

DAEJAN HOLDINGS PLC

REPORT AND FINANCIAL STATEMENTS

1999

Company Number: 305105



**DIRECTORS AND
ADVISERS**

Directors

B S E Freshwater
(Chairman and Managing Director)
D Davis
S I Freshwater

Secretary

C C Morse, FCIS

Registered and Head Office

Freshwater House,
158-162 Shaftesbury Avenue,
London WC2H 8HR
Registered in England
No. 305105

Registrars

Lloyds TSB Registrars,
The Causeway,
Worthing,
West Sussex BN99 6DA

Auditors

KPMG Audit Plc,
8 Salisbury Square,
London EC4Y 8BB

Consulting Accountants

Cohen, Arnold & Co.,
13-17 New Burlington Place,
London W1X 2JP

Principal Bankers

Lloyds TSB Bank Plc
National Westminster Bank PLC
Barclays Bank PLC
The Royal Bank of Scotland plc

Stockbrokers


Kleinwort Benson Securities Limited
20 Fenchurch Street,
London EC3P 3DB

Notice is hereby given that the Sixty-fourth Annual General Meeting of Daejan Holdings PLC will be held at The Methven Room, CBI, 1st Floor, Centre Point, New Oxford Street, London WC1, on 3 September 1999 at 12 noon, for the following purposes:—

NOTICE OF MEETING

1. To receive the Financial Statements for the year ended 31 March 1999 together with the Reports of the Directors and the Auditors. (Resolution 1.)
2. To declare a final dividend. (Resolution 2.)
3. To re-elect Mr B S E Freshwater as a Director. (Resolution 3.)
4. To re-appoint KPMG Audit Plc as Auditors. (Resolution 4.)
5. To authorise the Directors to determine the Auditors' remuneration. (Resolution 5.)

By Order of the Board,

 C C MORSE
Secretary

23 July 1999

A Member entitled to attend and vote may appoint one or more proxies to attend, and on a poll, to vote instead of him. A proxy need not be a Member of the Company. Only those Members registered in the Register of Members of the Company as at 6.00 pm on 1 September 1999 shall be entitled to attend or vote at the aforesaid Annual General Meeting in respect of the number of shares registered in their name at that time. To be valid, forms of proxy must be received by the Company's Registrars at least 48 hours before the time fixed for the Meeting.

The recommended final dividend will, if approved, be paid on 1 October 1999 to Shareholders registered at the close of business on 6 September 1999.

No Director has a service contract.

RESULTS AT A GLANCE

	Year ended 31 March		% increase
	1999	1998	
	£000	£000	
Profit before Taxation	28,554	27,101	5
Profit after Taxation	20,810	19,541	6
Earnings per Share	125.8p	119.1p	6
Dividends per Share	44.0p	42.0p	5
Equity Shareholders' Funds per Share (based on Balance Sheet values)	£19.85	£17.87	11
Final Dividend of 25p per share payable on 1 October 1999			

CHAIRMAN'S STATEMENT

This year marks the 40th anniversary of Daejan's flotation in 1959 as a publicly quoted property company. It then owned properties valued at £4 million and had net assets of just under £3 million. Today the property portfolio is valued at a figure in excess of £500 million and the Group has a net

worth of nearly £400 million. Our shareholders have enjoyed dividend income each year and, over the past twenty years, dividends have increased annually. At the time of flotation each share was backed by net assets of 29p which, as I mention later, has now grown to £24 – an eighty-two fold increase, comparing favourably with the cost of living index which has increased approximately thirteen fold. It is our intention to ensure continued enhancement in shareholder value in the future as in the past.

Once again, I am pleased to report an increase in annual profits, which for the year to 31 March 1999 were £28.5 million up from £27.1 million in the previous year. The underlying picture is of a materially improved position whereby net investment income has increased by £2.5 million, more than offsetting the reduction in property trading profits arising from our policy of seeking to retain for the future the benefit of properties capable of significant capital growth.

Our Balance Sheet shows shareholders' funds of £323.5 million, increased from last year's £291.2 million (an increase of 11.1%). To this figure should be added the substantial additional equity represented by the difference between the original cost of the trading properties, as stated in the Balance Sheet, and the current market value. When last valued in 1997 the trading properties produced a surplus over the figure at which they appear in the Balance Sheet of £67.5 million; I am confident that the surplus has not diminished. Taking this surplus into account, and subject only to tax arising on realisation, the Group has a net value of £391 million (£24 per share).

Our continuing investment policy is to acquire properties with good potential for growth in rental income and in capital value. Accordingly we have, over the past year, acquired additional investment properties at a cost of £43 million. This brings the total additions to our United Kingdom portfolio during the past three years to over £140 million, producing a return on cost of 9.5% per annum, mainly based on long leases to tenants of good calibre.

As mentioned on pages 12 and 25, this is the first occasion we include the reporting requirements of the new FRS13. In the circumstances it is, I believe, apposite for me to add a few words about our general policies on funding. We are conservatively financed, maintaining a careful balance between the expansion necessary to provide growth and a desire to preserve a cautious level of gearing. As part of our risk-averse funding policy, we have fixed the interest rate on almost 50% of our borrowings so as to reduce our exposure to adverse fluctuations in borrowing costs. In a climate of falling rates this means that, from time to time, our fixed rates are above prevailing market rates. Nevertheless we have been successful in fixing rates that are not materially above current levels and it is noteworthy that the average cost of all funding this year was 7.6%.

Despite the considerable investment of recent years, we continue to maintain substantial levels of cash and committed and negotiated loan facilities so as to enable us to take advantage of suitable investment opportunities without the need to seek funding prior to purchase.

This has been another successful year for us and accordingly your Board is pleased to recommend a final dividend of 25p per share bringing the total distribution for the year to 44p. Reverting to the theme of my opening paragraph, shareholders may be interested to note that, including the proposed increase, dividends paid by the Company will have increased thirty-six fold since our flotation as a property company. I am confident that the dividend will in future years continue to increase, funded by growth in Group income and net worth.

The current year to date has shown satisfactory progress in all aspects of our business. We have, as usual, a considerable number of negotiations in hand which are likely to provide further enhancement to the Group. Net Rental Income is expected to continue to improve, so as to form the core of our profits for the future. The level of property trading has, as reported in previous years, reduced in importance both in the context of our overall profitability and also as a key measure of the Group's performance. There will still, of course, be profits arising from sales due to our policy of gradually disposing of some of the smaller properties which no longer meet our investment criteria. In the case of trading properties which have been held for a considerable length of time, those profits can be substantial; this source of profit is, however, likely to fluctuate from year to year.

**CHAIRMAN'S
STATEMENT**
CONTINUED

The considerable successes of the past year and our rising to the challenges generated by our continued active management of the growing property portfolio would not have been possible without the dedicated efforts of my loyal and hard working colleagues. I am sure that all shareholders will join me in extending to them an expression of sincere thanks.


B S E FRESHWATER
Chairman

The Directors have pleasure in presenting their Report together with the Financial Statements for the year to 31 March 1999.

