2001. Responsible for planning, development and project management.

M. J. C. Hawkes F.R.I.C.S.
Senior non-executive

Aged 55. Appointed a non-executive Director in 1986. Chartered Surveyor and Director of Capital and Continental SARL. Member of the Audit and Remuneration Committees.

I. C. Menzies M.A., C.A.
Non-executive

Aged 61. Appointed a non-executive Director in 1989. Chartered Accountant, Director of Malvern UK Index Trust PLC and Poles Limited. Member of the Audit and Remuneration Committees.

Report of the Directors

The Directors have pleasure in submitting their report and audited financial statements for the year ended 31st March 2001.

Profit and distribution

The profit for the year and appropriations are set out in the consolidated profit and loss account. Profit before tax was £7,927,046 (2000 – £9,827,661). The Directors recommend a final dividend of 5.0p per share making a total for the year of 7.5p per share (2000 – 6.8p). If approved at the Annual General Meeting the dividend will be paid on 1st August 2001.

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 are given in the Chairman's Statement on pages 2 to 5.

The Group's properties were valued by external professional valuers at 31st March 2001. The overall increase in value as at 31st March 2001 was £18,428,928 equal to 10.53%, which has been credited to Revaluation Reserve in the financial statements. The increase in values for the year is accounted for as follows:

Commercial	12.74%
Industrial	4.86%

After taking into account retained profits net asset value per share is 290 pence (2000 – 244 pence).

Directors

The present members of the board, are shown on pages 6 and 7. Mr. D. A. L. Bird retired from the Board on 31st March 2001.

Mr. S. C. Perkins was appointed to the Board as an executive Director on 1st April 2001 and in accordance with the Articles of Association he will retire at the Annual General Meeting and is eligible for election.

The interests in the shares of the Company of each Director are shown in note 5 on page 27.

In accordance with the Articles of Association two Directors are to retire by rotation. Accordingly, Mr. E. S. G. Lloyd and Mr. I. C. Menzies are to retire, and being eligible offer themselves for re-election.In accordance with the Combined Code, it is the Company's policy that each Director must apply for re-election once every three years, if applicable.

Apart from service contracts and share options relating to Mr. E. S. G. Lloyd, Mr. J. R. Chilton, Mr. A. S. Childs and Mr. S. C. Perkins, no other Director had a material interest during the year in any contract with the Company. The unexpired period of their service contracts is two years.

Substantial shareholdings

Apart from the Directors' interests referred to in note 5 the Company has been advised of the following notifiable interests in its issued share capital (see note 17) as at 13th June 2001:

	Shares	%
C.G.N.U. plc	9,701,278	21.69
Farringdon Property Trust Limited	6,130,440	13.71
The William Pears Group of Companies Limited	3,080,000	6.89
The G.F. McKay Trust	2,795,347	6.25
Schroder Investment Management Limited	2,104,038	4.70

Corporate Governance

The Board considers that the Company has complied throughout the year with the provisions of The Combined Code with the exceptions as stated within the Directors Report.

The Board of Directors comprises four executive and three non-executive Directors with Mr. M. J. C. Hawkes being the senior independent non-executive Director. It meets regularly at least six times a year and all Board members have access to the advice and services of the Company Secretary and independent legal advice, if required. A schedule of matters specifically reserved for the Board has been adopted. The three non-executive Directors sit on the Remuneration and Audit Committees.

The entire Board acts as the Nominations Committee and is responsible for the selection and approval of candidates for appointment to the Board. Whilst this does not comply with provision A.5.1 the Directors consider this to be appropriate for the small size of the Board.

The Board is of the opinion that Mr. M. J. C. Hawkes and Mr. I. C. Menzies are independent non-executive Directors and fulfil the recommended role.

Directors' Remuneration

The Remuneration Committee ("the committee") consists solely of the non-executive Directors and is chaired by Mr. I. A. McKay. The other members of the committee are Mr. M. J. C. Hawkes and Mr. I. C. Menzies. Only Mr. Hawkes and Mr. Menzies are independent as required by provision B.2.2. The Board considers that the composition of the committee is appropriate given the small size of the Board.

Report of the Directors

Policy

The committee decides the remuneration policy for executive Directors and senior executives and approves the granting of share options. The committee takes independent professional advice with regard to information on compensation and salary of executive Directors and senior executives with similar responsibilities in comparable companies.

Emoluments and Share Options

Resolutions will be put to shareholders at the Annual General Meeting to implement performance related Share Incentive and Bonus Schemes, which the Directors believe will better serve the best interests of the Company.

The total remuneration package of the executive Directors for the year ended 31st March 2001, was not performance related as required by Code provision B.1.4. The interests of the executive Directors are aligned with those of shareholders by structuring 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 Company successfully. The committee considers comparisons with similar companies in determining the remuneration package. The remuneration package is reviewed on 1st April annually and consists of salary, an approved share option scheme, pension contribution, car benefit and medical and life insurance.

Details of each Director's emoluments are shown in note 5 on page 26.

Under the 1984 Executive Share Option Scheme (now expired for the allocation of fresh grants) certain Directors have outstanding options over ordinary shares. Details are as set out in note 17 on page 37.

Service Contracts

Mr. E. S. G. Lloyd, Mr. J. R. Chilton, Mr. A. S. Childs and Mr. S. C. Perkins have service contracts which are terminable by the Company on not less than two year's notice. Whilst this does not comply with the code provision the committee considers that notice periods of two years are in the best interests of and appropriate for the size of the Company. In taking this approach the committee has fully considered the compensation commitments in buying out 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.

Pension and Retirement Benefits

The Company 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 pensions in the event of death in service or in retirement. Pensionable salary is basic salary excluding any benefits. The cost of executive Directors' pensions of £158,880 (2000 – £216,383) is calculated by reference to the Company's contribution rate in respect of the members of that scheme. Although the retirement age of the scheme is 60, the Remuneration Committee and the Pension Scheme Trustees have extended the scheme retirement age for Mr. E. S. G. Lloyd to 63.

The pension benefits earned during the year are shown in note 5 on page 26.

Mr. D. A. L. Bird, having reached the scheme retirement age, no longer participates in the above mentioned scheme. However the Company has made contributions of £44,880 (2000 – £44,880) into a separate Small Self Administered Scheme for Mr. Bird.

Non-executive Directors

The remuneration of non-executive Directors is recommended by the Board within the levels set in the Articles of Association. Apart from Mr. I. A. McKay, who is provided with a car allowance and private medical insurance, the non-executive Directors are not eligible for any other benefits. Non-executive Directors are not appointed for specific terms as required by Code provision A.6.1. This policy is currently under review but, as with all Directors, the non-executive Directors retire by rotation in accordance with the Articles of Association. To comply with the Code all Directors will submit themselves for re-election at least once every 3 years.

