McKay Securities PLC

Report and Financial Statements

2005

Contents

Financial Highlights

		2005 £'000	2004 £'000
Operating profit		**10,018**	10,404
Profit before taxation		**7,123**	7,456
Profit after taxation		**5,299**	5,907
Ordinary dividends		**4,284**	4,073
Surplus on revaluation (note 11)		**13,442**	5,555
Equity shareholders' funds		**143,796**	128,471
Net asset value per share		**316p**	284p
Adjusted net asset value per share (note 20)		**328p**	295p
Dividend per share		**9.4p**	9.0p
Operating earnings per share	– basic	**10.2p**	11.8p
Earnings per share	– basic	**11.7p**	13.0p
Total shareholder return		**27%**	42%

McKay Securities PLC is a commercial property investment company specialising in the development and refurbishment of quality buildings within established and emerging growth areas of central London and the South East of England. Completed projects are retained and managed for long term growth within the Group's portfolio, valued in excess of £230 million.

Properties are not traded, 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
Albion House, Newbury

Chairman's Statement

Pre-tax profit for the year to 31st March 2005 amounted to £7,123,000 compared with £7,456,000 for the same period last year. At operating level, pre-tax profit after interest and excluding the surplus on the sale of investment properties totalled £6,470,000 compared with £6,883,000 for the previous year.

A final dividend of 6.2 pence per ordinary share is recommended by the Board (2004 - 5.9 pence) payable on 11th August 2005. This takes the total dividend for the year to 9.4 pence (2004 - 9.0 pence); an increase of 4.4%.

The annual external valuation of the Group's property portfolio, at 31st March 2005 excluding those properties in the course of development, totalled £210,605,000, resulting in a surplus of £13,442,000, representing an increase of 6.8% (2004 - 2.9%) after adjusting for disposals and capitalised expenditure during the year.

Adjusted net asset value per share after taking into account valuation gains, together with retained capital and revenue profits and the dividends referred to above, increased by 11.2% from 295 pence to 328 pence.

Review of the year

The increase in the net asset value of the Group reflects a good year, during which improvements undertaken within the portfolio and active management have generated new lettings, increased rental values and contributed to a 6.8% uplift in valuation. The office developments under construction at Wimbledon and Westminster are on schedule for completion later this year and a selective sales programme has successfully generated profit over book value of £653,000.

Pre-tax profits have fallen just short of last year's figures mainly due to a reduced level of income as a result of sales and properties moving into development; there was also a one off benefit in 2004 of a £200,000 service charge recovery associated with the head lease surrender at Portsoken House, EC3. On a like for like basis, income from the portfolio increased over the year but after taking into account the loss of income of £779,000 from those properties sold since last year or now being redeveloped, the net shortfall in gross rental income for the year was only £141,000.

Within a letting market where occupiers continue to have a range of options, the quality, location and presentation of our buildings have played an important part in the successful completion of 25 lettings, with a contractual rental income of £1.52 million per annum. Many of these lettings have benefited from the £2.60 million of refurbishment expenditure incurred over the last two years.

At Castle Lane, SW1 (offices - 14,035 sq.ft) the rolling refurbishment of the building was completed in the first half of the year, with the two lower ground floor suites being let prior to completion at rental levels ahead of expectations. The interest in the remaining floor reported at the half year stage did proceed to a letting and the four leases completed during the year results in the building being fully income producing at a rent 38% higher than that payable when purchased in December 2000. It was also reported at the half year stage that Albion House, Newbury (offices - 6,715 sq.ft) and two floors of Pegasus One, Crawley (offices - 10,650 sq.ft) were in solicitors' hands. I am pleased to say that both lettings progressed to completion, which together with Castle Lane amount to additional rents of £628,500 pa.

Further progress has also been made at the Oakwood Trade Park, Crawley (warehousing - 51,085 sq.ft), where a refurbishment programme of the yard areas, the façades, the entrance and signage was implemented following the off-market purchase in 2003. These works have considerably improved the quality of the investment and enabled us to renew or let those units falling vacant, moving rents on from £7 psf to £9.25 psf. Concurrent lease terms are being agreed to allow us to review the possibility in due course of redeveloping the site for offices as a second phase to Pegasus Place, the Group's adjoining 50,710 sq.ft office park.

Improvement works have also been completed at the 3 Acre and 5 Acre Industrial Estates in Folkestone (warehousing - 104,545 sq.ft). These properties have been in the portfolio for some time and we are now enjoying the result of having targeted the trade counter market and the benefit of a proposal for a major DIY store on adjoining land. Rental values have increased on completion of the works and at the 3 Acre Estate further value has been created by securing planning consent for change of use to retail on the frontage; a lease surrender has been negotiated with the existing tenant and the unit is now in solicitors hands at a rental value which has improved from £5 psf to £15 psf.

For some time we have been trying to obtain a change of planning use for a high quality residential development on our 3.9 acre site situated on the edge of the village of Chobham, Surrey which at present comprises a 50,000 sq.ft warehouse developed by the Group in 1975. I am pleased to say that, following two planning appeals, a revised planning application for 54 residential units has resulted in a successful outcome. The change of use to residential has now been accepted by The Secretary of State and Woking Borough Council have resolved to grant consent, subject to a S.106 Agreement. This should be finalised later this year when the site will be put on the market for sale.

Chairman's Statement

The annual external valuation of the Group's investment properties as at 31st March 2005 was £210.61 million, generating an increase of £13.44 million (6.8%) over book value . In accordance with the Group's accounting policies, properties under construction are not included in the valuation. There were increases across many of the properties, but particularly in those cases referred to above, such as Castle Lane, SW1, Pegasus Place and Oakwood Trade Park, Crawley, the two Folkestone Estates and also at The McKay Trading Estate, Poyle (warehousing - 74,695 sq.ft), where new lettings and increased rents have optimised the benefit arising from improved valuation yields. The enhanced planning position at Chobham has resulted in a substantial uplift over book value.

During the year, advantage was taken of the continued strength of the investment market to sell The Arcade, Aldershot (retail and offices - 33,580 sq.ft) and 27 Summers Road, Burnham (offices - 797 sq.ft), releasing net sale proceeds of £4.66 million. As noted at the half year stage the growth prospects for these properties were considered to be limited and their disposal is in keeping with our intention to increase the average lot size within the portfolio. Since the year end a further disposal has taken place at Bristol, where contracts have been exchanged for the sale of Newminster House (offices - 27,520 sq.ft) for £5.12 million net of sale costs - a figure in excess of the March 2005 valuation. Having completed a refurbishment programme and let the vacant space at full rents, in what has historically proved to be a difficult letting market, the decision was taken to dispose of the property before lease breaks in a few years' time impacted on value. The possibility of making further sales will be kept under review, but the Group's current policy remains that sales should be limited until we can assess the timing and strength of income to be secured from completed developments and new acquisitions.

Prudent acquisitions in this market have been difficult to secure, although we continue our search for the right product and have increased funds available from recent disposals for this purpose. Bank lending for UK commercial property is reported by the Bank of England to have risen by a record £7.7 billion in the first quarter of this year to £122.7 billion, an 18% increase over the same quarter last year. When combined with institutional investors, the weight of money in the market has resulted in a further hardening of yields and in this environment we remain selective.

The current development programme includes office schemes in Wimbledon and Westminster. At Wimbledon Gate (offices - 58,500 sq.ft), due for completion this summer, the polished granite cladding and glazing is now in place and the installation of internal services is well underway over the six floors. The quality of the building is beginning to show through, and details are well advanced for the marketing launch at the end of the summer. In Westminster, 1 Old Queen Street (offices - 21,530 sq.ft) is also making good progress and completion is programmed for the end of this year. The frame is complete on the Storeys Gate frontage and the construction of the Portland stone façade is well underway. We are encouraged by the initial market response in both cases. In addition, we have the refurbishment of Dacre House, SW1 (offices - 15,350 sq.ft) in hand as a result of the lease expiry at the end of this month and it is anticipated that this building will be brought to the market next spring.

The redevelopment of 30/32 Lombard Street, EC3 (offices - 36,975 sq.ft) had been scheduled to commence at the end of this year but a decision was taken to extend the current leases and maintain income while seeking an improved planning consent for the future redevelopment of this high profile City of London property. The existing building was purchased in 2000 with planning consent for a scheme of 53,820 sq.ft, and our architects believe that there is potential for improving the quality of design, together with an increase in floor area. Securing a revised consent will delay redevelopment, but this will allow time for further improvement in the City market and letting progress at our other schemes.