DIRECTORS' REPORT

Principal Activities of the Group

Daejan Holdings PLC is a holding company whose principal activities, carried on through its subsidiary undertakings, are property investment and trading, with some development also being undertaken. The major part of the Group's property portfolio comprises commercial, industrial and residential premises throughout the United Kingdom. Some subsidiary undertakings are incorporated in the United States of America and carry out property investment and trading in that country.

Properties

A professional revaluation of all the Group's United Kingdom investment properties was carried out at 31 March 1999 by the Group's external valuers, Cardales, Chartered Surveyors, and a copy of their report appears on page 30. The resultant figures have been included in the Financial Statements now presented and the increase of £18.9 million after minority interests over previous book values has been transferred to Revaluation Reserve. The Group's trading portfolio in the UK was professionally valued at 31 March 1997 by the Group's external valuers and, at that time, showed a surplus over book value of £63.6 million which was not incorporated into the Financial Statements. The Group's United States trading portfolio was valued by the Directors at 31 March 1997 and, at that time, showed a surplus over book value of £3.9 million which was not incorporated into the Financial Statements.

Results and Dividend

The profit for the financial year amounted to £20,506,000 (1998 – £19,410,000). An Interim Dividend of 19p per share was paid on 13 April 1999 and the Directors now recommend the payment of a Final Dividend of 25p per share, making a total for the year of 44p per share, an increase of 2p over the previous year. The dividends will absorb £7,170,000 (1998 – £6,844,000) and will leave £13,336,000 (1998 – £12,566,000) to be added to retained profits.

A review of the activities of the Group is contained in the Chairman's Statement on page 3.

An analysis of the Group's property income and profit before taxation for the year is as follows:—

	Property Income		Profit	
	UK	USA	UK	USA
	£000	£000	£000	£000
Rents and Charges	51,388	8,252	30,310	2,919
Sales of Trading and Investment Properties	17,293	452	7,949	452
Other Activities	—	—	165	91
	<u>68,681</u>	<u>8,704</u>	<u>38,424</u>	<u>3,462</u>
Financing Charges (net)			(7,289)	(711)
Administrative and Other Expenses			(5,060)	(272)
			<u>26,075</u>	<u>2,479</u>
			<u>2,479</u>	
Profit before Taxation			<u>28,554</u>	

Directors

The Directors who served throughout the year, and who are still in office, are:—

Mr B S E Freshwater

Mr D Davis

Mr S I Freshwater

The Director retiring by rotation is Mr B S E Freshwater who, being eligible, offers himself for re-election.

DIRECTORS' REPORT CONTINUED

No Director has a service contract.

Brief biographies of the Directors are as follows:—

Mr B S E Freshwater – Joined the Board in December 1971 with primary responsibility for the Group's finances. In July 1976 he was appointed Managing Director and, additionally, became Chairman in July 1980.

Mr D Davis – A Chartered Accountant and member of the Institute of Taxation, was previously a partner in Cohen, Arnold & Co., the Group's consulting accountants. He relinquished his partnership in 1971 in order to devote more time to his numerous business and other interests. He has been a non-executive Director of the Company since December 1971.

Mr S I Freshwater - Directs the Group's operations in the USA and also has responsibility for the Group's UK sales division. He has been a Director of the Company since January 1986.

Directors' Remuneration

Compliance

The Board considers that the company has complied throughout the year with the requirements of the Combined Code in relation to Directors' remuneration with the exception of the provision relating to the formation and constitution of a remuneration committee (see page 10). In determining remuneration policy, the Board has given full consideration to Section B of the Code of Best Practice provisions annexed to the Stock Exchange Listing Rules.

Policy

The remuneration policy adopted by the Board is designed to ensure that the Directors' interests are allied to the long-term growth of the Group and therefore to the interests of the shareholders as a whole. The Group does not operate any form of bonus scheme or share option scheme since the Executive Directors' salaries for the year are determined by the Board once the results for the year are known with any salary increase calculated and paid with effect from the beginning of the financial year.

In determining individual Directors' remuneration, consideration is given to the levels of remuneration paid to directors of public companies of a similar size in the property and other sectors.

Pensions

Mr B S E Freshwater participates in a Small Self-administered Pension Scheme which provides at any time after age 60 a sum of money to purchase a pension up to two-thirds of final salary subject to Inland Revenue limits and other statutory rules. The pension scheme also provides on death in service, for all contributions made to be applied in providing benefits for Mr Freshwater's dependants. This is a contributory scheme to which Mr B S E Freshwater contributes 15% of gross salary per annum. The figure for pension contributions shown below is the contribution paid by the Group in respect of Mr B S E Freshwater and is in accordance with actuarial advice and within statutory limits.

DIRECTORS' REPORT CONTINUED

Details of individual Director's remuneration are set out below on an accruals basis.

	Salary £	Fees £	Sub-total £	Pensions £	Total £
1999					
Mr B S E Freshwater	340,000	15,000	355,000	28,605	383,605
Mr D Davis	—	15,000	15,000	—	15,000
Mr S I Freshwater	322,954	15,000	337,954	—	337,954
	662,954	45,000	707,954	28,605	736,559

Pension to Widow of former
managing director

£75,000

	Salary £	Fees £	Sub-total £	Pensions £	Total £
1998					
Mr B S E Freshwater	325,000	15,000	340,000	30,105	370,105
Mr D Davis	—	15,000	15,000	—	15,000
Mr S I Freshwater	309,574	15,000	324,574	—	324,574
	634,574	45,000	679,574	30,105	709,679

Pension to Widow of former
managing director

£70,000

Payment Policy

It has long been the Group's policy to settle the terms of payment with suppliers when agreeing the terms of each transaction, to ensure that those suppliers are aware of those terms and to abide by the agreed terms of payment. The Group does not, however, follow any formal code or statement on payment practice. The Company does not have material trade creditor balances.

Directors' Interests

Day-to-day management of the Group's properties in the United Kingdom is mainly carried out by Highdorn Co. Limited and by Freshwater Property Management Limited. Mr B S E Freshwater and Mr S I Freshwater are Directors of both companies and are also interested in the share capital of Highdorn Co. Limited.

Mr B S E Freshwater and Mr D Davis are also Directors of the parent company of Freshwater Property Management Limited but have no beneficial interest in either company.

Details of the amounts paid for the provision of these services are set out in note 21 to the financial statements.

DIRECTORS' REPORT CONTINUED

Substantial Interests and Interests of Directors

<i>Daejan Holdings PLC</i>		31 March	31 March
<i>Ordinary Shares</i>		1999	1998
D Davis	(notes 2 & 3)	763	763
B S E Freshwater	(notes 1, 2, 3 & 4)	590,033	590,033
S I Freshwater	(notes 2, 3 & 4)	89,270	89,270

Notes:

1. All the above holdings were beneficially owned. Mr B S E Freshwater's shareholding represents 3.6% of the Issued Share Capital of the Company.
2. A further 4,363,116 shares (1998 – 4,363,116) representing 26.8% of the Issued Share Capital of the Company were held by Freshwater family trusts and by charitable companies in which Mr B S E Freshwater, Mr S I Freshwater and Mr D Davis have no beneficial interest.
3. In addition to the holding shown in the table and in note 2 above, companies owned and controlled by Mr B S E Freshwater, Mr S I Freshwater and by their families, and family trusts, held at 31 March 1999 a total of 7,876,431 shares (1998 – 7,876,431) representing 48.3% of the Issued Share Capital of the Company. Mr D Davis has a non-beneficial interest in some of these shares as a Director of the companies concerned, or as a trustee.
4. Of these shares 89,270 are held by a company owned jointly by Mr B S E Freshwater and Mr S I Freshwater.
5. There have been no changes in any of the above interests since 31 March 1999.