Relations with Shareholders

The Annual General Meeting provides an opportunity for shareholders, particularly private investors, to question the Board, and shareholders are given not less than 21 working days notice of the Annual General Meeting. The Chairman of the Audit Committee and the Remuneration Committee will be at the Annual General Meeting to answer any questions. Shareholders are given the opportunity of voting separately on each proposal and proxy votes are announced after each resolution.

Report of the Directors

Internal Control

The Board has applied Principle D.2 of the Combined Code by establishing a continuous process for identifying, evaluating and managing the significant risks faced by the Group.

In complying with Principle D.2.1 of the Combined Code on internal control, the Group has established the procedures necessary to comply with the Internal Control: Guidance for Directors on the Combined Code from 1st April 2001. Prior to that date the Group was establishing procedures which were not fully operational until April 2001.

The Board is responsible for establishing and reviewing the Group's system of internal control to safeguard shareholders' investment and the Group's assets. 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 but not absolute assurance against material misstatement or loss. The system of internal financial control includes the following:

Financial Reporting
Annual and long term revenue, cash flow and capital forecasts, updated regularly during the year, with regular reporting to the Board. Results and forecasts are reviewed against budgets. Regular reporting to the Board on financial and treasury matters.

Investment 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.

Controls
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.

Audit Committee
An Audit Committee which reviews half-yearly internal management reports and external auditors' reports and approves published financial information.

Identification of Business Risks
The risks facing the Group are kept under constant review. Important areas including risk management, corporate taxation, legal matters and detailed insurance cover come under the direct control of the executive Directors and are reviewed on an on-going 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 and ensures that current and proposed legislative changes are incorporated to ensure that appropriate safety standards are maintained.

The Directors confirm that they have specifically reviewed the framework and effectiveness of the system of internal control for the year ended 31st March 2001.

Financial Instruments

The Group's financial instruments comprise borrowings, some cash in liquid resources and various items such as trade debtors, trade creditors etc., and 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 its operations through a mixture of retained profits, sales of investment properties and bank borrowings. The Group's policy is to borrow at both fixed and 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 fluctuations. At the year end £8,040,000 of the Group's borrowings had been fixed at 7.345%. There were no interest rate swaps in place. Whilst the Group actively reviews the fixing of interest rates the present policy is to make use of the current short term rates profile. The Directors consider that the book value of the Group's financial liabilities is not materially different to their fair value.

In order to maintain liquidity and to ensure continuity of funding, the Group will be seeking to extend the maturity of its borrowings. At the year end, 48% of the Group's borrowings 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. The Group has no foreign currency loans or hedging instruments.

The details of the Group's financial liabilities are set out in note 15 on pages 34 and 35.

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' 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 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.

Report of the Directors

The Directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and 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.

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. At the year end amounts owed to trade creditors in the accounts were the equivalent to 10 days purchases.

Donations

During the year the Group made charitable donations of £4,800 (2000 – £1,400). No political donations were made during the year (2000 – nil).

Annual General Meeting

The fifty-fifth Annual General Meeting of the Company will be held at 20 Parkside, 28-56 Knightsbridge, London SW1 on 24th July 2001 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.

13th June 2001
Reading

By Order of the Board
A. S. Childs
Secretary

Report of the Auditors

To the members of McKay Securities PLC

We have audited the financial statements on pages 18 to 41.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report. As described on page 13, this includes responsibility for preparing 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 are properly prepared in accordance with the Companies Act. 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 or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on page 9 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, 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 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. It also includes an assessment of the significant estimates and judgments 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 are free from material mis-statement, 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.

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 2001 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

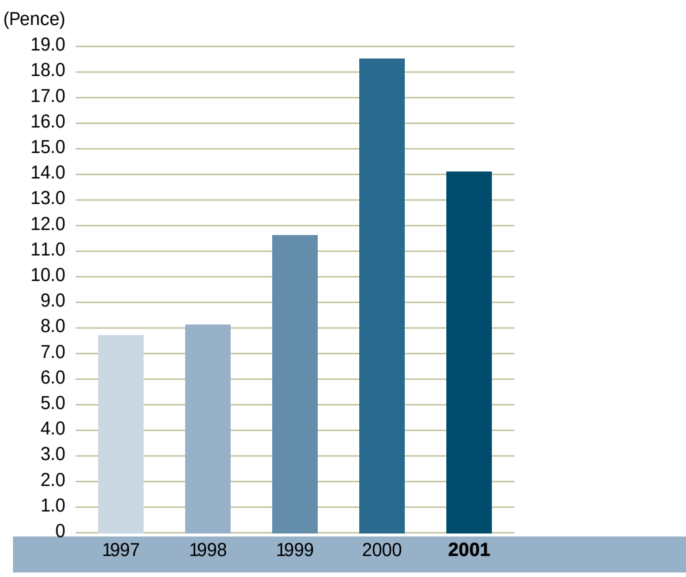
13th June 2001
Reading

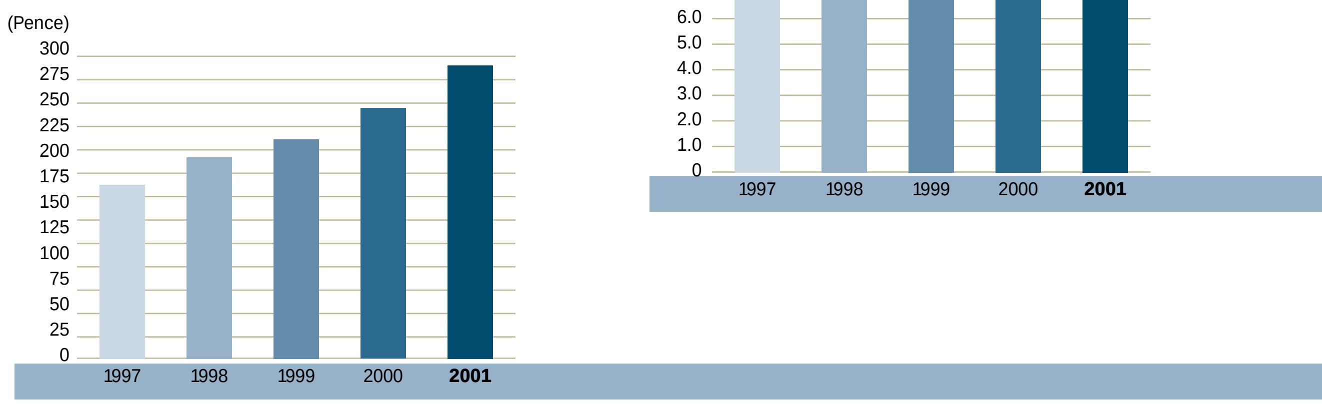
KPMG Audit Plc
Chartered Accountants
Registered Auditor