Opposite page
Wimbledon Gate, Wimbledon


ANCHOR TYRES
6
7

Chairman’s Statement

Financial

Net debt at the year end stood at £79 million (2004 - £75 million). Despite the higher level of debt, gearing as a proportion of shareholders’ funds fell to 55% (2004 - 58%) due to the growth in the value of net assets. The Group has total bank facilities available of £108 million, which if fully drawn down would increase balance sheet gearing to 75%.

These facilities are secured with a range of established lenders on a fully revolving, interest only basis. Exposure to a rise in interest rates is protected by financial instruments in respect of £52 million of the Group's facilities representing 66% of net debt at the year end, and 47% if fully drawn down. The average cost of borrowing for the year was 6.1% (2004 - 5.4%).

International Financial Reporting Standards (IFRS)

Along with all listed companies, we are obliged to change from our current UK accounting standards (UK GAAP), to meet the requirements of international financial reporting standards (IFRS). Our conversion to IFRS is well underway and shareholders' first exposure to the full impact of IFRS on the Group will be in December 2005 on publication of the interim results for the six month period to 30th September 2005.

The new standards will significantly change the presentation of the Group's financial statements, but will not impact on strategy, cashflow or alter the fundamental financial position of the Group. The standards, which in some cases are still evolving, introduce significant changes to the content and appearance of the profit and loss account (to be renamed the Income Statement) and the balance sheet, which will lead to increased volatility and potential for confusion in analysing reported profits and there will be a need for a reconciliation to UK GAAP for the next year or so to assist with their interpretation.

With the interim results we will present comparative figures to illustrate the impact of the new standards in detail, but at this stage it is worth noting the following main differences which will affect the presentation of the Group's results:

- Annual valuation surpluses or deficits on investment properties will be included in the income statement for the first time, directly affecting profits.
- Capital gains tax payable in the event that all the Group's investment properties were sold at the same time will be included as an additional deferred tax liability on the balance sheet, having previously been disclosed as a note to the accounts, thus reducing net asset value. The movement in the year will affect the tax charge in the income statement.
- No provision will be made for proposed dividends in the income statement.
- The cost of lease incentives will be spread over the life of a lease, or to the first break rather than to the first rent review.
- Leasehold property valuations are to be grossed up to incorporate future head lease payments and a corresponding financial liability will be set up. This is an accounting treatment and does not impact on the external valuation of investment properties.
- Movement in the fair value of derivatives will be reported in the income statement unless they qualify for hedge accounting.

Opposite page
Oakwood Trade Park, Crawley (top)
3 Acre Estate, Folkestone (bottom)

Chairman's Statement

Real Estate Investment Trusts

In the March 2005 budget the Government confirmed its commitment to putting in place tax efficient property investment funds, to be known as real estate investment trusts (REITs). It seems likely that these vehicles, within which property can be held with reduced levels of tax on income and capital gains, will be introduced in 2006 and a further statement from the Government is expected later this year with information on the conditions and cost of entry. We welcome the progress being made by the Government and will continue to follow events closely as a flexible REIT structure would remove a layer of taxation.

Future prospects

The Group is well placed for the next stage of growth. Funds have been released from the sale of a number of properties increasing the amount available for reinvestment. High quality developments are to be completed this year and the letting market continues to recover. In the short term we expect that profits will be held back until the remaining space at Crawley and in due course at Wimbledon and Westminster is let, at which point additional rental income in the region of £3 million per annum will have a marked impact on earnings.

We will begin to see an increase in rental values if the improvement in demand experienced last year, particularly for better quality buildings, continues to reduce the extent of over supply in the market. Rising rents will help sustain investment values and property returns as yield driven growth slows and it is encouraging to note that so far this year the number of viewings has picked up and letting incentives are beginning to decrease in scale.

The board is confident that the increase in value from completed and ongoing development projects, together with the benefits arising from new acquisitions and an active approach to portfolio management, will result in continued income and capital growth.

E. S. G. Lloyd
Chairman

8th June 2005

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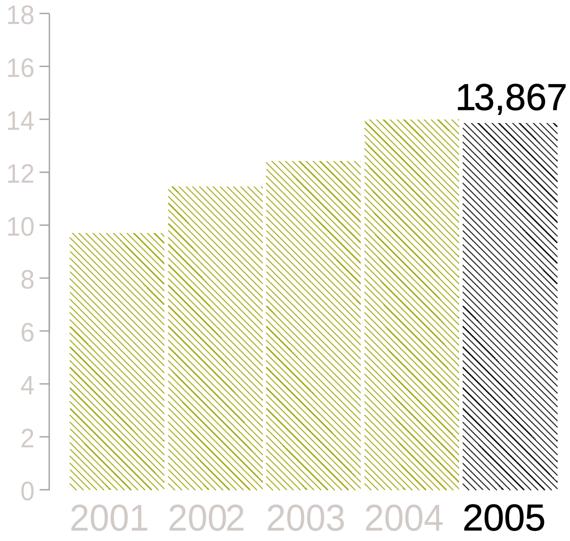
1 Old Queen Street, London SW1

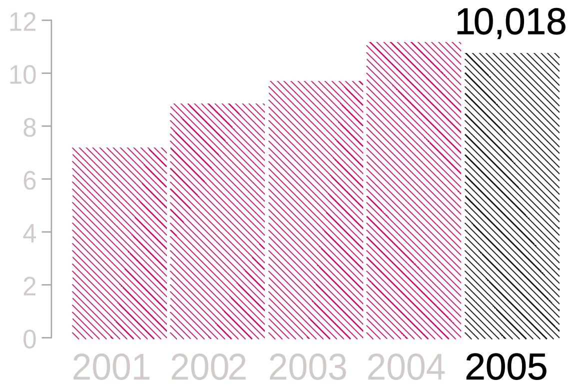

1 Old Queen Street

Five Year Summary

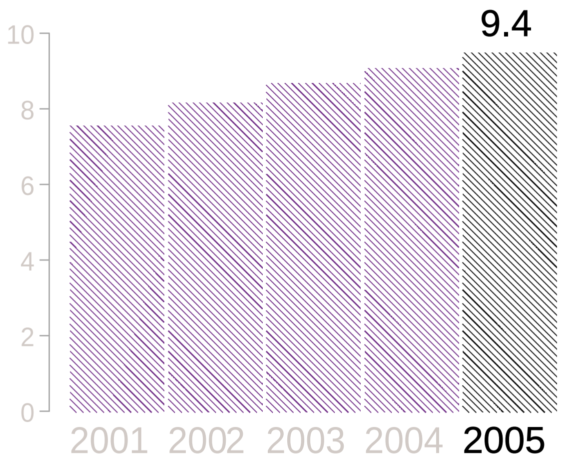
	2005 £'000	2004 £'000	2003 £'000	2002 £'000	2001 £'000
Gross rental income less ground rents	**13,867**	14,009	12,442	11,474	9,714
Operating profit	**10,018**	10,404	9,797	8,970	7,403
Profit before taxation	**7,123**	7,456	8,402	6,836	7,927
Profit after taxation	**5,299**	5,907	6,427	5,151	5,347
Equity shareholders' funds	**143,796**	128,471	119,424	133,458	124,927
Ordinary dividends per share *(excluding special dividends)*	**9.4p**	9.0p	8.6p	8.1p	7.5p
Earnings per share – basic	**11.6p**	13.0p	14.9p	13.3p	13.8p
Operating earnings per share – basic	**10.2p**	11.8p	11.6p	10.8p	9.4p
Net asset value per share	**316p**	284p	264p	297p	279p



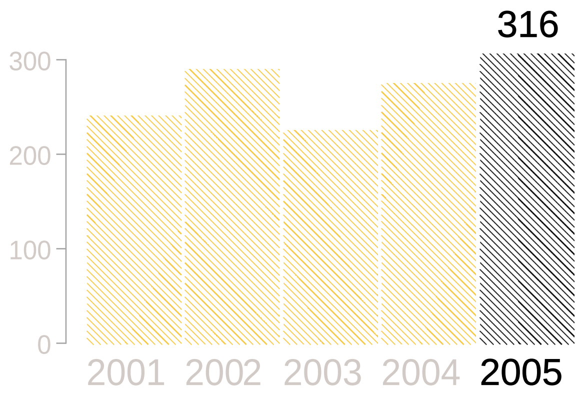
Gross rental income
less ground rents (£'000)