Included in notes 2 and 3 are the following holdings, each amounting to 3% or more of the Company's Issued Share Capital:

	Shares	%
Henry Davies (Holborn) Limited	1,934,090	11.9
Trustees of the B S E Freshwater Settlement	1,705,000	10.5
Trustees of the S I Freshwater Settlement	1,560,000	9.6
Distinctive Investments Limited	1,464,550	9.0
Quoted Securities Limited	1,305,631	8.0
Centremenor Limited	1,000,000	6.1
Mayfair Charities Limited	565,000	3.5

No other interest amounting to 3% or more of the Issued Share Capital has been notified to the Company as at the date of this report.

Capital Gains Tax

For the purpose of computing Capital Gains Tax the market value of the Company's Shares was 185p on 31 March 1982.

DIRECTORS' REPORT CONTINUED
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Charitable Donations

During the year the Group made charitable donations totalling £120,000 (1998 – £120,000) net under Deed of Covenant.

Millennium Issues

The Group has carried out a detailed review of all its internal systems with the object of ensuring that they will be Year 2000 compliant.

The Group is well advanced in carrying out a review of the systems within its properties in order to eliminate any problems relating to the continuity of services which it provides. The necessary surveys and risk assessments have been completed and any action required has been or will be carried out shortly. The Group is writing to all tenants with full repairing and insuring leases informing them of their responsibility for ensuring Year 2000 compliance. The Group has written to its major suppliers seeking confirmation of their approach in dealing with this issue.

Auditors

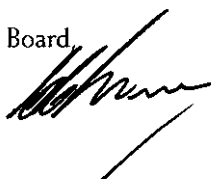
The Company's auditors, KPMG Audit Plc, have expressed their willingness to continue in office. In accordance with Section 384 of the Companies Act 1985, a resolution for the reappointment of KPMG Audit Plc as auditors of the Company, and to authorise the Directors to determine their remuneration, is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board,

C C MORSE

Secretary

23 July 1999



General matters

The Board is required by the Stock Exchange to report on the extent of its application of the principles contained in the Combined Code — Principles of Good Governance and Code of Best Practice (derived from the Cadbury Greenbury and Hempel Committee Reports).

CORPORATE GOVERNANCE

Your Board supports fully the goal of better Corporate Governance and we comply with the majority of provisions of the Code.

We do not comply with the provisions of the Code in connection with non-executive representation on the Board, as we are doubtful that further extending non-executive participation at present would benefit our shareholders. We consider it vital that the principles of

a unitary Board of Directors sharing responsibility for all facets of the Company's business should not be undermined by reserving areas of decision making solely for the non-executive Directors. For this reason the matters which the Code recommends should be reserved for audit and remuneration committees are dealt with by the whole Board and it is intended to continue this practice. In view of the fact that the Board comprises only three Directors it is also not considered necessary to split the roles of Chairman and Chief Executive.

Changes should be made when they are appropriate and in the best interests of the Company, rather than for the sake of change itself. This Company has a successful track record and whilst your Board will continue to keep under review any proposals which may improve the efficiency of its operations, the current structure has stood the Company in good stead over many years and should continue to do so in the future.

Directors

The Board meets regularly throughout the year on both a formal and an informal basis. Comprehensive management information covering all aspects of the Company's business is supplied to the Board in a timely manner and in a form and quality to enable it to discharge its duties. The Board's principal focus, in accordance with the formal schedule of matters referred to it for decision, is on the formulation of strategy and the monitoring and control of operations and financial performance. All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are complied with. The Board has agreed a procedure for Directors in the furtherance of their duties to take independent professional advice if necessary, at the Company's expense.

The entire Board is responsible for the selection and approval of candidates for appointment to the Board. The *Managing Director* was not previously subject to retirement by rotation. The remaining Directors were required to retire by rotation and submitted themselves to shareholders for re-election at alternate Annual General Meetings. In future all Directors will be required to submit themselves for re-election at regular intervals and at least every three years. The *Managing Director* will therefore retire at the 1999 Annual General Meeting and submit himself for re-election.

Directors Remuneration

Details of the Directors' remuneration are contained in the Directors' Report on page 7.

Investor Relations

The Board values communication with private and institutional shareholders and with analysts. The Annual General Meeting is used as an opportunity to meet private shareholders while other opportunities are taken during the year to discuss strategic and other issues with institutional shareholders and analysts.

The Board continues to support the concept of individual resolutions on separate issues at General Meetings. In future after it has been dealt with by a show of hands details of proxy voting on each resolution will be disclosed to the Meeting. In accordance with the provision of the Code notice of the Annual General Meeting and the Report and Financial Statement will be sent to shareholders at least

twenty working days before the meeting. The Company did not give details of proxy voting after each resolution or give twenty working days notice in respect of the 1998 Annual General Meeting.

Financial Reporting

The Board are responsible for the preparation of the Report and Financial Statement within which they seek to present a balanced and understandable assessment of the Company's business.

Internal Controls

Pending the production of guidance by the Institute of Chartered Accountants in England and Wales on the review of internal controls to which the Code refers, the Board is reporting on the Group's internal financial controls pursuant to the guidance for directors on internal controls and financial reporting issued in December 1994.

The Directors are responsible for and have reviewed the effectiveness of the Group's systems of internal financial control. The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed, and by their nature can provide reasonable, but not absolute assurance against material misstatement or loss.

The key control procedures in operation within the Group are:

The Board – the full board examine the half year and annual statements. The executive Directors review key information to assist them in identifying and considering business risks.

Control environment – there is a clear organisational structure with well defined lines of responsibility and delegation of authority.

Operating controls – financial and operating controls and procedures are in place throughout the organisation which are monitored by ongoing routines and ad hoc reviews.

Financial reporting – forecasts are produced annually and approved by the Board. Regular informal meetings are held between the Board and senior executives to monitor progress against the forecasts which are updated formally every six months.

Investment appraisal – detailed appraisals are carried out before embarking on any capital project. Board approval is required for all major items of capital expenditure.

Compliance Statement

The Board consider that the Company has complied throughout the year ended 31 March 1999 with the provisions of the Code with the exception of the following paragraphs:

paragraph	subject
A.2.1	division of responsibilities between chairman and chief executive
A.6.1-2	re-election of Directors
B.1.1-3	appointment of remuneration committee and their proceedings
B.1.9	
B.2.1-3	
B.2.5	
C.2.3	
C.2.1	reporting of proxy voting at general meetings
C.2.4	twenty working days notice of Annual General Meeting
D.3.1-2	appointment of audit committee

Going Concern

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

Financial Reporting Standard 13

The Group operates a cautious financial policy within clear authorities on a non-speculative and long term basis in order to enable the Group to carry on its business in confidence and with strength. We aim to insure that the Group's cost of capital is kept to a minimum through the maintenance of our many long standing relationships with leading banks and other financial institutions. The Group seeks to minimise the risk of sudden and unexpected rises in finance costs by way of financial derivative instruments whilst retaining some ability to take advantage of falling interest rates.