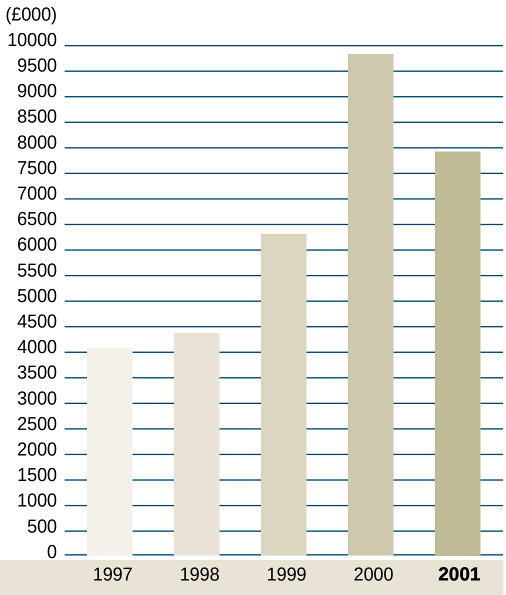
Results in Brief

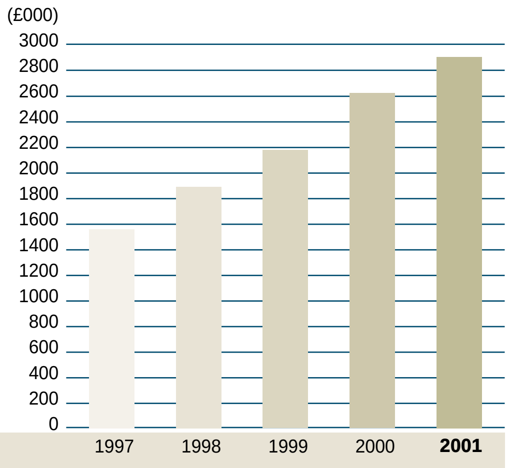
	2001	2000
	£'000	£'000
Gross rents and service charges receivable	**12,809**	11,229
Profit before taxation	**7,927**	9,828
Profit after taxation	**6,291**	8,193
Ordinary dividends	**2,903**	2,626
Equity shareholders' funds	**129,569**	108,249
Earnings per share*	**14.1p**	18.5p
Operating earnings per share*	**11.9p**	12.7p
Dividend per share*	**7.5p**	6.8p
Surplus on revaluation	**18,429**	8,762

*The figures for 1997 have been restated for the 1 for 2 bonus issue.









Five Year Summary

	2001 **£'000**	2000 £'000	1999 £'000	1998 £'000	1997 £'000
Gross rents and service charges receivable	**12,809**	11,229	12,672	11,133	10,399
Profit before taxation	**7,927**	9,828	6,318	4,409	4,158
Profit after taxation	**6,291**	8,193	5,061	3,511	3,309
Ordinary dividends	**2,903**	2,626	2,183	1,878	1,596
Equity shareholders' funds	**129,569**	108,249	94,509	83,524	70,141
Earnings per share* **(on total issued capital)**	**14.1p**	18.5p	11.6p	8.1p	7.7p
Operating earnings per share* **(on total issued capital)**	**11.9p**	12.7p	9.0p	6.9p	5.5p
Net asset value per share* **(on total issued capital)**	**290p**	244p	216p	192p	162p

*The figures for 1997 have been restated for the 1 for 2 bonus issue.

Consolidated Profit and Loss Account

For the year ended 31st March 2001

	Notes	2001 £'000	2000 £'000
Gross rents and service charges receivable	2	**12,809**	11,229
Direct property outgoings	2	**(3,558)**	(2,374)
Income from investment properties	2	**9,251**	8,855
Administration costs	3	**(1,848)**	(1,868)
Share of operating profit of associated undertakings		**200**	213
Operating profit		**7,603**	7,200
Profit on disposal of investments and properties	8	**2,736**	4,239
Profit on ordinary activities before interest and taxation		**10,339**	11,439
Net interest payable	6	**(2,412)**	(1,611)
Profit on ordinary activities before taxation		**7,927**	9,828
Taxation	7	**(1,636)**	(1,635)
Profit on ordinary activities after taxation		**6,291**	8,193
Dividends	10	**(2,903)**	(2,626)
Retained profit for the financial year		**3,388**	5,567
Transfer to capital reserve	8	**(1,699)**	(3,290)
Retained profit for the year transferred to Profit and Loss Account Reserve	20	**1,689**	2,277
Earnings per share (note 11)			
Basic		**16.28p**	21.28p
Diluted		**14.09p**	18.54p
Adjusted (operating) earnings per share (note 11)			
Basic		**11.88p**	12.74p
Diluted		**10.29p**	11.09p
Dividend per share (note 10)		**7.5p**	6.8p

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

Consolidated Statement of Total Recognised Gains and Losses

	2001 £'000	2000 £'000
Profit for the year	**6,291**	8,193
Unrealised surplus on revaluation of properties	**18,429**	8,718
Taxation on previously recognised gains	**(338)**	(1,029)
Exchange gains	**46**	55
Total recognised gains relating to the year	**24,428**	15,937

Consolidated Historical Cost Profits and Losses

	2001 £'000	2000 £'000
Reported profit before taxation	**7,927**	9,828
Realisation of property revaluation surpluses of previous years	**2,220**	14,555
Historical cost profit before taxation	**10,147**	24,383
Historical cost profit for year retained after taxation and dividends	**5,608**	20,122

Consolidated Reconciliation of Movements in Shareholders' Funds

	2001 £'000	2000 £'000
Profit for the year	**6,291**	8,193
Dividends (see note 10)	**(2,903)**	(2,626)
Retained profit for the year	**3,388**	5,567
Unrealised surplus on revaluation of properties	**18,429**	8,718
Exchange gain	**46**	55
Taxation on previously recognised gains	**(338)**	(1,029)
Goodwill written off (see note 13)	**(320)**	—
Premium arising on issue of shares under share option scheme	**88**	369
Nominal value of issue of shares under share option scheme	**27**	60
Net addition to shareholders' funds	**21,320**	13,740
Opening shareholders' funds	**108,249**	94,509
Closing shareholders' funds	**129,569**	108,249