Operating profit (£'000)



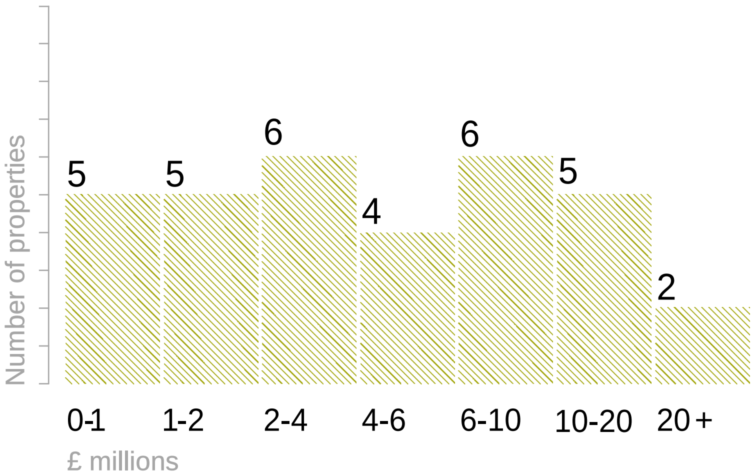
Ordinary dividends per share (pence)
(excluding special dividends)



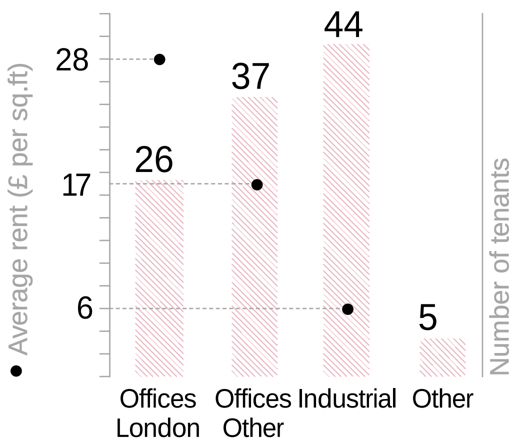
Net asset value per share (pence)

Investment Portfolio Analysis
At 31st March 2005

Sector	Number of Properties	Capital Value (£m)	Capital Value (%)	Floor Area (sq.ft)	Floor Area (%)
London Offices	6	43.6	21	137,590	12
South East Offices	12	85.3	40	324,685	30
Regional Offices	2	30.7	15	127,785	12
Offices (total)	20	159.6	76	590,060	54
Industrial	8	46.9	22	505,270	46
Retail	1	0.3	0.2	3,800	—
Residential	4	3.8	1.8	5,382	—
Portfolio Total	33	210.6	100	1,104,512	100



Building profile



Tenant profile

Principal Investment Properties

London

		Area (Net lettable) sq.ft	sq.m
EC3	30/32 Lombard Street (office)	36,975	3,435
EC3	Portsoken House, 155/157 Minories and 83/86 Aldgate High Street (office and retail)	48,075	4,466
SE1	Great Surrey House, 203/8 Blackfriars Road (office)	21,185	1,968
	202 Blackfriars Road (office)	1,970	183
SW1	1 Castle Lane (office)	14,035	1,304
SW1	19 Dacre Street (office and retail)	15,350	1,426

Regions

Bicester	McKay Trading Estate (warehouse and office)	86,660	8,051
Bristol	Newminster House (office)	27,520	2,557
Burnham	Summers Road (office)	2,195	283
Chobham	Castle Grove Road (warehouse and office)	50,000	4,645
Crawley	Oakwood Trade Park (warehouse)	51,085	4,746
Crawley	Pegasus Place (office)	50,710	4,711
Folkestone	3 Acre and 5 Acre Estates (warehouse)	104,545	9,712
Glasgow	100 Bothwell Street (office)	100,265	9,315
Hook	Bartley House (office)	21,700	2,016
Newbury	Access House, Strawberry Hill (office)	17,040	1,583
	Albion House, Oxford Road (office)	6,715	624
	Strawberry Hill House, Bath Road (office)	12,175	1,131
Petersfield	Paris House (warehouses and office)	49,580	4,606
Poyle	McKay Trading Estate (warehouse and office)	74,695	6,939
Reading	Great Brighams Mead (office)	84,165	7,819
	20/38 Greyfriars Road (office)	32,830	3,050
Runnymede	Windsor Road (warehouse and office)	88,705	8,241
Staines	Mallard Court, Market Square/Clarence Street (office and retail)	26,240	2,438
Sutton	Chancery House, St. Nicholas Way (office)	54,660	5,078
Thatcham	Coombe Square (office)	16,255	1,510

Principal Development Properties

SW1	1 Old Queen Street (office)	21,530	2,000
SW19	Wimbledon Gate (office and retail)	58,500	5,435

Board of Directors

Eric Lloyd *F.C.A.*
Chairman
Aged 66. 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 40. 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 55. 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 37. 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 41. Joined the Company in 2002. Appointed a Director in September 2003. Responsible for the development programme.

Iain McKay
Non-executive
Aged 66. 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.

Michael Hawkes *F.R.I.C.S.*
Senior non-executive
Aged 59. 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 64. 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 58. 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.

Directors' Report

The Directors have pleasure in submitting their report and audited financial statements for the year ended 31st March 2005.

Profit and distribution

The profit for the year and appropriations are set out in the consolidated profit and loss account. Profit before tax was £7,123,499 (2004 - £7,455,434). The Directors recommend a final dividend of 6.2p per share making a total for the year of 9.4p per share (2004 - 9.00p). If approved at the Annual General Meeting on 27th July 2005 the dividend will be paid on 11th August 2005 to shareholders on the register at the close of business on 17th June 2005.

Activity and assets

The business of the Group is that of property investment and development 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 2005. The overall increase in value as at 31st March 2005 was £13,441,728, equal to 6.8%, which has been credited to Revaluation Reserve in the financial statements. This increase excludes a £331,821 revaluation surplus from our associated company, Property Investment Holdings Ltd., which has also been taken to the Revaluation Reserve.

After taking into account retained profits and dividends, net asset value per share is 316 pence (2004 - 284 pence).

Directors and Directors' interests

The present members of the Board are shown on page 14 and in accordance with the Group's Articles of Association and The Combined Code, Mr E.S.G. Lloyd, Mr A.S. Childs, 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. Mr J.R. Chilton served as a Director until 28th July 2004.

Apart from service contracts and share options, details of which are set out in the Directors' Remuneration Report on pages 20 to 24, 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 20 to 24 the Group has been advised of the following notifiable interests in its issued share capital as at 8th June 2005:

	Shares	%
Aviva plc	5,719,479	12.56
Farringdon Property Trust Limited	5,327,903	11.70
The G.F. McKay Trust	2,782,534	6.11
Town Centre Securities PLC	1,370,000	3.01

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 particular code or standard in payment practice. At the year end amounts owed to trade creditors in the accounts were the equivalent to 10 days purchases.

Corporate Social Responsibility

The board recognises that the way the Group undertakes its business activities impacts upon all its stakeholders including its employees, tenants, suppliers, the public, and on the environment.

The main business activities of the Group are the development, refurbishment and management of commercial property within the United Kingdom, and the key areas of social responsibility relating to these activities are considered to fall within the following areas.

The Environment

The Group's development programme supports the principles of sustainable development and regeneration and there is a major emphasis on the redevelopment of brown field sites as well as the improvement and refurbishment of existing buildings. We encourage our consultants and contractor teams to address the setting of any project within its environment and where possible to source sustainable materials and components. All acquisitions undergo an environmental assessment as part of the Group's due diligence procedures in order to ensure that responsible measures can be taken to address areas of concern to both the public and the future commercial success of the project.

Directors' Report

Health and Safety
The Group has a formal health and safety policy in place and complies with the Health and Safety at Work Act 1974 and associated legislation to ensure the highest possible standards of safety for our employees. The Group monitors compliance by contractors and external consultants on its development projects in relation to the construction design regulations and all other health and safety regulations and codes of practice. Where buildings are let on a multi tenancy basis, facility management companies are appointed whose responsibilities include compliance with health and safety.