During the year, the Financial Reporting Standard 13, "Derivatives and Other Financial Instruments: Disclosures", was introduced and the additional disclosures required by the Standard are shown in Note 15 on pages 25 and 26. The note shows the market value, defined as the fair value, of the Group's borrowings and receivables.

The fair values as at 31 March 1999 exceeded the book values of the Groups' borrowings and receivables by £9.5 million reflecting a reduction in long term interest rates since the rates were originally fixed. The adjustment to fair value would reduce reported net assets per share by 58p and would increase balance sheet gearing. After taking account of tax relief, the adjustment to net assets would be 40p per share.

There is no obligation or present intention to repay the borrowings other than at maturity.

Market values are affected by many external factors and ironically the stronger the company the higher the market value of its debt. The strength of the Group's balance sheet facilitates the raising of any finance that may be necessary for new acquisitions and further developments on competitive terms.

Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of the affairs of the Company and of the Group and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:-

DIRECTORS' RESPONSIBILITIES

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures being disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

The Directors are responsible for keeping proper accounting records which 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 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and of the Group and to prevent and detect fraud and other irregularities.

AUDITORS' REPORT

Report of the Auditors to the Members of Daejan Holdings PLC

We have audited the financial statements on pages 15 to 29. We have also examined the amounts disclosed relating to emoluments and Directors' pension entitlements which form part of the Directors' Report on pages 6 and 7.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report, including as described above, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

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

We review whether the statement on page 11 reflects the company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls.

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

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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 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.*

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 31 March 1999 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
23 July 1999

KPMG A-dit Plc

	Notes	1999 £000	1998 £000
Net Rental Income	2	33,229	30,121
Surplus on Sale of Trading Properties	2	6,099	6,636
Other Income		256	290
Gross Profit		39,584	37,047
Administrative and Other Expenses		(5,332)	(5,055)
Operating Profit		34,252	31,992
Surplus on Sale of Investment Properties	2	2,302	2,926
Profit on Ordinary Activities before Interest		36,554	34,918
Net Interest Payable and Other Similar Items	3	(8,000)	(7,817)
Profit on Ordinary Activities before Taxation	4	28,554	27,101
Tax on Profit on Ordinary Activities	5	(7,744)	(7,560)
Profit on Ordinary Activities after Taxation	6	20,810	19,541
Minority Interests — Equity		(304)	(131)
Profit for the Financial Year		20,506	19,410
Dividends: Interim		(3,096)	(3,096)
Final (proposed)		(4,074)	(3,748)
		(7,170)	(6,844)
Retained Profit for the Year	18	13,336	12,566
Earnings per Share	7	125.8p	119.1p

All activities are continuing.

The notes on pages 20 to 29 form part of these Financial Statements.

	Notes	1999 £000	1998 £000
FIXED ASSETS			
Tangible Assets	8	404,771	351,257
Investments	9	617	617
		<u>405,388</u>	<u>351,874</u>
CURRENT ASSETS			
Properties held for Trading	10	57,434	56,143
Debtors: Due within one year	11	16,533	15,008
Due after one year	11	2,481	3,446
		<u>19,014</u>	<u>18,454</u>
Investments	12	130	150
Cash at Bank		<u>53,359</u>	<u>31,215</u>
		<u>129,937</u>	<u>105,962</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	13	(87,491)	(71,658)
Net Current Assets		<u>42,446</u>	<u>34,304</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>447,834</u>	<u>386,178</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	14	(122,437)	(93,121)
PROVISIONS FOR LIABILITIES AND CHARGES	16	(1,095)	(1,073)
NET ASSETS		<u><u>324,302</u></u>	<u><u>291,984</u></u>
CAPITAL AND RESERVES			
Called up Share Capital	17	4,074	4,074
Share Premium Account	18	555	555
Revaluation Reserve	18	149,276	131,455
Other Reserves	18	4,590	4,378
Profit and Loss Account	18	165,011	150,783
Equity Shareholders' Funds		<u>323,506</u>	<u>291,245</u>
MINORITY INTERESTS — EQUITY		<u>796</u>	<u>739</u>
		<u><u>324,302</u></u>	<u><u>291,984</u></u>
Equity Shareholders' Funds per Share	7	<u><u>£19.85</u></u>	<u><u>£17.87</u></u>

The Financial Statements on pages 15 to 29 were approved by the Board of Directors on 23 July 1999 and were signed on its behalf by:

B S E FRESHWATER

D DAVIS

Directors

The notes on pages 20 to 29 form part of these Financial Statements.

	Notes	£000	1999 £000	£000	1998 £000
FIXED ASSETS					
Investment in subsidiary undertakings	19		422,602		325,413
CURRENT ASSETS					
Debtors: Due within one year	11	937		—	
Due after one year	11	—		937	
		937		937	
Cash at bank		1,844		—	
		2,781		937	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR					
	13	(57,899)		(34,964)	
Net Current Liabilities			(55,118)		(34,027)
TOTAL ASSETS LESS CURRENT LIABILITIES					
			367,484		291,386
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR					
	14		(43,978)		(141)
NET ASSETS			323,506		291,245
CAPITAL AND RESERVES					
Called up Share Capital	17		4,074		4,074
Share Premium Account	18		555		555
Revaluation Reserve	18		169,168		146,105
Profit and Loss Account	18		149,709		140,511
			323,506		291,245

The Financial Statements on pages 15 to 29 were approved by the Board of Directors on 23 July 1999 and were signed on its behalf by:

B S E FRESHWATER

Directors

D DAVIS

The notes on pages 20 to 29 form part of these Financial Statements.

	£000	1999 £000	£000	1998 £000
OPERATING ACTIVITIES				
Net cash inflow from operating activities (note 20(ii))		34,262		25,909
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received	2,763		1,750	
Interest paid	(11,221)		(9,386)	
Distribution to minority	(266)		—	
Net cash outflow from returns on investments and servicing of finance		(8,724)		(7,636)
TAXATION				
UK Corporation tax paid	(7,799)		(8,393)	
Overseas tax paid	(50)		(40)	
		(7,849)		(8,433)
CAPITAL EXPENDITURE				
Purchase of investment properties	(43,078)		(17,713)	
Sale of investment properties	10,957		6,032	
Net cash outflow for capital expenditure		(32,121)		(11,681)
EQUITY DIVIDENDS PAID		(3,748)		(6,681)
CASH OUTFLOW BEFORE FINANCING		(18,180)		(8,522)
FINANCING				
Repayment of secured loans	(2,530)		(2,286)	
Revolving loan facilities	19,000		19,000	
Secured loans	45,000		15,000	
Repayment of mortgage advances	(26,537)		(14,116)	
New mortgage advances	5,320		6,509	
Repayment of Unsecured loan stock	(15)		(17)	
Repayment of Debenture stock	—		(550)	
Net cash inflow from financing (note 20(iii))		40,238		23,540
Increase in cash in the year (note 20(iii))		22,058		15,018