Consolidated Balance Sheet

At 31st March 2001

	Notes	2001	2000
		£'000	£'000
Fixed assets			
Tangible assets – properties and other fixed assets	12	**195,764**	155,584
Investments	13	**1,953**	1,862
		197,717	157,446
Current assets			
Debtors	14	**1,084**	4,840
Cash at bank and in hand		**680**	1,790
		1,764	6,630
Creditors			
Amounts falling due within one year	15	**(11,692)**	(12,037)
Net current liabilities		**(9,928)**	(5,407)
Total assets less current liabilities		**187,789**	152,039
Creditors			
Amounts falling due after one year	15	**(57,970)**	(43,290)
Provisions for liabilities and charges			
Deferred taxation	16	**(250)**	(500)
Net assets		**129,569**	108,249
Capital and reserves			
Called up share capital	17	**8,946**	8,861
Share premium account	18	**1,913**	1,883
Revaluation reserve	19	**58,428**	42,219
Other capital reserves	19	**36,122**	31,946
Profit and loss account	20	**24,160**	23,340
Equity shareholders' funds		**129,569**	108,249
Net assets per share		**290p**	244p

Company Balance Sheet

At 31st March 2001

	Notes	2001 £'000	2000 £'000
Fixed assets			
Tangible assets – properties and other fixed assets	12	**131,536**	102,513
Investments	13	**22,708**	22,388
		154,244	124,901
Current assets			
Debtors	14	**26,156**	16,865
Cash at bank and in hand		**367**	756
		26,523	17,621
Creditors			
Amounts falling due within one year	15	**(30,271)**	(24,595)
Net current liabilities		**(3,748)**	(6,974)
Total assets less current liabilities		**150,496**	117,927
Creditors			
Amounts falling due after one year	15	**(50,250)**	(35,250)
Provisions for liabilities and charges			
Deferred taxation	16	**(250)**	(400)
Net assets		**99,996**	82,277
Capital and reserves			
Called up share capital	17	**8,946**	8,861
Share premium account	18	**1,913**	1,883
Revaluation reserve	19	**60,341**	45,711
Other capital reserves	19	**13,591**	12,190
Profit and loss account	20	**15,205**	13,632
Equity shareholders' funds		**99,996**	82,277

These financial statements were approved by the Board of Directors and were signed on its behalf by I. A. McKay and E. S. G. Lloyd on 13th June 2001.

Consolidated Cash Flow Statement

For the year ended 31st March 2001

	Notes	2001 £'000	2001 £'000	2000 £'000	2000 £'000
Net cash inflow from operating activities	21		**11,089**		5,324
Dividends received from associated undertaking			**59**		81
Returns on investment and servicing of finance					
Interest received		**99**		110	
Interest paid		**(4,306)**		(1,995)	
Dividends received		**1**		1	
Net cash outflow from returns on investments and servicing of finance			**(4,206)**		(1,884)
Taxation					
Corporation tax refund		**52**		—	
Corporation tax paid		**(2,719)**		(1,776)	
			(2,667)		(1,776)
Capital expenditure					
Purchase and development of investment properties		**(27,165)**		(13,929)	
Purchase of other fixed assets		**(49)**		(12)	
Sales of investment properties		**9,722**		23,725	
Net cash (outflow)/inflow for capital expenditure			**(17,492)**		9,784
Acquisitions and disposals					
Purchase of minority interest (expenses)		**(20)**		—	
Acquisition of subsidiary		**—**		(2,291)	
Net cash acquired with subsidiary		**—**		115	
Net cash outflow for acquisitions and disposals			**(20)**		(2,176)
Equity dividends paid			**(2,703)**		(2,305)
Cash (outflow)/inflow before financing			**(15,940)**		7,048
Financing					
Issue of ordinary share capital		**115**		429	
Increase/(reduction) in debt		**14,710**		(7,220)	
Net cash inflow/(outflow) from financing			**14,825**		(6,791)
(Decrease)/increase in cash in year	22		**(1,115)**		257

Notes to the Financial Statements

For the year ended 31st March 2001

1 Statement of accounting policies

The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties, 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 £4,354,000 (2000 – £5,227,000).

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 2001.

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 will be capitalised. Positive goodwill will be amortised to nil by equal annual instalments over its estimated useful life.

Changes to goodwill arising from changes in contingent consideration or 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. A joint venture is an undertaking in which the Group has a long-term interest and over which it exercises joint control. The Group's share of the profits less losses of associates and of joint ventures 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.

Where a Group company is party to a joint arrangement which is not an entity, that company accounts directly for its part of the income and expenditure, assets, liabilities and cash flows. Such arrangements are reported in the consolidated financial statements on the same basis.

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.

Notes to the Financial Statements

For the year ended 31st March 2001

1 Statement of accounting policies continued

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 2001 are given in note 12.

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 to the extent that this is not expected to result in a deficit on valuation of the properties upon completion. Development interest is calculated using the 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.

Taxation

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

Provision is made for tax deferred in respect of timing differences which are not likely to continue in the foreseeable future. The provision is calculated on the liability method at the current rate of 30% (2000 – 30%). These differences arise because of the different treatment of certain items in the financial statements and their effect on the assessment of tax liabilities.

Tax liabilities on future sales of properties

The surplus on revaluation of properties in 2001 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 23 to the financial statements.

Foreign currencies

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

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

	2001 £'000	2000 £'000
Gross rents receivable	**10,473**	9,607
Service charges receivable	**2,336**	1,622
	12,809	11,229
Direct property outgoings	**(3,558)**	(2,374)
	9,251	8,855

During the years ended 31st March 2001 and 2000 the major part of the Group's gross income arose from investment properties in the United Kingdom.

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

3 Administration costs

Profit on ordinary activities before taxation is stated after charging:

	2001 £'000	2000 £'000
Depreciation of tangible fixed assets (note 12)	**40**	77
Auditors' remuneration		
as auditors – Group	**55**	61
– Company	**39**	39
other services – fees paid to the auditors and its associates	**40**	58

4 Employees

The average number of persons employed by the Group (including Directors) during the year was 24 (2000 – 23).

Their total remuneration was:

	2001 £'000	2000 £'000
Salaries	**991**	872
Social security costs	**111**	94
Pension costs	**231**	254
	1,333	1,220

Notes to the Financial Statements

For the year ended 31st March 2001

5 Directors' emoluments and share interests

Directors' emoluments

The emoluments of the Directors of the Company are shown below:

	Salary £	Fees £	Benefits £	31st March **2001 Total £**	31st March 2000 Total £
Executive					
E. S. G. Lloyd	**191,350**	**—**	**11,674**	**203,024**	176,937
J. R. Chilton	**116,519**	**—**	**13,930**	**130,449**	119,674
D. A. L. Bird	**35,431**	**—**	**11,061**	**46,492**	55,978
A. S. Childs	**96,359**	**—**	**10,726**	**107,085**	85,474
Non-Executive					
I. A. McKay	**—**	**31,250**	**11,970**	**43,220**	39,335
M. J. C. Hawkes	**—**	**18,750**	**—**	**18,750**	18,000
I. C. Menzies	**—**	**18,750**	**—**	**18,750**	18,000
Total	**439,659**	**68,750**	**59,361**	**567,770**	513,398

The aggregate of emoluments and gains on exercise of share options of the highest paid Director was £242,024 (2000 – £188,697).