Particular emphasis has been given to disability and control of asbestos at work legislation. The Group has reviewed its portfolio and has a programme to monitor, review and where appropriate enclose or remove asbestos and implement works to assist disabled access.

Health and safety audits are undertaken regularly on the Group's behalf by external consultants who assess risk and advise on policy and procedures. These reports are reviewed by the Health and Safety Director, who reports directly to the board.

Employment
The Group recognises the contribution its employees make to its continued success. It acknowledges the need to attract and retain employees of a high calibre through the operation of an equal opportunities policy. It believes in continuous development and the support of employees to achieve their self improvement goals which benefit both the Group and the individual.

Charitable Donations
The Group's charity committee oversees charitable donations, with an emphasis on local and children's charities, and this year the company made donations totalling £21,264 (2004 - £22,545). All toner and printer cartridges and obsolete mobile phones are recycled via charitable organisations. No political donations were made during the year (2004 - £nil).

In summary, the board as a whole is responsible for the Group's Corporate Social Responsibility policy and is committed to continuous development and improvement of policy, practice and performance.

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 27th July 2004 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-ninth Annual General Meeting of the Company will be held at The Royal Thames Yacht Club, 60 Knightsbridge, London SW1 on 27th July 2005 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.

8th June 2005
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 with the exceptions as stated within this Corporate Governance Report and the Directors' Remuneration Report.

The Board

The Board of Directors comprises four executive and five non-executive Directors, their biographical details being set out on page 14. Mr M.J.C. Hawkes is appointed as senior non-executive Director. Mr M.J.C. Hawkes, Mr I.C. Menzies and Mr A.E. Gulliford are considered by the Board to be independent non executive Directors. Despite Mr M.J.C. Hawkes and Mr I.C. Menzies having served on the Board for in excess of nine years, 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 Group continues to implement 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 Combined Code; these are available on the Company's website, www.mckaysecurities.plc.uk. All Board and Committee meetings were attended by executive and non-executive Directors as required.

Nomination Committee

This Committee meets at least twice a year and its members are Mr M.J.C. Hawkes (Chairman), Mr E.S.G. Lloyd, 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 make their 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 20 to 24. 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, www.mckaysecurities.plc.uk, which 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.

The Company has now introduced a share account management and dealing facility for all shareholders via Lloyds TSB Registrars Shareview. This offers shareholders secure access to their account details held on the share register, to amend address information and payment instructions directly, as well as providing a simple and convenient way of buying and selling the Company's ordinary shares. For internet services visit www.shareview.co.uk or the investor relations section of the Company's website. The Shareview Dealing service is also available by telephone on 0870 850 0852 between 8.30am and 4.30pm Monday to Friday.

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 Combined Code 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 2005 and up to the date of approval of the annual report and accounts. The executive Directors and senior management meet 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:

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 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 rate fluctuations.

In order to reduce the risk of interest rate fluctuations the Group took advantage of the current low interest rate environment and 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 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 was 5.67% and the average period was 6.92 years. Floating rate financial liabilities comprise sterling denominated bank borrowings that bear interest rates based on LIBOR periods of between one and twelve months. At the same time, the weighted average cost of borrowing was 6.07% and the fair value adjustment figure arising from these hedging instruments was a gain of £285,645.

At the year end, 71% 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 41 and 42.

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. 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.

The Directors confirm that they have specifically reviewed the framework and effectiveness of the system of internal control for the year ended 31st March 2005.

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.

Remuneration Report

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

Mr M.J.C. Hawkes (Chairman)
Mr I.C. Menzies
Mr. A.E.G. Gulliford

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 twice 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 2001 Executive Share Option Schemes which have been formally approved by shareholders.

The 2001 Schemes 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 RPIX over the same time period plus 6%.

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 Company's NAV increases by at least 6% more than the increase in RPIX, 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 RPIX, an amount equal to 1% of the increase in NAV is distributed to employees. Any bonuses are not pensionable.

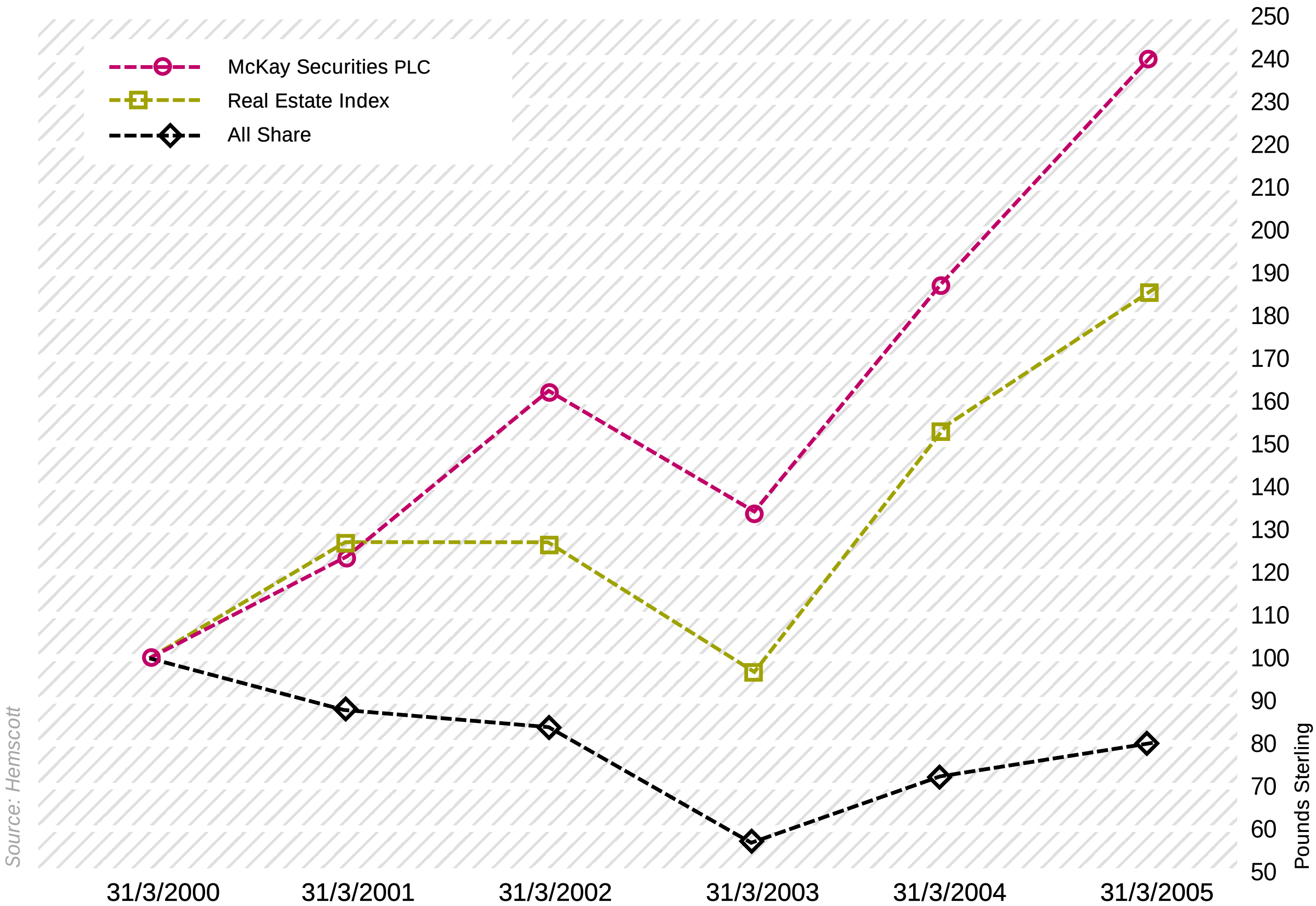
A payment will be made for the year ended 31st March 2005 as the increase in NAV of 11.3% is in excess of the upper performance target of 8.4%. The resulting pool for distribution to employees will be £297,908, which has been charged in the current year, and will be payable in the year ending 31st March 2006.

The performance criteria for the bonus scheme and the 2001 Unapproved Share Option Schemes have 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. Under this scheme, the pension contribution for Mr A.S. Childs was £38,400, 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, Mr S.R. Mew and Mr S. Morrice were £38,300 and £19,281 and £16,250 respectively.The total cost of the executive Directors' pension contributions for the year are £112,231 (2004 - £113,672). 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. 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.