The notes on pages 20 to 29 form part of these Financial Statements.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 MARCH 1999

	1999 £000	1998 £000
Profit for the financial year	20,506	19,410
Unrealised surplus on revaluation of investment properties net of minority interests	18,945	6,317
Tax on realisation of revalued properties	(232)	(397)
Translation differences on foreign currency net investments	212	324
Total net recognised gains relating to the year	39,431	25,654

NOTE OF CONSOLIDATED HISTORICAL COST PROFITS AND LOSSES

FOR THE YEAR ENDED 31 MARCH 1999

	1999 £000	1998 £000
Reported profit on ordinary activities before taxation	28,554	27,101
Realisation of investment property revaluation gains of previous years	1,124	2,650
Historical cost profit on ordinary activities before taxation	29,678	29,751
Historical cost profit for the year retained in the profit and loss account after tax, minority interests and dividends	14,228	14,819

RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 MARCH 1999

	1999 £000	1998 £000
Profit for the financial year	20,506	19,410
Dividends: Interim	(3,096)	(3,096)
Final (proposed)	(4,074)	(3,748)
Retained profit for the year	13,336	12,566
Other net recognised gains and losses relating to the year	18,925	6,244
Net increase in shareholders' funds	32,261	18,810
Equity Shareholders' Funds brought forward	291,245	272,435
Equity Shareholders' Funds carried forward	323,506	291,245

The notes on pages 20 to 29 form part of these Financial Statements.

I PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's Financial Statements. The Group has adopted Financial Reporting Standards 9 to 14 for the first time in the current year.

(a) Basis of Accounting

The Financial Statements have been prepared in accordance with applicable accounting standards and under the historical cost convention modified by the revaluation of investment properties (note 1(g)) and investments in subsidiary undertakings (note 1(k)) and with the Companies Act 1985 except as noted below under note 1(d).

(b) Consolidation and Presentation of Financial Information

The Group Financial Statements consist of a consolidation of the Financial Statements of the Company with those of its subsidiary undertakings. All Financial Statements are drawn up to 31 March.

The Financial Statements of certain subsidiary undertakings have not been consolidated (see note 19). A separate profit and loss account dealing with the results of the Company only has not been presented, in accordance with Section 230(4), Companies Act 1985.

(c) Income Available for Distribution

Under the Articles of Association of certain Group investment undertakings, realised capital surpluses are not available for distribution as dividends and these surpluses are transferred from Consolidated Profit and Loss Account to Other Non-Distributable Reserves.

(d) Depreciation

In accordance with Statement of Standard Accounting Practice No. 19 investment properties are revalued annually. Surpluses or deficits arising are taken to the revaluation reserve. Any permanent diminution is taken to the profit and loss account for the year. 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 financial statements 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.

Leases having an unexpired term of less than 20 years are amortised evenly over the remaining period of the lease.

(e) Acquisitions and Disposals of Properties

Acquisitions and disposals are accounted for at the date of completion.

(f) Deferred Taxation

Deferred taxation is the taxation attributable to timing differences between profits computed for taxation purposes and profits as stated in the Financial Statements, and is calculated on the liability method.

Provision is made for deferred taxation in respect of those timing differences which are expected to crystallise in the foreseeable future.

(g) Properties

(i) Investment Properties

Investment properties are included in the Balance Sheet at professional valuation. Any surplus, and any temporary deficit is transferred to the revaluation reserve, and on realisation this surplus or deficit is transferred to the cumulative Consolidated Profit and Loss Account as a reserve movement. Deficits which are expected to be permanent are charged to profit and loss account, and subsequent reversals of such deficits are credited to profit and loss account in the same way.

(ii) Trading Properties

Trading properties are stated at the lower of cost and net realisable value.

(h) Foreign Currencies

Foreign currency borrowings and the assets, liabilities and results of the overseas subsidiary undertakings are translated into sterling at the rates of exchange ruling at the Balance Sheet date. Differences on exchange arising from the translation of opening balance sheets of overseas companies at year end rates and on foreign currency borrowings used to finance long term foreign equity investments are taken directly to Non-Distributable Reserves. Other differences on exchange are dealt with in the Profit and Loss Account.

(i) Sales of Investment Properties

It is Group policy to sell, as individual units, flats in residential blocks which have been held as investments but which are now considered uneconomic to retain. Occasionally there are sales of residential and commercial investment blocks. Since such sales of all types of investment property are expected to continue, the resulting surplus based on the excess of sales proceeds over valuation is included within the Group profit on ordinary activities, and taxation applicable thereto is shown as part of the taxation charge.

(j) Repairs

The cost of repairs is written off to Profit and Loss Account in the year in which the expenditure is incurred.

(k) Investments in Subsidiary Undertakings

Investments in subsidiary undertakings are included in the Company Balance Sheet at Directors' valuation carried out at regular intervals and based on net asset value.

2 PROPERTY INCOME

An analysis of the main sources of property income, the only class of business, and their respective contribution towards the profit for the year is as follows:

	Property Income £000	Costs £000	1999 Gross profit £000	Property Income £000	Costs £000	1998 Gross profit £000
Rents and service charges receivable (see (i) below)	59,640	(26,411)	33,229	54,509	(24,388)	30,121
Trading property sales	6,697	(598)	6,099	8,255	(1,619)	6,636
Investment property sales	11,048	(8,746)	2,302	6,263	(3,337)	2,926
	77,385	(35,755)	41,630	69,027	(29,344)	39,683

The geographical analysis of property income, profit and net assets is as follows:

	UK £000	USA £000	1999 Total £000	UK £000	USA £000	1998 Total £000
Property income	68,681	8,704	77,385	61,589	7,438	69,027
Profit before financing charges	33,364	3,190	36,554	33,139	1,779	34,918
Financing charges	(7,289)	(711)	(8,000)	(7,395)	(422)	(7,817)
Profit on ordinary activities before taxation	26,075	2,479	28,554	25,744	1,357	27,101
Net assets	300,905	23,397	324,302	271,553	20,431	291,984

(i) Cost of rents and service charges receivable includes:

	1999 £000	1998 £000
Wages and salaries	975	1,167
Social security costs	82	97
	1,057	1,264

These figures relate only to portering staff of whom an average number of 100 (1998 – 121) were employed during the year.

3 NET INTEREST PAYABLE AND OTHER SIMILAR ITEMS	1999 £000	1998 £000
Interest payable on bank loans and overdrafts	11,084	9,454
Foreign exchange movements	—	159
Interest payable and other similar charges	11,084	9,613
Interest receivable	(2,787)	(1,796)
Foreign exchange movements	(297)	—
Interest receivable and other similar items	(3,084)	(1,796)
Net interest payable and other similar items	8,000	7,817

4 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1999 £000	1998 £000
Profit on ordinary activities before taxation is stated after charging the following:		
Auditors' remuneration – Audit services (including irrecoverable VAT)	328	296

No other fees were paid to the Company's auditors and their associates during the year (1998 – Nil).

