Acreway Limited

Directors' report and financial statements

Registered number 1298473

31 March 2011

Contents

Directors' report

The directors have pleasure in presenting their annual report together with the audited financial statements for the year ended 31 March 2011

Principle activities

The business of the company is property investment consisting of the holding of investment property for rental and from time to time the development of properties for rental The company is a wholly owned subsidiary of McKay Securities PLC On 1 April 2007 the McKay Securities PLC group converted to Real Estate Investment Trust (REIT) status The group will remain tax exempt provided it does not breach the specified REIT conditions

Results

The profit for the year is set out in the statement of comprehensive income on page 5 An interim dividend has been paid of £2,000,000 *(2010 £2,000,000)*

Business Review

There were no significant changes to the business of the company during the year The company holds one office building in Bothwell Street, Glasgow as an investment property and the strategy of the company continues to be that of actively managing its investment property to maximise income potential The main financial risk to the company is tenant default which is monitored using Dunn & Bradstreet checks for new tenants, together with ongoing credit checks and internal credit control The company relies on the parent company for the long-term financing requirements of its investment properties

There was an external valuation of the company's investment property at 31 March 2011, on an open market basis, which gave rise to a fall in the value of the company's investment property of £2,700,000 *(2010 surplus £560,000)*

Dividends

The directors do not proposed payment of a final dividend (2010 £nil) An interim dividend of £2,000,000 *(2010 £2,000,000)* has been paid during the year

Directors

The directors who held office during the year were as follows

AS Childs (resigned 1 August 2011)
SC Perkins
SR Mew
GP Salmon (appointed 1 August 2011)

Auditors

Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all reasonable steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

By order of the board

GP Salmon
Director

20 Greyfriars Road
Reading
Berkshire
RG1 1NL
Registered number 1298473

13 September 2011

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

KPMG

KPMG Audit Plc
15 Canada Square
London
E14 5GL
United Kingdom

Independent auditors' report to the members of Acreway Limited

We have audited the financial statements of Acreway Limited for the year ended 31 March 2011 set out on pages 5 to 14 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 auditors' 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

As explained more fully in the Directors' Responsibilities Statement set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/private cfm

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditors' report to the members of Acreway Limited *(continued)*

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Stephen Bligh (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

19 September 2011

Statement of comprehensive income
for the year ended 31 March 2011

	Note	2011 £	2010 £
Gross rents and service charges receivable	2	**3,409,796**	3,291,517
Direct property outgoings		**(1,481,158)**	(1 341,072)
Net rental income from investment properties		**1,928,638**	1,950,445
Parent company management charges		**(88,741)**	(79,689)
Operating profit before revaluation of investment properties		**1,839,897**	1,870,756
Movement in revaluation of investment properties	7	**(2,700,000)**	560,000
Operating (loss)/profit		**(860,103)**	2,430,756
Finance income	4	**152,077**	526,625
(Loss)/profit before taxation		**(708,026)**	2,957,381
Taxation	5	-	-
Total comprehensive (loss)/income for the year		**(708,026)**	2,957,381

All income and operating profit were derived from continuing operations

Balance sheet
at 31 March 2011

	Note	2011 £	2011 £	2010 £	2010 £
Non-current assets					
Investment properties	7	**15,600,000**		18,300,000	
Current assets					
Trade and other receivables	8	**10,648,551**		10,847,245	
Total assets			**26,248,551**		29,147,245
Current liabilities					
Trade and other payables	9	**(1,437,144)**		(1,627,812)	
Total liabilities			**(1,437,144)**		(1,627,812)
Net assets			**24,811,407**		27,519,433
Equity					
Called up share capital	11		**21,835,913**		21,835,913
Revaluation reserve	11		**2,787,929**		5,487,929
Retained earnings			**187,565**		195,591
Total equity			**24,811,407**		27,519,433

These financial statements were approved by the board of directors on 13 September 2011 and were signed on its behalf by

