

# DAEJAN HOLDINGS PLC COMPANY NO YEAR ENDED 31 MARCH 2004 305105

Daejan Holdings PLC Report & Financial Statements 2004

## Summary of Results

	Year ended 31 March	
	2004	2003
	£000	£000
Profit before Taxation	30,442	30,692
Profit after Taxation	22,920	20,635
Earnings per Share	140.6p	126.3p
Dividends per Share	58.0p	55.0p
Equity Shareholders' Funds per Share (based on Balance Sheet values)	£30.96	£28.81

Final Dividend of 36p per share payable on 1 November 2004 to shareholders on the register on 1 October 2004

## Contents

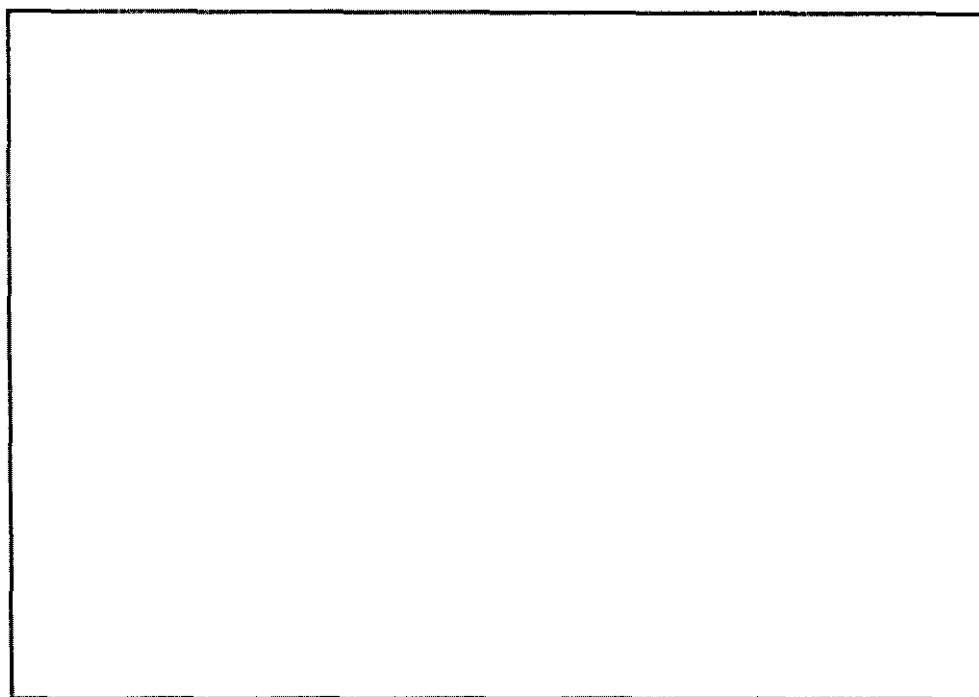
	Page
Summary of Results	1
Some of our Properties	2
Chairman's Statement	4
Directors' Report	7
Directors' Remuneration Report	11
Corporate Governance	13
Directors' Responsibilities	18
Independent Auditors' Report	19
Consolidated Profit & Loss Account	21
Consolidated Balance Sheet	22
Company Balance Sheet	23
Consolidated Cash Flow Statement	24
Consolidated Statement of Total Recognised Gains & Losses	25
Reconciliation of Movements in Consolidated Shareholders' Funds	26
Notes to the Financial Statements	27
Report of the Valuers	41
Five-Year Record	42
Directors & Advisers	43
Notice of Meeting	44



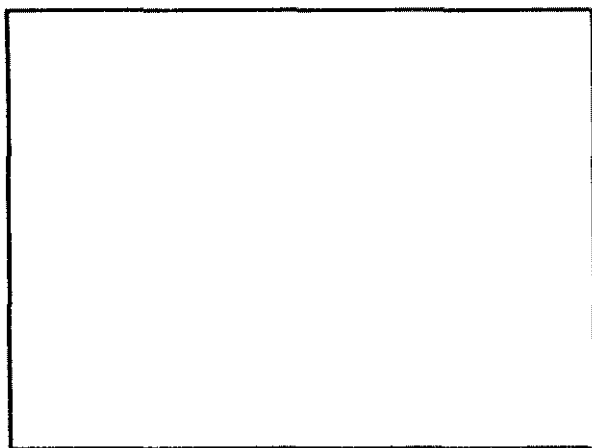
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## *Some of our Properties*