Staff costs (including directors' remuneration):	1999 £000	1998 £000
Salaries	3,351	3,116
Social Security costs	276	234
Pension contributions	180	162
	3,807	3,512

These figures include the Group's proportion of Administrative Staff costs which are equivalent to an average of 136 employees (1998 – 137 employees).

5 TAX ON PROFIT ON ORDINARY ACTIVITIES	1999 £000	1998 £000
(a) Taxation based on the profit for the year of the Company and its subsidiaries		
UK corporation tax at 31% (1998 – 31%)	7,530	7,652
Overseas taxation	50	40
Deferred taxation	180	(180)
	7,760	7,512
Prior years' charges	(16)	48
	7,744	7,560
(b) Deferred Taxation Asset		
Short term timing differences		
At 1 April 1998	180	—
(Charge)/credit for the year	(180)	180
At 31 March 1999 (Note 11)	—	180

Note 16 sets out the Group's deferred taxation provision.

6 PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION

Profit after taxation of £16,368,000 arises in the holding company, £11,150,000 being dividends paid by subsidiary companies (1998 – £15,732,000; Dividends – £8,720,000).

7 EARNINGS PER SHARE/EQUITY SHAREHOLDERS FUNDS PER SHARE

Earnings per share is calculated on earnings, after taxation and minority interests, of £20,506,000 (1998 – £19,410,000) and the weighted average number of shares in issue during the year of 16,295,357 (1998 – 16,295,357).

Equity Shareholders' Funds per Share are calculated on Equity Shareholders' Funds of £323,506,000 (1998 – £291,245,000) and the number of shares in issue at the year end of 16,295,357 (1998 – 16,295,357).

8 TANGIBLE ASSETS – INVESTMENT PROPERTIES	Freehold £000	Long Leasehold £000	Short Leasehold £000	Total 1999 £000
At Valuation 1 April 1998	273,396	64,837	13,024	351,257
Additions	29,697	13,512	—	43,209
Disposals	(455)	(8,200)	—	(8,655)
Transfer	675	(675)	—	—
Revaluation	17,153	1,472	335	18,960
At Valuation 31 March 1999	320,466	70,946	13,359	404,771

The historical cost of investment properties is £252,628,000.

A professional valuation of all the Group's United Kingdom investment properties was carried out at 31 March 1999 by Cardales, Chartered Surveyors. The revalued figures are based on open market values in accordance with the Practice Statements in the RICS Appraisal and Valuation Manual. (See report on page 30.)

That report does not include a property which has been identified as being held for disposal. This property is included in Freehold Properties above at its valuation at 31 March 1999 by Cardales, Chartered Surveyors of £780,000 which the Directors believe to be not less than its net realisable value.

9 INVESTMENTS HELD AS FIXED ASSETS

Investments held as fixed assets in the Group Balance Sheet represent an interest in syndicates holding industrial buildings.

10 PROPERTIES HELD FOR TRADING	UK £000	USA £000	1999 Total £000	UK £000	USA £000	1998 Total £000
At the lower of cost and net realisable value	23,087	34,347	57,434	23,155	32,988	56,143

£6,945,000 (1998 – £6,850,000) of the properties held for trading in the USA are held through shares in co-operative corporations.

11 DEBTORS	The Group 1999 £000	1998 £000	The Company 1999 £000	1998 £000
Rents and service charges	10,245	10,148	—	—
Other debtors and prepayments	5,347	4,680	—	—
Short term timing differences (note 5(b))	—	180	—	—
ACT recoverable	941	—	937	—
Due within one year	16,533	15,008	937	—
Mortgages granted repayable after one year	2,481	2,509	—	—
ACT recoverable after one year	—	937	—	937
Due after one year	2,481	3,446	—	937
	19,014	18,454	937	937

12 INVESTMENTS HELD AS CURRENT ASSETS

Investments held as current assets include listed securities of £107,000 (1998 – £111,000) held at the lower of cost and net realisable value. The market value of these securities is £205,000 (1998 – £198,000).

13 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	<i>The Group</i> 1999 £000	1998 £000	<i>The Company</i> 1999 £000	1998 £000
Mortgage advances	—	9,029	—	—
Bank loans and overdrafts (see note below)	51,226	30,386	47,914	27,571
Rents and service charges charged in advance	10,798	9,941	—	—
Other creditors and accruals	10,386	10,595	573	454
Taxation	7,911	7,959	2,242	3,191
Dividends payable	7,170	3,748	7,170	3,748
	87,491	71,658	57,899	34,964

Note: Bank loans and overdrafts of the Group and of the Company are secured on certain of the Group's properties.

14 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	<i>The Group</i> 1999 £000	1998 £000	<i>The Company</i> 1999 £000	1998 £000
Unsecured loan stocks	1,808	1,823	—	—
Mortgage advances	21,718	33,367	—	—
Amounts due to subsidiary undertakings	—	—	228	141
Secured bank loans	98,911	57,931	43,750	—
	122,437	93,121	43,978	141

Analysis of creditors falling due after more than one year

	<i>Interest Rate</i>	<i>The Group</i> 1999 £000	1998 £000	<i>The Company</i> 1999 £000	1998 £000
Amounts repayable after 1 April 2004					
Unsecured loan stock 2007	8.25%	1,808	1,823	—	—
Mortgages	6.99%–8.98%	15,378	19,376	—	—
Amounts due to subsidiary undertakings		—	—	228	141
Secured bank loans	7.40%	81,440	44,199	39,750	—
		98,626	65,398	39,978	141
Amounts repayable between 1 April 2001 and 31 March 2004					
Mortgages	7.00%–9.50%	6,340	12,517	—	—
Secured bank loans	7.40%	13,376	10,961	3,000	—
		19,716	23,478	3,000	—
Amounts repayable between 1 April 2000 and 31 March 2001					
Mortgages		—	1,474	—	—
Secured bank loans	7.40%	4,095	2,771	1,000	—
		4,095	4,245	1,000	—
Total amount of Long Term Loans		122,437	93,121	43,978	141
Amount of Long Term Loans secured on certain of the Group's properties		120,629	91,298	43,750	—

15 FINANCIAL INSTRUMENTS

The Group has adopted the requirements of Financial Reporting Standard 13: Derivatives and Other Financial Instruments: Disclosures, which became effective during the year. The Group's strategy in respect of the use of financial instruments to manage risk is detailed on page 12.

The Group has taken advantage of the exemption under FRS 13, that short term debtors and creditors be excluded from the following disclosures. The exemption on grounds of practicality from providing comparatives, in this first year of application, has also been exercised where appropriate.

Financial assets

The Group's financial assets are long term debtors (note 11) and cash at bank and in hand.

The interest rate and liquidity risk profile of cash balances of the Group is set out below:

	<i>Group</i>
	<i>1999</i>
	<i>£000</i>
Cash — Sterling denominated	44,552
Cash — US dollar denominated	8,807
Total	53,359

All cash balances receive interest at a variable rate with reference to LIBOR for sterling denominated balances and US Prime rate for US dollar denominated balances. All cash balances are repayable on demand.