GP Salmon
Director

Company registered number 1298473

Cash flow statement
for the year ended 31 March 2011

	2011 £	2010 £
Operating activities		
(Loss)/profit for the year	**(708,026)**	2,957,381
Adjusted for		
Interest income	**(152,077)**	(526,625)
Movement in revaluation of investment properties	**2,700,000**	(560,000)
Cash flows from operations before changes in working capital	**1,839,897**	1,870,756
Increase in debtors	**(282,290)**	(1,153,544)
(Decrease)/increase in creditors	**(190,668)**	756,163
Cash generated from operations	**1,366,939**	1,473,375
Interest received	**633,061**	526,625
Cash flows from operating activities	**2,000,000**	2,000,000
Investing activities		
Purchase and development of investment properties	**-**	-
Cash flows from investing activities	**-**	-
Financing activities		
Equity dividends paid	**(2,000,000)**	(2,000,000)
Cash flows from financing activities	**(2,000,000)**	(2,000,000)
Net increase in cash and cash equivalents	**-**	-
Cash and cash equivalents at beginning of the year	**-**	-
Cash and cash equivalents at end of year	**-**	-

Statement of changes in equity
for the year ended 31 March 2011

	Share Capital £	Revaluation Reserve £	Retained Earnings £	Total Equity £
At 1 April 2009	21,835,913	4,927,929	(201,790)	26,562,052
Profit for the year	-	-	2,957,381	2,957,381
Other comprehensive income				
Transfer surplus on revaluation of investment Properties	-	560,000	(560,000)	-
Total comprehensive income for the year	-	560,000	2,397,381	2,957,381
Dividends paid in year	-	-	(2,000,000)	(2,000,000)
At 31 March 2010	21,835,913	5,487,929	195,591	27,519,433
Loss for the year	-	-	(708,026)	(708,026)
Other comprehensive income				
Transfer deficit on revaluation of investment properties	-	(2,700,000)	2,700,000	-
Total comprehensive income for the year	-	(2,700,000)	1,991,974	(708,026)
Dividends paid in year	-	-	(2,000,000)	(2,000,000)
At 31 March 2011	**21,835,913**	**2,787,929**	**187,565**	**24,811,407**

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) ("adopted IFRSs") and therefore comply with Article 4 of the EU IAS Regulation

During the financial year, the following accounting standards and guidance were adopted by the Company, none of these had any material impact on the financial statements

IFRS 3 (Revised), 'Business Combinations', effective for accounting periods beginning on or after 1st July 2009,

Amendments to IAS 27, 'Consolidated and Separate Financial Statements', effective for accounting periods beginning on or after 1st July 2009,

Amendments to IAS 32, 'Financial Instruments Presentation Classification of Rights Issues', effective for accounting periods beginning on or after 1st February 2010,

IFRIC 15, Agreements for the Construction of Real Estate', effective for accounting periods beginning on or after 1st January 2010,

IFRIC 17, 'Distributions for Non-cash Assets to Owners', effective for accounting periods beginning on or after 1st November 2009, and

IFRIC 18, 'Transfer of Assets from Customers', effective for accounting periods beginning on or after 1st November 2009

None of the new standards or amendments to existing standards or interpretations, which are endorsed but not yet effective, have been adopted, or are expected to have any material impact on the financial statements

Going concern

After making the appropriate enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operation for the foreseeable future The Company prepares cash flow forecasts which show that the Company has sufficient resources to meet forecast outgoings and it also has access to the considerable funds of its parent company if required For these reasons the financial statements have been prepared on a going concern basis

Properties

The investment properties, including those under development, are held as investments to earn rental income and for capital appreciation and stated at fair value at the balance sheet date The value, based on market value, is determined annually by independent external valuers and any gain or loss arising from a change in fair value is recognised in the statement of comprehensive income and transferred to the revaluation reserve in the balance sheet

When an existing investment property is redeveloped for continued future use as an investment property it remains an investment property whilst in development

Details of the external valuation at 31 March 2011 are given in note 7

Subsequent expenditure on investment properties is capitalised only when it increases the future economic benefits associated with the property All other expenditure is charged to the statement of comprehensive income

Interest and other outgoings less rental income relating to investment properties in the course of development are capitalised, before tax relief, and added to the cost of the property Interest capitalised is calculated on development expenditure, including material refurbishments to investment properties, using the weighted average cost of borrowings for the year