Performance graph

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

This graph shows the value of £100 invested in McKay Securities PLC on 1st April 2000 compared with £100 invested in the FTSE Real Estate Index and the FTSE All Share Index, assuming re-investment of dividends. These indices are chosen by the Remuneration Committee as they are considered the most appropriate benchmarks against which to assess the relative performance of the Group.

- The Total Shareholder Return for the five year period ended 31st March 2005 was 139% (2004 - 120%).
- The Total Shareholder Return for the year ended 31st March 2005 was 27% (2004 - 42%).

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 and Mr I.A. McKay, who was provided with a car allowance. Non-executive Directors are not appointed for specific terms as required by provision A.7.2 of the Combined Code, 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 and Menzies, and 29th April 2004 in respect of Mr 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 2005 Total £	31st March 2004 Total £
Executive					
S.C. Perkins	216,651	20,497	74,865	**312,013**	275,654
A.S. Childs	162,366	12,346	55,713	**230,425**	206,099
S.R. Mew	136,618	15,744	47,008	**199,370**	173,106
S. Morrice	111,447	13,178	38,303	**162,928**	77,639
Non-executive					
E.S.G. Lloyd	43,593	14,870	—	**58,463**	49,688
I.A. McKay	24,750	9,625	—	**34,375**	39,833
J.R. Chilton (until 28.7.04)	8,000	—	—	**8,000**	24,000
M.J.C. Hawkes	24,750	—	—	**24,750**	24,000
I.C. Menzies	24,750	—	—	**24,750**	24,000
A.E.G. Gulliford (from 28.4.04)	22,958	—	—	**22,958**	—
Total	775,883	86,260	215,889	**1,078,032**	894,019

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

Table 2

2001 Executive Share Option Scheme

		Approved scheme	Unapproved scheme		Approved scheme	Unapproved scheme	
		Non-performance related 2005 £	Performance related 2005 £	Non-performance related 2005 £	Non-performance related 2004 £	Performance related 2004 £	Non-performance related 2004 £
S.C. Perkins	(a)	16,807	36,975	20,168	16,807	36,975	20,168
	(b)	—	57,971	57,971	—	57,971	57,971
	(c)	—	50,000	50,000	—	—	—
A.S. Childs	(a)	—	36,975	36,975	—	36,975	36,975
	(b)	—	43,478	43,478	—	43,478	43,478
	(c)	—	37,209	37,209	—	—	—
S.R. Mew	(a)	16,807	20,308	3,501	16,807	20,308	3,501
	(b)	—	36,232	36,232	—	36,232	36,232
	(c)	—	31,396	31,396	—	—	—
S.Morrice	(a)	16,807	20,308	3,501	16,807	20,308	3,501
	(b)	—	21,014	21,014	—	21,014	21,014
	(c)	—	25,581	25,581	—	—	—
Employees	(a)	34,257	61,987	27,731	34,257	61,987	27,731
	(b)	10,812	69,276	58,464	10,812	69,276	58,464
	(c)	4,303	58,140	53,837	—	—	—
Total	(a)	84,678	176,553	91,876	84,678	176,553	91,876
	(b)	10,812	227,971	217,159	10,812	227,971	217,159
	(c)	4,303	202,326	198,023	—	—	—
Scheme total		99,793	606,850	507,058	95,490	404,524	309,035

(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.

(c) Options granted under the 2001 Executive Share Option Schemes - Third Tranche July 2004. The exercise price is 215p and the options are exercisable between 9th July 2007 and 8th July 2014.

Options over 404,652 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 2005 was 1,213,701 (2004 - 1,104,549).

Options over 295,500 shares granted under The 1984 Executive Share Option Scheme, were exercised during the year (2004 - Nil) and no options lapsed during the year (2004 - 9,244).

The middle market price of the ordinary shares at 31st March 2005 was 256.5p. The range of middle market prices of the ordinary shares during the year was 210p to 278.5p.

Directors' Remuneration Report

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, and the contributions during the year are as set out on page 20.

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 £
	92,710	5,991	870,208	1,049,335	179,127

Directors' share interests

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

	At 31st March 2005		At 31st March 2004	
Beneficial	Ordinary shares	Percentage	Ordinary shares	Percentage
E.S.G. Lloyd	480,000	1.054	410,777	0.908
S.C. Perkins	47,542	0.104	40,492	0.089
A.S. Childs	21,695	0.048	9,418	0.021
S.R. Mew	5,167	0.011	2,187	0.005
S.Morrice	3,300	0.007	3,300	0.007
I.A. McKay	2,318,025	5.088	2,318,025	5.120
M.J.C. Hawkes	301,066	0.661	301,066	0.665
I.C. Menzies	25,000	0.054	25,000	0.050
A.E.G. Gulliford	10,000	0.022	—	—
Non beneficial				
E.S.G. Lloyd	1,593,500	3.498	1,593,500	3.521
S.C. Perkins	93,500	0.205	93,500	0.207
A.S. Childs	93,500	0.205	93,500	0.207
I.A. McKay	2,861,699	6.282	2,861,699	6.323
M.J C. Hawkes	232,832	0.511	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.

Mr J.R. Chilton, who served as a Director until 28th July 2004, maintains a beneficial interest in 1,875,664 ordinary shares and a non-beneficial interest in 2,240,837 ordinary shares.

In addition, Mr I.A. McKay is interested as a connected person 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.

8th June 2005

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

Financial Statements 2005

Contents

Consolidated Profit and Loss Account

For the year ended 31st March 2005

	Notes	2005 £'000	2004 £'000
Gross rents and service charges receivable	2	16,964	17,365
Direct property outgoings	2	(4,216)	(4,260)
Income from investment properties	2	12,748	13,105
Administration costs	3	(2,730)	(2,701)
Operating profit		10,018	10,404
Share of operating profit of associated undertakings		257	305
Profit on disposal of investment properties	7	653	573
Profit on ordinary activities before interest and taxation		10,928	11,282
Net interest payable	5	(3,805)	(3,826)
Profit on ordinary activities before taxation		7,123	7,456
Taxation	6	(1,824)	(1,549)
Profit on ordinary activities after taxation		5,299	5,907
Dividends	9	(4,284)	(4,073)
Net increase in reserves		1,015	1,834
Transfer to capital reserve on disposal of properties	7	(653)	(556)
Net amount transferred to profit and loss account reserve	19	362	1,278
Earnings per share			
Basic	10	11.66p	13.05p
Diluted		11.60p	13.01p
Adjusted earnings per share			
Basic	10	12.53p	14.06p
Diluted		12.47p	14.02p
Operating earnings per share			
Basic	10	10.22p	11.82p
Diluted		10.17p	11.78p
Adjusted operating earnings per share			
Basic	10	11.09p	12.83p
Diluted		11.04p	12.79p
Dividend per share		9.4p	9.0p

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

Consolidated Statement of Total Recognised Gains and Losses

	2005 £'000	2004 £'000
Profit for the year	5,299	5,907
Unrealised surplus on revaluation of properties	13,604	5,291
Unrealised surplus on revaluation of properties in associated undertaking	332	2,149
Share of associated company prior year adjustment to deferred tax provision	—	(191)
Taxation on previously recognised gains (note 6)	—	(36)
Total recognised gains relating to the year	19,235	13,120

Consolidated Historical Cost Profits and Losses

	2005 £'000	2004 £'000
Reported profit before taxation	7,123	7,456
Realisation of property revaluation (deficits)/surpluses of previous years	(2,863)	464
Historical cost profit before taxation	4,260	7,920
Historical cost (loss)/profit for year retained after taxation and dividends	(1,848)	2,262

Consolidated Reconciliation of Movements in Shareholders' Funds

	2005 £'000	2004 £'000
Profit for the year	5,299	5,907
Dividends (note 9)	(4,284)	(4,073)
	1,015	1,834
Unrealised surplus on revaluation of properties	13,604	5,291
Unrealised surplus on revaluation of properties in associated undertaking	332	2,149
Exchange gain	8	—
Share of associated company prior year adjustment to deferred tax provision	—	(191)
Taxation on previously recognised gains (note 6)	—	(36)
Premium arising on issue of shares under share option scheme	307	—
Nominal value of issue of shares under share option scheme	59	—
Net addition to shareholders' funds	15,325	9,047
Opening shareholders' funds	128,471	119,424
Closing shareholders' funds	143,796	128,471