Directors' pension entitlements

The pension benefits earned during the year are as follows:

	Increase in accrued pension during the year £	Transfer value of increase £	**Accrued defined benefit pension at 31st March 2001 £**	Accrued defined benefit pension at 31st March 2000 £
E. S. G. Lloyd	16,700	142,500	**126,700**	110,000
J. R. Chilton	8,200	71,200	**76,700**	68,400
A. S. Childs	10,800	81,700	**47,900**	37,100

Details of the Company's contributions to Mr. D. A. L. Bird's Small Self Administered Scheme, which are not given above, are given within the Directors' Report on page 11.

5 Directors' emoluments and share interests continued

Directors' share interests

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

	At 31st March 2001			
Beneficial	**Ordinary shares**	**Capital shares**	**Total shares**	**Percentage**
I. A. McKay	**2,399,245**	**269,925**	**2,669,170**	**5.967**
E. S. G. Lloyd	**410,777**	**—**	**410,777**	**0.918**
J. R. Chilton	**1,723,631**	**132,856**	**1,856,487**	**4.150**
D. A. L. Bird	**44,720**	**3,749**	**48,469**	**0.108**
M. J. C. Hawkes	**215,825**	**78,320**	**294,145**	**0.658**
I. C. Menzies	**15,000**	**—**	**15,000**	**0.034**
A. S. Childs	**6,452**	**762**	**7,214**	**0.016**
Non beneficial				
I. A. McKay	**1,599,531**	**1,244,531**	**2,844,062**	**6.358**
E. S. G. Lloyd	**1,256,500**	**—**	**1,256,500**	**2.809**
J. R. Chilton	**1,267,770**	**816,810**	**2,084,580**	**4.660**
M. J. C. Hawkes	**231,684**	**1,056**	**232,740**	**0.520**
A. S. Childs	**93,500**	**—**	**93,500**	**0.209**

	At 31st March 2000			
Beneficial	Ordinary shares	Capital shares	Total shares	Percentage
I. A. McKay	2,398,574	256,719	2,655,293	5.994
E. S. G. Lloyd	365,777	—	365,777	0.826
J. R. Chilton	1,600,381	132,856	1,733,237	3.912
D. A. L. Bird	28,720	3,566	32,286	0.073
M. J. C. Hawkes	215,825	74,489	290,314	0.655
I. C. Menzies	9,490	—	9,490	0.021
A. S. Childs	1,862	725	2,587	0.006
Non beneficial				
I. A. McKay	1,601,531	1,183,270	2,784,801	6.286
E. S. G. Lloyd	1,249,500	—	1,249,500	2.820
J. R. Chilton	1,261,786	776,849	2,038,635	4.602
M. J. C. Hawkes	231,684	1,005	232,689	0.525
A. S. Childs	88,500	—	88,500	0.198

In addition, Mr. I. A. McKay and Mr. J. R. Chilton are interested as connected persons in 3,201,785 ordinary shares and 2,928,652 capital 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.

Further details relating to Directors' emoluments and pension entitlements are set out within the Directors' Report on pages 9 and 10 and further details relating to share options are set out in note 17 on page 37.

Notes to the Financial Statements

For the year ended 31st March 2001

6 Net interest payable

	2001		2000	
	£'000	**£'000**	£'000	£'000
Interest payable:				
Mortgages	**—**		23	
Bank loans, overdrafts and other loans repayable within five years	**1,799**		661	
All other loans	**2,111**		1,881	
	3,910		2,565	
Less: Interest relating to properties in the course of development (note 9)	**(1,404)**		(840)	
		2,506		1,725
Interest receivable:				
Bank and other short term deposits		**(94)**		(114)
		2,412		1,611

7 Taxation

	2001	2000
	£'000	£'000
The amount charged comprises:		
U.K. Corporation tax at 30% (2000 – 30%)	**2,174**	2,841
Deferred taxation	**(250)**	(227)
Associated undertakings	**50**	50
	1,974	2,664
Less: tax on previously recognised gains (see note 19)	**(338)**	(1,029)
	1,636	1,635

The tax charge reflects the benefit of £479,000 (2000 – £481,000) relating to tax allowances on plant forming part of properties and industrial buildings on which no depreciation is charged.

8 Transfer to capital reserve

	2001 £'000	2000 £'000
Sale of properties	**2,736**	4,239
Less: Taxation	**(1,037)**	(949)
	1,699	3,290

9 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:

	2001 £'000	2000 £'000
Gross interest (note 6)	**1,404**	840

Credit for tax relief at 30% (2000 – 30%) on the gross interest is included in the profit and loss tax charge (note 7). Total development interest capitalised to date amounts to £2,817,000 (2000 – £1,413,000).

10 Dividends

	2001 £'000	2000 £'000
Ordinary shares:		
Interim 2.5p (2000 – 2.3p)	**965**	888
Proposed 2001 final dividend of 5.0p per share (2000 – 4.5p)	**1,938**	1,738
	2,903	2,626

The capital shares do not qualify for a cash dividend.

Notes to the Financial Statements

For the year ended 31st March 2001

11 Earnings per share

Earnings per share on ordinary shares are based on profit after tax of £6,291,003 (2000 – £8,192,320) and 38,642,330 (2000 – 38,491,703) shares, being the weighted average of ordinary shares in issue during the year. The earnings per share on total issued capital is based on the same earnings and on 44,511,629 (2000 – 44,195,445) shares, being the weighted average of total shares in issue during the year.

Diluted earnings per share are based on earnings after tax of £6,291,003 (2000 – £8,192,320), and on the weighted average number of shares in issue during the period of 44,639,381 (2000 – 44,195,445), 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 that could be converted to ordinary shares.