Notes *(continued)*

1 Accounting policies *(continued)*

A property ceases to be treated as being in the course of development when substantially all the activities that are necessary to prepare the property for use are completed

Investment properties held on long leases are accounted for as finance leases and carried at fair value The present value of the future minimum lease payments is recognised as a liability with a corresponding asset added to the carrying value of the leasehold property The minimum lease payments are apportioned between finance charges in the statement of comprehensive income and the reduction of the balance sheet liability Contingent rents are charged as an expense in the statement of comprehensive income in the period incurred

Any accrued rent receivable recognised as a separate asset in accordance with the Company's accounting policy on lease incentives is deducted from the external valuation

Gains and losses arising on the disposal of investment properties are recognised in the statement of comprehensive income, being the difference between net sale proceeds and the carrying value of the property These gains and losses are then allocated to a capital reserve in the movements in capital and reserves

Rental income

Rental income receivable under operating leases from investment properties is recognised in the statement of comprehensive income on a straight line basis over the term of the lease

The aggregate value of incentives given to lessees are treated as a reduction of rental income over the lease term in accordance with SIC 15 "Operating Leases – Incentives"

Surrender premiums received from outgoing tenants prior to the expiry of their lease are included in income from investment properties

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables

i) Trade and other receivables

Trade and other receivables are recognised initially at fair value Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses

ii) Trade and other payables

Trade and other payables are recognised initially at fair value Subsequent to initial recognition they are measured at amortised cost using the effective interest method

iii) Cash and cash equivalents

Cash comprises cash at bank and short term deposits held on call Cash equivalents comprise investments with minimal risk to changes in value that are readily convertible into cash with an original maturity of three months or less

Taxation

The tax charge in the statement of comprehensive income comprises current and deferred tax except to the extent that it relates to items recognised directly in reserves, in which case the related tax is recognised in reserves

Current tax is based on the taxable income for the year and any adjustment to tax payable in respect of previous years Taxable income may exclude income and expenses in the statement of comprehensive income that are taxable or deductible in other years and items that are never taxable or deductible The tax rate is that enacted or substantially enacted at the balance sheet date

From 1st April 2007, the company converted to REIT status and no corporation tax is payable on qualifying property income

Notes *(continued)*

1 Accounting policies *(continued)*

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that future taxable profits will be available against which the asset can be utilised Such assets and liabilities are not recognised if the temporary difference arises from goodwill not deductible for tax purposes, or from the initial recognition of other assets and liabilities that affect neither accounting nor taxable profit Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that there will be future taxable profits against which the asset can be utilised Deferred tax is calculated at the rate enacted or expected to apply in the period when the liability is settled or the asset is realised

From 1st April 2007, no deferred tax is recognised on properties covered by the REIT regime All deferred tax liabilities relating to properties in the REIT were released in the statement of comprehensive income on 31st March 2007

2 Net income from investment properties

	2011	2010
	£	£
Gross rents receivable	**1,950,000**	1,950,000
Service charges receivable	**1,459,796**	1,341,517
	3,409,796	3,291,517

The Company engages in only one class of business activity being property investment and development in the United Kingdom

Rent receivable under the terms of the leases is adjusted, in accordance with SIC 15, for the effect of any incentives given

3 Administration costs

Auditors' fees for the audit of these financial statements of £1,000 *(2010 £1,000)* have been borne by the parent company McKay Securities PLC

The directors received no remuneration for services provided to the company in the year *(2010 £nil)* The directors are fully remunerated by the parent company McKay Securities PLC

All employees are employed and fully remunerated by the parent company McKay Securities PLC

4 Finance income

	2011	2010
	£	£
Interest receivable from parent company	**151,991**	526,625
Other interest receivable	**86**	-
	152,077	526,625

Notes *(continued)*

5 Taxation

Analysis of charge in the year

	2011	2010
	£	£
UK corporation tax		
Total tax charge in the statement of comprehensive income	-	-