The Group has mortgages receivable of £2,481,000 which are denominated in US dollars. £1,216,000 of these mortgages are at variable rates with £1,265,000 at fixed interest rates. For the variable rate mortgages interest is charged with reference to US Prime rates. The mortgages mature between November 2002 and December 2011.

The weighted average interest rate of the fixed rate receivables is 9.9% and the weighted average period for which the receivable is fixed is 9.8 years.

Financial liabilities*Liquidity risk — profile*

The maturity profile of the Group's financial liabilities is set out below:

	<i>Group</i>	
	<i>1999</i>	<i>1998</i>
	<i>£000</i>	<i>£000</i>
Within one year or less or on demand	51,226	39,415
Between one and two years	4,095	4,245
Between two and five years	19,716	23,478
After five years	98,626	65,398
	173,663	132,536

The Group has undrawn borrowing facilities of £21,300,000 which expire within one year and £5,000,000 which expire after five years.

Interest rate risk — profile

The interest rate profile of the Group's financial liabilities 31 March, after taking account of interest rate instruments taken out by the Group was:

	<i>Group</i>	
	<i>1999</i>	<i>1998</i>
	<i>£000</i>	<i>£000</i>
Floating rate liabilities — Sterling denominated	82,156	45,449
Floating rate liabilities — US dollar denominated	8,799	8,480
Fixed rate liabilities — Sterling denominated	60,990	62,036
Fixed rate liabilities — US dollar denominated	21,718	16,571
	173,663	132,536

The floating rate financial liabilities comprise:

- Sterling denominated bank borrowings bearing rates based on LIBOR.
- US dollar denominated bank borrowings bearing rates based on US Prime rate.

Hedge profile – type and maturity of protection

The weighted average interest rate on the fixed rate debt was 8.2% and the weighted average period for which the borrowing is fixed at 31 March 1999 was 11.7 years.

All of the £60,990,000 of fixed rate swaps and unsecured loan stocks mature after five years. In addition to the existing swaps there are contracted hedge positions of £18,750,000 which start in 2003.

Fair value of financial assets and liabilities

The table below sets out by category the book values and fair value of the Group's financial assets and liabilities:

	Group Book value £000	Notional Principal £000	Fair value adjustment £000	Fair value £000
Financial instruments held or issued to finance the Group's operations				
Assets				
Mortgages receivable	1,265		462	1,727
Liabilities				
Fixed rate debt	(23,526)		(1,249)	(24,775)
Interest rate swaps		77,932	(8,669)	8,669
Fair value adjustment			(9,456)	

The fair values were calculated as at 31 March 1999 and reflect the replacement values of the financial instruments used to manage the Group's exposure to adverse interest rate movements. All gains and losses arising from hedging instruments crystallised during the year have been recognised in the profit and loss account.

A recalculation of the fair value adjustment has been carried out at 20 July 1999 (the last practical date before the printing of these Financial Statements) which due to movements in interest rates since 31 March 1999 has resulted in a current fair value adjustment of £5,741,000 in place of the March figure of £9,456,000.

Currency profile

The Group had US dollar denominated bank loans and mortgages at 31 March 1999 of £30,517,000.

The Group has US dollar cash deposits at 31 March 1999 of £8,087,000.

16 PROVISIONS FOR LIABILITIES AND CHARGES

	The Group £000
Deferred taxation:	
At 1 April 1998	1,073
Foreign exchange movement	22
At 31 March 1999	1,095

Apart from the above items there was at 31 March 1999 a potential liability for deferred taxation in respect of Industrial Building Allowances of £1,188,000 (1998: £1,180,000). No provision has been made in these Financial Statements in respect of this liability as it is not expected to crystallise in the foreseeable future.

In the event of a realisation of the Group's investment properties at an amount equal to the valuation recorded in the Financial Statements, a liability to corporation tax on chargeable gains would arise estimated at not more than £16.3m (1998: £14.3m) and for which no provision has been made in these Financial Statements, as the Directors are of the opinion that the likelihood of any material liability arising is remote.

17 SHARE CAPITAL	Number	1999 £000	1998 £000
Authorised:			
Ordinary shares of 25 pence per share	18,722,596	4,681	4,681
Allotted, called up and fully paid:			
Ordinary shares of 25 pence per share	16,295,357	4,074	4,074

18 RESERVES	The Group £000	£000	The Company £000	£000
Share Premium Account:				
At 1 April 1998 and 31 March 1999		555		555
Revaluation Reserve:				
At 1 April 1998	131,455		146,105	
Transfer to profit and loss account of revaluation surplus on investment properties now realised	(1,124)			
Fixed asset revaluation net of minority interests	18,945		23,063	
At 31 March 1999		149,276		169,168
Other Non-Distributable Reserves:				
At 1 April 1998	4,378		—	
Translation differences on foreign currency net investments	212		—	
At 31 March 1999		4,590		Nil
Profit and Loss Account:				
At 1 April 1998	150,783		140,511	
Revaluation reserve realised on disposal	1,124		—	
Tax on revaluation reserve realised	(232)		—	
Retained profit for the year	13,336		9,198	
At 31 March 1999		165,011		149,709

The revaluation reserves arise from the revaluation of investment properties and investments in subsidiary undertakings in the Group and Company respectively.

19 INVESTMENT IN SUBSIDIARY UNDERTAKINGS	Shares at valuation £000	Loans £000	Total £000
The Company			
At 1 April 1998	162,966	162,447	325,413
Additions	—	73,540	73,540
Revaluation	23,063	—	23,063
Effect of foreign exchange differences	586	—	586
At 31 March 1999	186,615	235,987	422,602

The historical cost of shares in subsidiary undertakings is £17,876,000 (1998 – £17,876,000).

Shares in subsidiary undertakings have been valued by the Directors at 31 March 1999 based on the net asset values of the subsidiary undertakings.

The results of certain subsidiary undertakings, acquired at a cost of £146,000 and valued by the Directors at Nil (1998 – Nil) have been excluded from the Consolidated Financial Statements. The combined profits since acquisition attributable to the Company as indicated by their financial statements amounted to £40,000 (1998 – £40,000) and their aggregate liabilities at 31 March 1999 were £54,000 (1998 – £54,000). The inclusion of these undertakings would not materially affect the Consolidated Financial Statements.