Adjusted operating earnings of £4,592,430 (2000 – £4,902,578) exclude the profits (net of tax) on the sale of investment properties, investments and other income; adjusted 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 2001 p	EPS 2000 p
Weighted number of ordinary shares in issue	38,642,330	**16.28**	21.28
Weighted number of capital shares in issue	5,869,300	**(2.15)**	(2.69)
Number of shares under option	421,578	**(0.13)**	(0.23)
Number of shares that would have been issued at fair value	(293,827)	**0.09**	0.18
	44,639,381	**14.09**	18.54

	31st March 2001		31st March 2000	
	Basic p	**Diluted p**	Basic p	Diluted p
Earnings per share	**16.28**	**14.09**	21.28	18.54
Property sales after taxation (note 8)	**(4.40)**	**(3.80)**	(8.54)	(7.45)
Adjusted (operating) earnings per share	**11.88**	**10.29**	12.74	11.09

Adjusted earnings and adjusted diluted earnings have been disclosed to show earnings that reflect the core operating activities of the Group.

12 Tangible assets – properties and other fixed assets

Group	Freehold £'000	Long leasehold £'000	Other assets £'000	Total £'000
Cost or valuation				
At 1st April 2000	143,542	10,900	2,083	156,525
Exchange difference	26	—	1	27
Additions	14,635	13,552	49	28,236
Revaluation surplus	17,731	698	—	18,429
Disposals	(5,384)	—	(1,333)	(6,717)
At 31st March 2001	170,550	25,150	800	196,500
Depreciation				
At 1st April 2000			941	941
Charge for year			40	40
Disposals			(245)	(245)
At 31st March 2001			736	736
Net book value at 31st March 2001	**170,550**	**25,150**	**64**	**195,764**
Net book value at 31st March 2000	143,542	10,900	1,142	155,584
Consisting of as at 31st March 2001:				
Investment properties at valuation	**168,264**	**25,150**	**—**	**193,414**
Properties in development	**2,286**	**—**	**—**	**2,286**
Other assets	**—**	**—**	**64**	**64**
	170,550	**25,150**	**64**	**195,764**
The properties are made up of:				
Commercial 80%	**131,150**	**25,150**		**156,300**
Industrial 18%	**34,660**	**—**		**34,660**
Residential 2%	**4,740**	**—**		**4,740**
	170,550	**25,150**		**195,700**

Notes to the Financial Statements

For the year ended 31st March 2001

12 Tangible assets – properties and other fixed assets continued

Parent undertaking	Freehold £'000	Long leasehold £'000	Other assets £'000	Total £'000
Cost or valuation				
At 1st April 2000	102,415	—	664	103,079
Additions	14,434	—	49	14,483
Revaluation surplus	14,887	—	—	14,887
Disposals	(265)	—	(147)	(412)
At 31st March 2001	131,471	—	566	132,037
Depreciation				
At 1st April 2000			566	566
Charge for year			40	40
Disposals			(105)	(105)
At 31st March 2001			501	501
Net book value at 31st March 2001	**131,471**	**—**	**65**	**131,536**
Net book value at 31st March 2000	102,415	—	98	102,513
Consisting of as at 31st March 2001:				
Investment properties at valuation	**129,185**	**—**	**—**	**129,185**
Properties in development	**2,286**	**—**	**—**	**2,286**
Other assets	**—**	**—**	**65**	**65**
	131,471	**—**	**65**	**131,536**

In accordance with the Group's accounting policy on properties there was an external valuation at 31st March 2001. This valuation was carried out in England by Mellersh and Harding, Chartered Surveyors and Valuers, in Scotland by Insignia Richard Ellis, Chartered Surveyors and Valuers, on an open market basis.

The historical cost of properties stated at valuation is approximately £134,000,000 (2000 – £87,000,000) for the Group and £87,000,000 (2000 – £53,000,000) for the Company.

13 Fixed assets – investments

	2001 Group £'000	**2001** Parent undertaking £'000	2000 Group £'000	2000 Parent undertaking £'000
Shares in subsidiary undertakings	**—**	**22,606**	—	22,286
Interest in associated undertaking	**1,951**	**100**	1,860	100
Other investments	**2**	**2**	2	2
	1,953	**22,708**	1,862	22,388

At 31st March 2001 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 £1,970,402 (2000 – £1,970,402), and the Directors are of the opinion that the investment in the subsidiary undertakings is worth not less than the current book value.

Following the purchase on 31st March 1997 of the minority holding in Acreway Limited additional consideration of £300,000 became payable on 12th April 2001 (see note 23). Total goodwill and costs of £320,000 have been written off against reserves during the year.

In addition, through McKay Securities Overseas Limited, the Company holds 100% of the issued common stock of McKay International Properties Inc., a company which is incorporated in the United States of America.

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.

Additional information in respect of movements during the year:

Interests in associated undertakings:

	Shares at cost £'000	Share of post acquisition reserves £'000	Total investment £'000
At 1st April 2000	100	1,760	1,860
Share of profits for the year, less taxation and dividends received	—	91	91
At 31st March 2001	**100**	**1,851**	**1,951**

14 Debtors

	2001		2000	
	Group £'000	**Parent undertaking £'000**	Group £'000	Parent undertaking £'000
Rents receivable	**87**	**84**	29	20
Amounts due from subsidiary undertakings	**—**	**25,611**	—	15,662
Other debtors and prepayments	**997**	**461**	4,811	1,183
	1,084	**26,156**	4,840	16,865

All the above debtors are receivable within one year.

15 Creditors

	2001		2000	
	Group £'000	**Parent undertaking £'000**	Group £'000	Parent undertaking £'000
Bank loans and overdraft	**58,290**	**50,250**	43,530	35,250
Loan notes	**62**	**62**	112	112
	58,352	**50,312**	43,642	35,362
Rent received in advance	**2,450**	**1,499**	2,398	1,435
Corporation tax payable	**1,392**	**392**	2,255	1,108
Other taxation and social security costs	**508**	**130**	2	2
Amount owed to connected parties (note 24)	**2,518**	**2,518**	2,977	2,977
Amounts owed to subsidiary undertakings	**—**	**22,017**	—	15,602
Other creditors and accruals	**2,505**	**1,716**	2,315	1,621
Dividends payable	**1,937**	**1,937**	1,738	1,738
	69,662	**80,521**	55,327	59,845
Analysed as follows:				
Due in less than 1 year	**11,692**	**30,271**	12,037	24,595
Due after 1 year	**57,970**	**50,250**	43,290	35,250
	69,662	**80,521**	55,327	59,845

All the above creditors are payable within one year except bank loans of the Group of £57,970,000 (2000 – £43,290,000) and of the parent undertaking of £50,250,000 (2000 – £35,250,000).