Consolidated Balance Sheet

At 31st March 2005

	Notes	2005 £'000	2004 £'000
Fixed assets			
Tangible assets – properties and other fixed assets	11	231,037	211,975
Investments	12	5,019	4,564
		236,056	216,539
Current assets			
Debtors	13	2,461	2,660
Cash at bank and in hand		2,271	1,607
		4,732	4,267
Creditors			
Amounts falling due within one year	14	(10,632)	(22,324)
Net current liabilities		(5,900)	(18,057)
Total assets less current liabilities		230,156	198,482
Creditors			
Amounts falling due after more than one year	14	(80,195)	(64,520)
Provisions for liabilities and charges			
Deferred taxation	15	(6,165)	(5,491)
Net assets		143,796	128,471
Capital and reserves			
Called up share capital	16	9,110	9,051
Share premium account	17	2,115	1,808
Revaluation reserve	18	73,793	56,983
Other capital reserves	18	34,523	36,677
Profit and loss account	19	24,255	23,952
Equity shareholders' funds		143,796	128,471
Net asset value per share	20	316p	284p
Adjusted net asset value per share	20	328p	295p

Company Balance Sheet
At 31st March 2005

	Notes	2005 £'000	2004 £'000
Fixed assets			
Tangible assets – properties and other fixed assets	11	169,746	152,224
Investments	12	44,542	44,544
		214,288	196,768
Current assets			
Debtors	13	14,421	14,780
Cash at bank and in hand		1,670	958
		16,091	15,738
Creditors			
Amounts falling due within one year	14	(31,934)	(42,404)
Net current liabilities		(15,843)	(26,666)
Total assets less current liabilities		198,445	170,102
Creditors			
Amounts falling due after more than one year	14	(73,845)	(57,800)
Provisions for liabilities and charges			
Deferred taxation	15	(4,519)	(3,976)
Net assets		120,081	108,326
Capital and reserves			
Called up share capital	16	9,110	9,051
Share premium account	17	2,115	1,808
Revaluation reserve	18	74,176	59,133
Other capital reserves	18	8,442	10,808
Profit and loss account	19	26,238	27,526
Equity shareholders' funds		120,081	108,326

These financial statements were approved by the Board of Directors on 8th June 2005 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 2005

	Notes	2005 £'000	2005 £'000	2004 £'000	2004 £'000
Net cash inflow from operating activities	21		10,263		15,532
Dividends received from associated undertaking			117		103
Returns on investments and servicing of finance					
Interest received		44		85	
Interest paid		(4,962)		(3,651)	
Dividends received		1		1	
Net cash outflow from returns on investments and servicing of finance			(4,917)		(3,565)
Taxation					
Corporation tax refund		38		189	
Corporation tax paid		(1,557)		(1,923)	
			(1,519)		(1,734)
Capital expenditure					
Purchase and development of investment properties		(8,785)		(8,578)	
Purchase of other fixed assets		(21)		(30)	
Sales of investment properties		4,663		3,268	
Net cash outflow for capital expenditure			(4,143)		(5,340)
Equity dividends paid			(4,130)		(3,983)
Cash (outflow)/inflow before financing			(4,329)		1,013
Financing					
Issue of ordinary share capital		366		—	
Increase/(decrease) in debt		4,627		(2,820)	
Net cash inflow/(outflow) from financing			4,993		(2,820)
Increase/(decrease) in cash in year	22		664		(1,807)

Notes to the Financial Statements
For the year ended 31st March 2005

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 for the non-depreciation of investment properties as referred to under "Property and Other Fixed Assets" 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 £3,564,000 (2004 – £3,577,000).

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 2005.

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 2005 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

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

	2005 £'000	2004 £'000
Gross rents receivable	14,318	14,034
UITF 28 adjustment	(162)	264
	14,156	14,298
Service charges receivable	2,808	3,067
	16,964	17,365
Ground rents payable	(289)	(289)
Direct property outgoings	(3,927)	(3,971)
	12,748	13,105

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:

	2005 £'000	2004 £'000
Depreciation of tangible fixed assets (note 11)	36	36
Auditors' remuneration		
as auditors – Group	60	60
– Company	41	40
– other services – fees paid to the auditors and its associates	38	38

4 Employees

The average number of persons employed by the Group (including Directors) during the year was 18 (2004 – 18).

Their total remuneration was:

	2005 £'000	2004 £'000
Salaries	1,327	1,214
Social security costs	151	140
Pension costs	171	170
	1,649	1,524

5 Net interest payable

	2005 £'000	2005 £'000	2004 £'000	2004 £'000
Interest payable:				
Bank loans, overdrafts and other loans repayable within five years	2,090		2,511	
All other loans	2,550		1,516	
	4,640		4,027	
Less: Interest relating to properties in the course of development (note 8)	(786)		(113)	
		3,854		3,914
Interest receivable:				
Bank and other short term deposits		(49)		(88)
		3,805		3,826

6 Taxation

	2005		2004	
	£'000	£'000	£'000	£'000
Analysis of charge in period:				
Current tax:				
UK corporation tax on profits for the period	1,083		1,588	
Adjustments in respect of prior periods	(33)		(145)	
Share of associate's tax – current	66		84	
– prior periods	—		(17)	
Total current tax		1,116		1,510
Deferred tax (see note 15):				
Origination and reversal of timing differences		674		37
Share of associate		34		38
Tax on profit on ordinary activities		1,824		1,585
Less tax on previously recognised gains		—		(36)
		1,824		1,549

Factors affecting the tax charge for the current period:
The current tax charge for the period is lower (2004: lower) than the standard rate of corporation tax in the UK of 30% (2004 – 30%). The differences are explained below.

	2005	2004
	£'000	£'000
Current tax reconciliation:		
Profit on ordinary activities before tax	7,123	7,456
Current tax at 30% (2004 – 30%)	2,137	2,237
Effects of:		
Expenses not deductible for tax purposes	15	4
Pension costs paid in excess of charged to profit and loss	(21)	(20)
Capital allowances for period in excess of depreciation	(463)	(421)
Deferred rental income taxed as capital gain	(76)	(16)
Chargeable gains below profit on disposal of properties	(196)	(72)
Development interest capitalised	(236)	(34)
Difference on tax rate on share of associate's profits	(11)	(6)
Adjustments to tax charge in respect of prior years	(33)	(162)
Total current tax charge (see above)	1,116	1,510

The net deferred tax charge in 2004 was 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 £11,346,000 (2004 – £8,708,000).

7 Transfer to capital reserve

	2005 £'000	2004 £'000
Profit on sale of investment properties	653	573
Less: Taxation	—	(17)
	653	556

Included within the profit on sale of investment properties is £85,000 (2004 – £216,000) 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:

	2005 £'000	2004 £'000
Gross interest (note 5)	786	113

Total development interest capitalised to date amounts to £3,859,000 (2004 – £3,073,000). The rate of interest used is 5.9% (2004 – 5.3%).

9 Dividends

	2005 £'000	2004 £'000
Ordinary shares:		
Interim 3.2p (2004 – 3.1p)	1,460	1,403
Proposed 2005 final dividend of 6.2p per share (2004 – 5.9p)	2,824	2,670
	4,284	4,073

10 Earnings per share

Basic earnings per share on ordinary shares are based on profit after tax of £5,299,464 (2004 – £5,906,794) and 45,458,192 (2004 – 42,255,555) 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 45,704,522 (2004 – 45,392,396), which takes into account the number of potential ordinary shares arising from the exercise of share options.