20 CASH FLOW STATEMENT	1999 £000	1998 £000
(i) Reconciliation of operating profit to net cash inflow from operating activities.		
Operating profit	34,252	31,992
Increase in properties held for trading	(178)	(14,052)
(Increase)/decrease in debtors	(508)	3,584
Increase in creditors	676	3,704
Decrease in investments held as current assets	20	681
Net cash inflow from operating activities	34,262	25,909

(ii) Reconciliation of net cash flow to movement in net debt		
	1999 £000	1998 £000
Increase in cash	22,058	15,018
Revolving loan facilities	(19,000)	(19,000)
Secured loan repayable 2018	(45,000)	(15,000)
New mortgage advances	(5,320)	(6,509)
Repayment of financing	29,082	16,969
Change in net debt resulting from cash flows	(18,180)	(8,522)
Exchange movement	(803)	194
Change in net debt	(18,983)	(8,328)
Opening net debt	(101,321)	(92,993)
Closing net debt	(120,304)	(101,321)

(iii) Analysis of changes in net debt				
	1 April 1998 £000	Cash flow £000	Exchange movements £000	31 March 1999 £000
Cash at bank and in hand	31,215	22,054	90	53,359
Overdrafts	(99)	4	(20)	(115)
	31,116	22,058	70	53,244
Secured loans	(88,218)	(61,484)	(320)	(150,022)
Unsecured loan stock	(1,823)	15	—	(1,808)
Mortgage advances	(42,396)	21,231	(553)	(21,718)
	(101,321)	(18,180)	(803)	(120,304)

21 DIRECTORS' INTERESTS

Day-to-day management of the Group's properties in the United Kingdom is mainly carried out by Highdorn Co. Limited and by Freshwater Property Management Limited. Mr B S E Freshwater and Mr S I Freshwater are Directors of both companies and are also interested in the share capital of Highdorn Co. Limited.

Mr B S E Freshwater and Mr D Davis are also Directors of the parent company of Freshwater Property Management Limited but have no beneficial interest in either company.

The amounts paid for the provision of management services charged for at normal commercial rates were:

Highdorn Co. Ltd		Freshwater Property Management Ltd	
1999 £000	1998 £000	1999 £000	1998 £000
1,569	1,527	634	1,084

At 31 March 1999 £1,031,000 was due to Highdorn Co. Limited (1998: £823,000) and £675,000 was due to Freshwater Property Management Limited (1998: £845,000).

The principal shareholders of the Company and the Directors interests in the Company are described on pages 7 and 8.

22 CONTINGENT LIABILITIES

The Company has guaranteed bank and mortgage indebtedness and unsecured loan stock of certain subsidiary undertakings which at 31 March 1999 amounted to £57.9m (1998 – £73.9m).

The Group is from time to time party to legal actions arising in the ordinary course of business. The Directors are advised that there are no current actions which could have a material adverse effect on the financial position of the Group.

23 PRINCIPAL SUBSIDIARY UNDERTAKINGS

Except where otherwise indicated the following are wholly owned property companies included in the Consolidated Financial Statements.

Incorporated in Great Britain and registered in England and Wales

Astral Estates (London) Limited	Daejan Investments (Park) Limited
Bampton Holdings Limited	Daejan (Kingston) Limited
Bampton (B&B) Limited	Daejan (Lauderdale) Limited
Bampton (Redbridge) Limited (75%)	Daejan (Norwich) Limited
Brickfield Properties Limited	Daejan (NUV) Limited
City and Country Properties Limited	Daejan Properties Limited
City and Country Properties (Birmingham) Limited	Daejan (Reading) Limited
City and Country Properties (Camberley) Limited	Daejan Retail Properties Limited
City and Country Properties (Midlands) Limited	Daejan Securities Limited – <i>Share Dealer</i>
Daejan (Brighton) Limited	Daejan (Taunton) Limited
Daejan (Cardiff) Limited	Daejan (Warwick) Limited
Daejan Commercial Properties Limited	Daejan (Worcester) Limited
Daejan (Dartford) Limited	Hampstead Way Investments Limited
Daejan Developments Limited	Limebridge Co. Limited
Daejan (Durham) Limited	Pegasus Investment Company Limited
Daejan Enterprises Limited	Rosebel Holdings Limited
Daejan Estates Limited	Seaglen Investments Limited
Daejan (FH 1998) Limited	St. Leonards Properties Limited
Daejan (FHNV 1998) Limited	The Bampton Property Group Limited
Daejan (High Wycombe) Limited	The Cromlech Property Co. Limited
Daejan Investments Limited	The Halliard Property Co. Limited
Daejan Investments (Grove Hall) Limited	
Daejan Investments (Harrow) Limited	

Incorporated in the USA

Daejan Holdings (US) Inc.
Daejan (NY) Limited
Daejan Enterprises Inc.

The Directors,
Daejan Holdings PLC
158-162 Shaftesbury Avenue
London
WC2H 8HR

Gentlemen,

As instructed we have valued for the purpose of your Company's accounts, the investment properties owned by its subsidiaries in the United Kingdom as at 31 March 1999. The properties are listed in our separate detailed schedules.

We have not had access to Title Deeds and our valuation is on the basis of the information supplied to us by you as to tenure and occupancy and other relevant information.

The properties have been valued individually on the basis of open market value and in the case of Freshwater House on the basis of Existing Use Value in accordance with the Practice Statements in the Royal Institution of Chartered Surveyors, Appraisal and Valuation Manual.

No allowance has been made for expenses of realisation or for any taxation which may arise, and our valuations are expressed exclusive of any Value Added Tax that may become chargeable.

Our valuations assume that the properties are free from any undisclosed onerous burdens, outgoing or restrictions. We have not seen planning consents and have assumed that the properties have been erected and are being occupied and used in accordance with all requisite consents.

We have not carried out Structural Surveys of the properties nor have we tested the services. Our valuations assume that the buildings contain no deleterious materials.

We confirm that the valuations have been carried out by us as External Valuers qualified for the purpose of the valuation.

The valuation is made with the benefit of the Schedule of Standard Assumptions, Caveats, Limitations and Basis of Valuation provided to you and in accordance with instructions, the properties are inspected on a 3 yearly cycle, one-third by value being inspected each year.

Having regard to the foregoing we are of the opinion that the aggregate of the values of your Company's investment property interests as at 31 March 1999 is £403,991,000 (four hundred and three million, nine hundred and ninety one thousand pounds).

In accordance with our standard practice, we must state that this valuation is for the use only of the party to whom it is addressed and no responsibility is accepted to any third party for the whole or any part of its contents.

Yours faithfully,

Cardales
Chartered Surveyors
1 Lumley Street,
London W1Y 2ND

31 March 1999

	1995 £000	1996 £000	1997 £000	1998 £000	1999 £000
Net Rental Income	21,548	22,829	28,061	30,121	33,229
Surplus on Sale of Trading Properties	7,335	3,733	7,637	6,636	6,099
Other Income	22	88	80	290	256
Gross profit	28,905	26,650	35,778	37,047	39,584
Group Profit before Taxation	23,917	20,582	24,492	27,101	28,554
Taxation	5,842	6,053	7,741	7,560	7,744
Minority Interests	18	26	25	131	304
Available Surplus	18,057	14,503	16,726	19,410	20,506
Earnings: p. per Share	110.8	89.0	102.6	119.1	125.8
Dividends: p. per Share	32.0	35.0	38.0	42.0	44.0
Gross Assets	330,422	395,565	411,906	457,836	535,325
Equity Shareholders' Funds	239,487	249,690	272,435	291,245	323,506
Equity Shareholders' Funds: £ per Share (based on balance sheet figures)	14.70	15.32	16.72	17.87	19.85
Represented by:					
Share Capital	4,074	4,074	4,074	4,074	4,074
Reserves and Retained Profit	235,413	245,616	268,361	287,171	319,432
Equity Shareholders' Funds	239,487	249,690	272,435	291,245	323,506