15 Creditors continued

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

	2001 **£'000**	2000 £'000
Parent undertaking		
Secured bank loans made to the parent undertaking repayable at stated dates between 2003 and 2008 at variable rates	**50,250**	35,250
Unsecured loan notes repayable at any time up to 2002 at variable rates	**62**	112
	50,312	35,362
Subsidiary undertakings		
Secured bank loans made to a subsidiary undertaking repayable at stated dates between 2001 and 2007 at variable rates	**8,040**	8,280
	58,352	43,642

	2001		2000	
Repayable in:	**Group** **£'000**	**Parent undertaking** **£'000**	Group £'000	Parent undertaking £'000
Less than 1 year	**382**	**62**	352	112
1-2 years	**8,320**	**8,000**	320	—
2-5 years	**21,550**	**20,500**	5,500	4,500
More than 5 years	**28,100**	**21,750**	37,470	30,750
	58,352	**50,312**	43,642	35,362

Borrowing facilities

The Group has various undrawn committed borrowing facilities. The facilities available at 31st March 2001 in respect of which all conditions precedent had been met were as follows:

	£'000
Expiring in less than 1 year	**—**
Expiring in 1-2 years	**9,000**
Expiring in more than 2 years	**6,500**
	15,500

Notes to the Financial Statements

For the year ended 31st March 2001

16 Provisions for liabilities and charges

Provisions for liabilities and charges represent deferred taxation

	Group £'000	Parent undertaking £'000
At 1st April 2000	500	400
Transfer to profit and loss account	(250)	(150)
At 31st March 2001	**250**	**250**

In addition, at 31st March 2001 there were unprovided deferred tax liabilities of £2,751,331 (2000 – £2,208,000) primarily in respect of Industrial Building Allowances claimed.

17 Called up share capital

	2001		2000	
	Authorised £	**Allotted called up and fully paid £**	Authorised £	Allotted called up and fully paid £
Ordinary shares of 20p each	**7,809,174**	**7,750,592**	7,808,574	7,723,142
Capital shares of 20p each	**1,195,309**	**1,195,309**	1,137,399	1,137,399
Unclassified shares of 20p each	**995,517**	**—**	1,054,027	—
	10,000,000	**8,945,901**	10,000,000	8,860,541

The capital shares do not rank for dividends but each capital shareholder is entitled annually to a capitalisation issue of further capital shares with a value equal to the value of the dividends for the year on an equivalent holding of ordinary shares. The ordinary shares and the capital shares rank pari passu in all other respects.

On 15th August 2000 292,551 capital shares were issued as a capitalisation issue. The capital shares can be converted into ordinary shares at the option of the shareholder. During the year 3,000 capital shares were converted into ordinary shares (2000 – 22,127). The aggregate nominal value of shares issued during the year was £85,360 (2000 – £105,222).

The total number of shares in issue was:

	31st March **2001**	2000
Ordinary shares of 20p each	**38,752,960**	38,615,710
Capital shares of 20p each	**5,976,546**	5,686,995
	44,729,506	44,302,705

17 Called up share capital continued

Directors' share options

Directors' options over ordinary shares granted under the Executive Share Option Scheme approved by share-holders on 10th October 1984 are as follows:

	31st March 2000	Exercised	**31st March 2001**	Exercise price	Date granted	Expiry date
E. S. G. Lloyd	45,000	(45,000)	**—**	86.33p	01.02.94	31.01.01
	67,200	—	**67,200**	124.00p	03.08.97	02.08.04
	112,200	(45,000)	**67,200**			
J. R. Chilton	23,250	(23,250)	**—**	86.33p	01.02.94	31.01.01
	43,500	—	**43,500**	124.00p	03.08.97	02.08.04
	66,750	(23,250)	**43,500**			
A. S. Childs	15,000	(15,000)	**—**	86.33p	01.02.94	31.01.01
	37,500	—	**37,500**	124.00p	03.08.97	02.08.04
	52,500	(15,000)	**37,500**			
D. A. L. Bird	21,000	(21,000)	**—**	86.33p	01.02.94	31.01.01
	42,300	—	**42,300**	124.00p	03.08.97	02.08.04
	63,300	(21,000)	**42,300**			

No options were granted or lapsed during the year.

Options in respect of 120,000 ordinary shares issued to other employees remained outstanding at 31st March 2001 (2000 – 150,000). The total number of options over the ordinary shares outstanding at 31st March 2001 was 310,500 (2000 – 444,750).

The middle market price of the ordinary shares at 31st March 2001 was 173p. The range of the middle market prices of the ordinary shares during the year was 136.5p to 203.5p.

Options exercised

	No. of options exercised	Exercise price	Subscription for shares £	Market value on exercise £	**2001 Gain on exercise of options**	2000 Gain on exercise of options
E. S. G. Lloyd	45,000	86.33p	38,850	77,850	**39,000**	11,760
J. R. Chilton	23,250	86.33p	20,073	40,222	**20,150**	14,280
A. S. Childs	15,000	86.33p	12,950	25,950	**13,000**	6,300
D. A. L. Bird	21,000	86.33p	18,130	36,330	**18,200**	37,800
					£90,350	£70,140

Notes to the Financial Statements

For the year ended 31st March 2001

18 Share premium account

	£'000
At 1st April 2000	1,883
Premium arising on issue of shares under share option scheme	88
Issue of capital shares in year	(58)
At 31st March 2001	**1,913**

19 Capital reserves

	Group		Parent Undertaking	
	Revaluation reserve £'000	Other capital reserve £'000	Revaluation reserve £'000	Other capital reserve £'000
At 1st April 2000	42,219	31,946	45,711	12,190
Surplus on revaluation of properties	18,429	—	14,887	—
Transfer on disposal of investment properties	(1,882)	1,882	(223)	223
Taxation on previously recognised gains	(338)	—	(34)	—
Profit on sale of properties	—	1,699	—	1,178
Transfer from profit and loss account	—	869	—	—
Goodwill written off	—	(320)	—	—
Exchange gains on overseas investments	—	46	—	—
At 31st March 2001	**58,428**	**36,122**	**60,341**	**13,591**

Cumulative goodwill written off to other capital reserve amounts to £1.359 million (2000 – £1.039 million).