Operating earnings of £4,646,000 (2004 – £5,351,239) 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 2005 p	EPS 2004 p
Weighted number of ordinary shares in issue	45,458,192	11.66	13.05
Number of shares under option	1,106,163	(0.29)	(0.28)
Number of shares that would have been issued at fair value	(859,833)	0.23	0.24
	45,704,522	11.60	13.01

	31st March 2005		31st March 2004	
	Basic p	Diluted p	Basic p	Diluted p
Earnings per share	11.66	11.60	13.05	13.01
Effect of FRS 19	0.87	0.87	1.01	1.01
Adjusted earnings per share	12.53	12.47	14.06	14.02
Earnings per share	11.66	11.60	13.05	13.01
Property sales after taxation (note 7)	(1.44)	(1.43)	(1.23)	(1.23)
Operating earnings per share	10.22	10.17	11.82	11.78
Effect of FRS 19	0.87	0.87	1.01	1.01
Adjusted operating earnings per share	11.09	11.04	12.83	12.79

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 2004	185,693	26,200	460	212,353
Additions	9,526	45	22	9,593
Revaluation surplus/(deficit)	13,874	(270)	—	13,604
Disposals	(4,095)	—	(9)	(4,104)
At 31st March 2005	204,998	25,975	473	231,446
Depreciation				
At 1st April 2004			378	378
Charge for year			36	36
Disposals			(5)	(5)
At 31st March 2005			409	409
Net book value at 31st March 2005	204,998	25,975	64	231,037
Net book value at 31st March 2004	185,693	26,200	82	211,975
Consisting of as at 31st March 2005:				
Investment properties at valuation	184,630	25,975	—	210,605
Adjustment for UITF 28 – lease incentive debtors	(1,052)	—	—	(1,052)
	183,578	25,975	—	209,553
Properties in development	21,420	—	—	21,420
Other assets	—	—	64	64
	204,998	25,975	64	231,037

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	13,442	11,947
UITF 28 adjustment for amounts included within debtors	162	162
Revaluation surplus	13,604	12,109

11 Tangible assets – properties and other fixed assets continued

Parent undertaking	Freehold £'000	Other assets £'000	Total £'000
Cost or valuation			
At 1st April 2004	152,143	457	152,600
Additions	9,526	22	9,548
Revaluation surplus	12,109	—	12,109
Disposals	(4,095)	(9)	(4,104)
At 31st March 2005	169,683	470	170,153
Depreciation			
At 1st April 2004		376	376
Charge for year		36	36
Disposals		(5)	(5)
At 31st March 2005		407	407
Net book value at 31st March 2005	169,683	63	169,746
Net book value at 31st March 2004	152,143	81	152,224
Consisting of as at 31st March 2005:			
Investment properties at valuation	149,315	—	149,315
Adjustment for UITF 28 – lease incentive debtors	(1,052)	—	(1,052)
	148,263	—	148,263
Properties in development	21,420	—	21,420
Other assets	—	63	63
	169,683	63	169,746

In accordance with the Group's accounting policy on properties there was an external valuation at 31st March 2005. 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 £156 million (2004 – £154 million) for the Group and £112 million (2004 – £111 million) for the Company.

12 Fixed assets – investments

	Shares in subsidiary undertaking £'000	Investment in associated undertaking £'000	Other investments £'000	Total £'000
Parent undertaking				
Valuation at 1st April 2004	44,442	100	2	44,544
Disposals	—	—	(2)	(2)
At 31st March 2005	44,442	100	—	44,542
Group				
Valuation at 1st April 2004	—	4,562	2	4,564
Additions	—	457	—	457
Disposals	—	—	(2)	(2)
At 31st March 2005	—	5,019	—	5,019

At 31st March 2005 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	Beech Court (Burnham) 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 (2004 – £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.

The investment 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:

Investment in the associated undertaking, Property Investment Holdings Limited:

	Shares at cost £'000	Share of post acquisition reserves £'000	Total investment £'000
At 1st April 2004	100	4,462	4,562
Share of profits and revaluation surplus for the year, less taxation and dividends received	—	457	457
At 31st March 2005	100	4,919	5,019

13 Debtors

	2005 Group £'000	2005 Parent undertaking £'000	2004 Group £'000	2004 Parent undertaking £'000
Rents receivable	52	52	46	45
Amounts due from subsidiary undertakings	—	12,465	—	12,528
UITF 28 lease incentives	1,052	1,052	1,214	1,214
Other debtors and prepayments	1,357	852	1,400	993
	2,461	14,421	2,660	14,780

All the above debtors are receivable within one year except for lease incentives of £579,000 (2004 – £801,000), accrued in accordance with UITF 28.

14 Creditors

	2005 Group £'000	2005 Parent undertaking £'000	2004 Group £'000	2004 Parent undertaking £'000
Bank loans	80,940	74,220	72,560	65,495
Loans from connected parties (note 24)	—	—	3,722	3,722
Loan notes	47	47	78	78
	80,987	74,267	76,360	69,295
Rent received in advance	3,015	2,127	2,903	1,858
Corporation tax payable	688	8	1,158	195
Other taxation and social security costs	182	182	3	3
Amounts owed to subsidiary undertakings	—	24,902	—	24,222
Other creditors and accruals	3,131	1,469	3,750	1,961
Dividends proposed	2,824	2,824	2,670	2,670
	90,827	105,779	86,844	100,204
Analysed as follows:				
Due in less than 1 year	10,632	31,934	22,324	42,404
Due after 1 year	80,195	73,845	64,520	57,800
	90,827	105,779	86,844	100,204

All the above creditors are payable within one year except bank loans of the Group of £80,195,000 (2004 – £64,520,000) and of the parent undertaking of £73,845,000 (2004 – £57,800,000).

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:

	2005 £'000	2004 £'000
Parent undertaking		
Secured bank loans repayable at stated dates between 2005 and 2017 at variable rates	74,220	65,495
Unsecured short term loans repayable on demand to connected parties (note 24)	—	3,722
Unsecured loan notes repayable at any time up to 2006 at variable rates	47	78
	74,267	69,295
Subsidiary undertakings		
Secured bank loans repayable at stated dates between 2005 and 2007 at variable rates	6,720	7,065
	80,987	76,360

Repayable in:	2005 Group £'000	2005 Parent undertaking £'000	2004 Group £'000	2004 Parent undertaking £'000
Less than 1 year	792	422	11,840	11,495
1-2 years	20,975	14,625	745	375
2-5 years	9,000	9,000	29,975	23,625
More than 5 years	50,220	50,220	33,800	33,800
	80,987	74,267	76,360	69,295

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:

	2005 £'000	2004 £'000
Expiring in less than 1 year	—	—
Expiring in 1 – 2 years	—	—
Expiring in more than 2 years	26,780	35,880
	26,780	35,880

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

	2005 £	2004 £
Loss on interest rate swaps	(365,932)	(231,407)
Gain on interest rate collars	650,577	931,983
Net gain	284,645	700,576

15 Provisions for liabilities and charges

Deferred taxation	Group £'000	Parent undertaking £'000
At 1st April 2004	5,491	3,976
Charged to profit and loss account	674	543
At 31st March 2005	6,165	4,519

	Group		Parent Undertaking	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Difference between accumulated depreciation and capital allowances	5,342	4,979	3,361	3,054
Other timing differences	823	512	1,158	922
Deferred tax liability	6,165	5,491	4,519	3,976

16 Called up share capital

	2005		2004	
	Authorised £	Allotted called up and fully paid £	Authorised £	Allotted called up and fully paid £
Ordinary shares of 20p each	9,110,211	9,110,211	9,109,693	9,051,111
Unclassified shares of 20p each	889,789	—	890,307	—
	10,000,000	9,110,211	10,000,000	9,051,111

17 Share premium account

	£'000
At 1st April 2004	1,808
Premium arising on issue of shares under share option scheme	307
At 31st March 2005	2,115

18 Capital reserves

	Group		Parent Undertaking	
	Revaluation reserve £'000	Other capital reserve £'000	Revaluation reserve £'000	Other capital reserve £'000
At 1st April 2004	56,983	36,677	59,133	10,808
Surplus on revaluation of properties	13,604	—	12,109	—
Share of surplus on revaluation of properties in associated undertaking	332	—	—	—
Transfer on disposal of investment properties	2,862	(2,862)	2,934	(2,934)
Transfer to profit and loss account on liquidation of overseas subsidiary	12	55	—	—
Profit on sale of properties	—	653	—	568
At 31st March 2005	73,793	34,523	74,176	8,442

Cumulative goodwill written off to other capital reserve amounts to £1,359,000 (2004 – £1,359,000).