	2011	2010
	£	£
Reconciliation to the effective rate of tax		
(Loss)/profit before tax	**(708,026)**	2,957,381
Tax (credit)/charge on (loss)/profit at 28% *(2010 28%)*	**(198,247)**	828,067
Effects of		
Exempt REIT (losses)/profits	**198,247**	(828,067)
Total tax charge for the year (see above)	-	-

6 Dividends

	2011	2010
	£	£
Ordinary dividends		
Interim dividend of 9 2p (2010 9 2p) paid during the year	**2,000,000**	2,000,000
Total recognised in financial statements	**2,000,000**	2,000,000

7 Investment properties

	Freehold property
	£
Valuation	
At 1 April 2009	17 740,000
Surplus on revaluation	560,000
At 31 March 2010	18,300,000
Deficit on revaluation	(2,700,000)
At 31 March 2011	**15,600,000**

In accordance with the company's accounting policy the property has been valued by an external valuer at 31 March 2011 This valuation was carried out by CB Richard Ellis, Chartered Surveyors and Valuers, on a market value basis

The historical cost of the property stated at valuation amounts to £15,080,411 *(2010 £15,080,411)*

The freehold property has been charged as security for the borrowings of the parent undertaking

Notes *(continued)*

8 Trade and other receivables

	2011	2010
	£	£
Amount owed by parent undertaking	10,542,590	10,844,688
Other debtors and prepayments	105,961	2,557
	10,648,551	10,847,245

All the above debtors are receivable within one year The carrying amounts are a reasonable approximation of the fair values estimated as the present value of future cash flows

9 Trade and other payables

	2011	2010
	£	£
Rents received in advance	487,500	487,500
Other creditors and accruals	949,644	1,140,312
	1,437,144	1,627,812

The fair value of current liabilities estimated as the present value of future cash flows approximate their carrying amounts due to the short term maturities

Credit Risk

Credit evaluations are performed on all tenants looking to enter into lease or pre-lease agreements with the Company In certain cases the Company will require collateral to support these lease obligations These might be in the form of cash rental security deposits, bank rental guarantee or a parent company guarantee

At the balance sheet date, there were no significant concentrations of credit risk, except for the low risk lease commitments which were either government department or held a top credit rating The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments on the balance sheet The largest balance owing to the company at the balance sheet date was by the parent undertaking which is considered a low credit risk

The Company has no exposure to currency risks

Liquidity Risk

Liquidity risk is managed through committed bank facilities that ensure sufficient funds are available to cover potential liabilities arising against projected cash flows

Notes *(contınued)*

10 Operating leases

The Company leases out ıts ınvestment properties under operatıng leases

The future aggregate mınımum rentals receıvable under non-cancellable operatıng leases are as follows

	2011 £	2010 £
Leases as Lessor		
Wıthın than one year	**1,950,000**	1,950,000
Between one and five years	**3,412,500**	5,362,500
	5,362,500	7,312,500

11 Share capital and reserves

	2011 £	2010 £
Authorısed, ıssued and fully paıd		
21,835,913 Ordınary shares of £1 each	**21,835,913**	21,835,913

The revaluatıon reserve represents the surpluses and deficıts arısıng on revaluatıon of the Group's propertıes Thıs reserve comprıses unrealısed profits and losses and ıs not avaılable for dıstrıbutıon untıl realısed through sale

12 Related party transactions

	Dividends paid		Balance owıng from	
	2011 £	2010 £	**2011** £	2010 £
Parent company	**2,000,000**	2,000,000	**10,542,590**	10,844,688

The Company also paıd £88,741 *(2010 £79,689)* ın management charges to the parent company ın the year There were no transactıons wıth Dırectors

13 Commıtments

The company had no commıtted capıtal expendıture at 31 March 2011 (2010 £nıl)

14 Ultimate parent company

The largest and smallest group ınto whıch the company's results are consolıdated ıs that headed by McKay Securıtıes PLC, the ultımate parent company, whıch ıs ıncorporated ın Great Brıtaın and regıstered ın England and Wales The consolıdated financıal statements of McKay Securıtıes PLC are avaılable for ınspectıon at Companıes House, Crown Way, Cardıff