20 Profit and loss account

	Group £'000	Parent company £'000
At 1st April 2000	23,340	13,632
Retained profit for the year transferred from Profit and Loss Account	1,689	1,573
Transfer to other capital reserves	(869)	—
At 31st March 2001	**24,160**	**15,205**

21 Notes to the cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities

	2001	2000
	£'000	£'000
Operating profit	**7,603**	7,200
Share of profit of associated undertakings	**(200)**	(213)
Loss on other asset disposals	**25**	13
Depreciation charge	**40**	77
Decrease/(increase) in debtors	**3,751**	(4,014)
(Decrease)/increase in creditors	**(130)**	2,261
Net cash inflow from operating activities	**11,089**	5,324

22 Net debt

Reconciliation of net cash flow to movements in net debt

	2001	2000
	£'000	£'000
(Decrease)/increase in cash in year	**(1,115)**	257
Cash (inflow)/outflow from changes in debt	**(14,710)**	7,220
Change in net debt resulting from cash flow	**(15,825)**	7,477
Non cash changes in debt	**5**	(8,276)
Movement in net debt in year	**(15,820)**	(799)
Net debt at 1st April 2000	**(41,852)**	(41,053)
Net debt at 31st March 2001	**(57,672)**	(41,852)

Analysis of net debt

	At 31st March 2001 £'000	Movement in year Cash Flow £'000	Non-Cash £'000	At 1st April 2000 £'000
Cash at bank and in hand	**680**	(1,115)	5	1,790
Debt due within one year (see note 15)	**(382)**	—	(30)	(352)
Debt due after one year (see note 15)	**(57,970)**	(14,710)	30	(43,290)
Net debt	**(57,672)**	(15,825)	5	(41,852)

Notes to the Financial Statements

For the year ended 31st March 2001

23 Commitments and contingent liabilities

	2001		2000	
		Parent		Parent
	Group	**undertaking**	Group	undertaking
	£'000	**£'000**	£'000	£'000
Capital expenditure committed but not provided for	**845**	**845**	5,239	5,239

There is a contingent liability in respect of tax on property sales if these were to be made at current valuation. The maximum amount of such contingent liability would not exceed £10,956,000 at 31st March 2001 (2000 – £9,823,000).

In March 1997 the minority holding in Acreway Limited was acquired for an initial consideration of £1,000,002 together with an additional deferred consideration payable by reference to proceeds arising on the sale of a property owned by Acreway Limited or, if it is not sold by 31st December 2001, by reference to an independent valuation of the property as at that date. The deferred consideration is subject to a cap, such that the maximum total consideration will not exceed £2,374,000. Following an independent valuation on 31st December 2000 an additional consideration of £300,000 became payable on 12th April 2001.

24 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 2001**	Balance as at 31st March 2000	Basis of interest payable
Aldershot Trust Estates Limited	E. S. G. Lloyd	£300,000	**—**	£300,000	Base rate
Farringdon Property Trust Limited	I. A. McKay J. R. Chilton	£181,370	**£84,083**	£46,000	Base rate
Ronnoco Export Development Company Limited	I. A. McKay	£33,760	**£33,760**	£31,340	Base rate
Mrs. M. A. Chilton	J. R. Chilton	£2,600,000	**£2,400,000**	£2,600,000	Base rate
		£3,115,130	**£2,517,843**	£2,977,340	

The deposits at the year end are included in creditors as amounts owed to connected parties (see note 15). The amount of interest paid by the Group during the year was £177,824 (2000 – £16,515).

The insurance requirements of the Group are placed through the insurance agency of Mr. I. A. McKay. During the year he received commission of £45,663 (2000 – £44,965) of which £11,632 (2000 – £11,151) was rebated to the Group.

25 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 projected unit method. The most recent valuation was as at 1st April 1999. 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 28.5% 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 £3,426,000 and that the actuarial value of those assets represented 94.4% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

The scheme Actuary has advised that, in common with many other pension schemes, there was a shortfall of £192,000 in the scheme's Minimum Funding Requirement, as defined by The Pensions Act 1995. The shortfall can be made good over the period to 31st March 2007. Total pension costs charged to the Profit and Loss Account for the year were £319,000 (2000 – £414,000).

Company Information

Secretary
A. S. Childs

Registered Office
20 Greyfriars Road, Reading
Berkshire RG1 1NL

Registered Number
421479

Registered Auditor
KPMG Audit Plc, *Chartered Accountants*
Arlington Business Park, Theale, Reading
Berkshire RG7 4SD

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

Shareholder Information

Financial calendar	2001
Annual Report posted to shareholders	22nd June
Annual General Meeting	24th July
Final ordinary dividend and Capital Shares Issue	1st August
Interim announcement	December
Interim Statement posted to shareholders	December
	2002
Interim ordinary dividend	January
Financial year end	March
Preliminary announcement	June

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 UK Equities Direct on the Internet at www.hemscott.com.

Principal Investment Properties

At 22nd June 2001

London	
EC3	30/32 Lombard Street (3,450 sq.m. offices)
EC3	23/24 Lovat Lane (616 sq.m. offices)
EC3	155/157 Minories and 83/86 Aldgate High Street (4,460 sq.m. office and shops)
SE1	203/8 Blackfriars Road (2,000 sq.m. offices)
SW1	23 Buckingham Gate (1,115 sq.m. offices)
SW1	1/2 Castle Lane (1,300 sq.m. offices)
SW1	19 Dacre Street (1,426 sq.m. offices and shops)
SW1	Parkside, Knightsbridge (50 flats)
SW19	Spa House, Wimbledon (3,568 sq.m. offices and shops)
Provinces	
Aldershot	The Arcade and Wellington Street (25 shops and 620 sq.m. offices)
Bicester	Station Approach (8,147 sq.m. warehouse and offices)
Bristol	Minster House (2,662 sq.m. offices)
Burnham	Summers Road (374 sq.m. offices)
Camberley	Yateley (16 shops)
Chertsey	Bridge Wharf (3,756 sq.m. industrial)
Chobham	Castle Grove Road (4,645 sq.m. warehouse and offices)
Farnham Common	The Centre (690 sq.m. offices and 6 shop units)
Folkestone	3 and 5 Acre Industrial Estates (9,712 sq.m.)
Glasgow	100 Bothwell Street (9,268 sq.m. offices)
Hook	Bartley House (2,050 sq.m. offices)
Newbury	Access House, Strawberry Hill (1,583 sq.m. offices)
	Albion House, Oxford Road (595 sq.m. offices)
	Strawberry Hill House, Bath Road (1,155 sq.m. offices)
Petersfield	Paris House (4,605 sq.m. warehouses and offices)
Poyle	McKay Trading Estate (6,712 sq.m. warehouse and offices)
Reading	Great Brighams Mead (7,740 sq.m. offices)
	20/38 Greyfriars Road (3,050 sq.m. offices)
	103 London Road (836 sq.m. offices)
	55/56 St. Mary's Butts (557 sq.m. shop/offices)
Runnymede	Windsor Road (8,300 sq.m. warehouse and offices)
Staines	Mallard Court, Market Square/Clarence Street (2,155 sq.m. offices and 372 sq.m. retail)
Sutton	Chancery House, St. Nicholas Way (5,068 sq.m. offices – 20% interest)
Thatcham	Coombe Square (1,581 sq.m. retail/business park)

McKay Securities PLC

20 Greyfriars Road, Reading, Berkshire RG11NL
T: 0118 950 2333 F: 0118 939 1393