19 Profit and loss account

	Group £'000	Parent undertaking £'000
At 1st April 2004	23,952	27,526
Exchange gain	8	—
Transfer from revaluation reserve on liquidation of overseas subsidiary	(12)	—
Transfer from other capital reserve on liquidation of overseas subsidiary	(55)	—
Retained profit/(loss) for the year transferred from profit and loss account	362	(1,288)
At 31st March 2005	24,255	26,238

20 Net asset value per share

	2005 Net assets £'000	2005 Shares '000	2005 Net asset value per share p	2004 Net assets £'000	2004 Shares '000	2004 Net asset value per share p
Basic	143,796	45,551	316	128,471	45,256	284
Adjustment for deferred tax	5,342	—	12	4,979	—	11
Adjusted	149,138	45,551	328	133,450	45,256	295

Adjusted net assets excludes the deferred tax provided on capital allowances in accordance with FRS19 on the basis that it is not expected that this liability will crystallise.

21 Notes to the cash flow statement

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

	2005 £'000	2004 £'000
Group operating profit	10,018	10,404
Depreciation charge	36	36
Loss on fixed asset disposal	3	—
Decrease in debtors	204	3,628
Increase in creditors	2	1,464
Net cash inflow from operating activities	10,263	15,532

22 Net debt

Reconciliation of net cash flow to movements in net debt

	2005 £'000	2004 £'000
Increase/(decrease) in cash in year	664	(1,807)
Cash (inflow)/outflow from changes in debt	(4,627)	2,820
Change in net debt resulting from cash flow	(3,963)	1,013
Non cash changes in debt	—	—
Movement in net debt in year	(3,963)	1,013
Net debt at 1st April 2004	(74,753)	(75,766)
Net debt at 31st March 2005	(78,716)	(74,753)

Analysis of net debt

	At 31st March 2005 £'000	Movement in year Cash flow £'000	Movement in year Non-Cash £'000	At 1st April 2004 £'000
Cash at bank and in hand	2,271	664	—	1,607
Debt due within one year (see note 14)	(792)	11,793	(745)	(11,840)
Debt due after one year (see note 14)	(80,195)	(16,420)	745	(64,520)
Net debt	(78,716)	(3,963)	—	(74,753)

23 Commitments and contingent liabilities

	2005 Group £'000	2005 Parent undertaking £'000	2004 Group £'000	2004 Parent undertaking £'000
Capital expenditure committed but not provided for	9,858	9,655	16,984	16,859

The capital committments of the Group have decreased due mainly to the office development schemes in Wimbledon and Westminster. The majority of these committments will have been incurred by December 2005.

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 2005 £	Balance as at 31st March 2004 £	Basis of interest payable
Aldershot Trust Estates Limited	E. S. G. Lloyd	50,000	—	50,000	Base rate
Farringdon Property Trust Limited	I. A. McKay J. R. Chilton	1,390,815	—	1,390,815	Base rate
Ronnoco Export Development Company Limited	I. A. McKay	23,090	—	23,090	Base rate
Mrs. M.A. Chilton	J. R. Chilton	990,000	—	990,000	Base rate
E.S.G. Lloyd	E. S. G. Lloyd	330,000	—	330,000	Base rate
Mrs J. Perkins	S. C. Perkins	700,000	—	700,000	Base rate
I.A. McKay	I. A. McKay	272,000	—	268,000	Base rate
			—	3,721,905	

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 £97,410 (2004 – £167,492).

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 and managed funds. The contributions are determined by a qualified actuary on the basis of a triennial valuation using the attained age method. The most recent 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.

The actuarial valuation due at 1st April 2005 is currently in progress but not yet completed. 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 £309,153 (2004 – £295,426). Additional amounts have been paid towards making good the deficit in accordance with actuarial advice which has resulted in a prepayment of £487,714 (2004 – £417,548).

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 2005. Scheme assets are stated at their market value at 31st March 2005.

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 2005	31st March 2004	31st March 2003
Inflation	3.00%	3.00%	2.50%
Salary increases	4.50%	4.50%	4.50%
Rate of discount	5.50%	5.50%	5.25%
Pension in payment increases	3.00%	3.00%	2.50%
Illustrative balance sheet figures	£'000	£'000	£'000
Assets	4,295	3,863	3,353
Liabilities	(5,484)	(5,134)	(4,437)
Recoverable deficit in scheme	(1,189)	(1,271)	(1,084)
Related deferred tax asset	357	381	325
Net pension liability	(832)	(890)	(759)

25 Pensions continued

	£'000	£'000	£'000
Assets			
Equities	2,827	2,566	1,805
Property	330	299	280
Gilts	276	250	699
Corporate and overseas bonds	607	530	259
Cash	255	218	310

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

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

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

	31st March 2005 £'000	31st March 2004 £'000
Operating profit		
Current service cost	96	73
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	96	73
Other finance income		
Expected return on pension scheme assets	(272)	(239)
Interest on pension scheme liabilities	280	230
Net return	8	(9)
Total charge to profit and loss account	104	64

25 Pensions continued

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

	31st March 2005 £'000		31st March 2004 £'000	
Difference between expected and actual return on assets	131	3.1% of scheme assets	158	4.1% of scheme assets
Experience gains and losses arising on the scheme liabilities	(117)	-2.1% of the present value of the scheme liabilities	(321)	-6.3% 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	(44)	-0.8% of the present value of the scheme liabilities	(276)	-5.4% of the present value of the scheme liabilities
Total	(30)	-0.6% of the present value of the scheme liabilities	(439)	-8.6% of the present value of the scheme liabilities

Movement in illustrative balance sheet deficit figures during the year

	31st March 2005 £'000	31st March 2004 £'000
Deficit in scheme at beginning of year	(1,271)	(1,084)
Movement in year:		
Current service cost	(96)	(73)
Net interest/return on assets	(8)	9
Contributions	216	316
Past service costs	—	—
Actuarial loss	(30)	(439)
Deficit in scheme at end of year	(1,189)	(1,271)

Report of the Independent Auditors

To the members of McKay Securities PLC

We have audited the financial statements on pages 26 to 49. 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 16, 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 17 to 19 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 2005 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.

8th June 2005
KPMG Audit Plc
Reading
Chartered Accountants
Registered Auditor

Glossary

Adjusted EPS
Earnings per share based on revenue profits and adjusted to exclude deferred tax associated with investment properties.

Adjusted NAV per share
NAV per share adjusted to add back deferred tax associated with investment property.

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

Contingent tax liability
The unprovided further capital gains tax which may become payable if the Group's investments and properties were sold at the balance sheet values. This will include the valuation surplus on development properties net of any relevant tax losses which have not been recognised in the balance sheet.

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

Earnings per share (EPS)
Profit after taxation attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year.

FRS17
Financial Reporting Standard 17 (FRS 17) 'Retirement Benefits'. See Accounting Policies Note 1.

Gearing (net)
Total borrowings, including bank overdrafts, less short-term deposits and cash, at book value, as a percentage of equity shareholders' funds.

Interest cover
Number of times interest payable, including development interest, is covered by operating profit and interest receivable but excluding the profit on sale of properties.

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

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

Rental value growth
Increase in the current rental value, as determined by the Company's valuers, over the 12-month period on a like-for-like basis.

RPIX
Retail Prices Index excluding mortgage interest.

SSAP 19
Statement of Standard Accounting Practice (SSAP 19) 'Accounting for Investment Properties'. See Accounting Policies Note 1.

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

Total shareholder return
The growth in value of a share holding over a specified period, assuming that dividends are reinvested to purchase additional units of stock.

UITF 28
Urgent Issue Task Force Abstract 28 (UITF 28) 'Operating Lease Incentives' requires the Group to treat incentives for lessees to enter a lease to be offset against the total rent due. See Accounting Policies Note 1.

Company and Shareholder Information

Financial calendar	2005
Annual Report posted to shareholders	27th June
Annual General Meeting	27th July
Final dividend	11th August
Interim announcement	December
Interim Statement posted to shareholders	December
	2006
Interim dividend	January
Financial year end	March
Preliminary announcement	June

Secretary
A. S. Childs

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Enquiries relating to shareholders, such as queries concerning notification of change of address, dividend payments and lost share certificates, should be made to the Company's registrars. The Company has now introduced a share account management and dealing facility for all shareholders via Lloyds TSB Registrars Shareview. This offers shareholders secure access to their account details held on the share register to amend address information and payment instructions directly, as well as providing a simple and convenient way of buying and selling the Company's ordinary shares. For internet services visit www.shareview.co.uk or the investor relations sections of the Company's website. The Shareview Dealing service is also available by telephone on 0870 850 0852 between 8.30am and 4.30pm Monday to Friday.

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

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

McKay Securities PLC

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