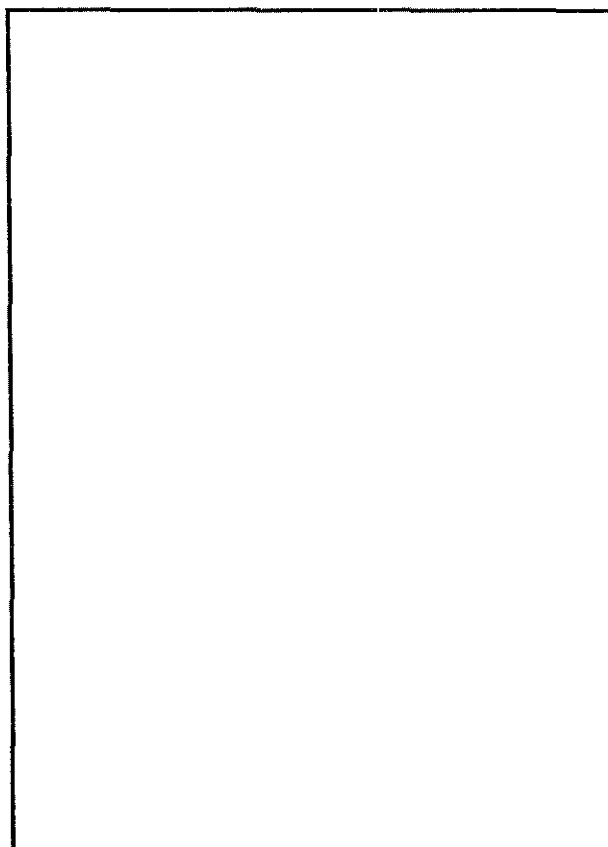
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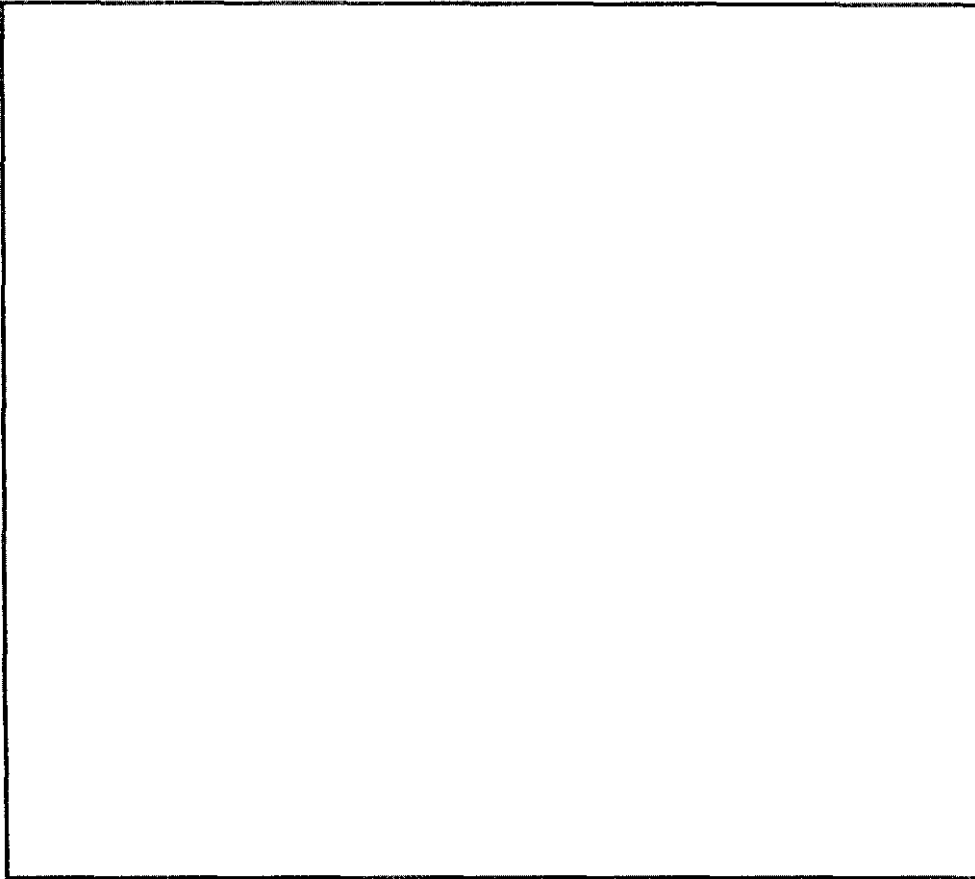
**Right:**  
*Witley Court,  
London WC1*



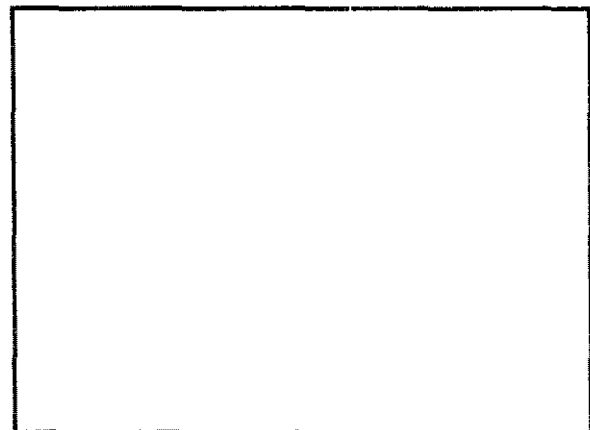
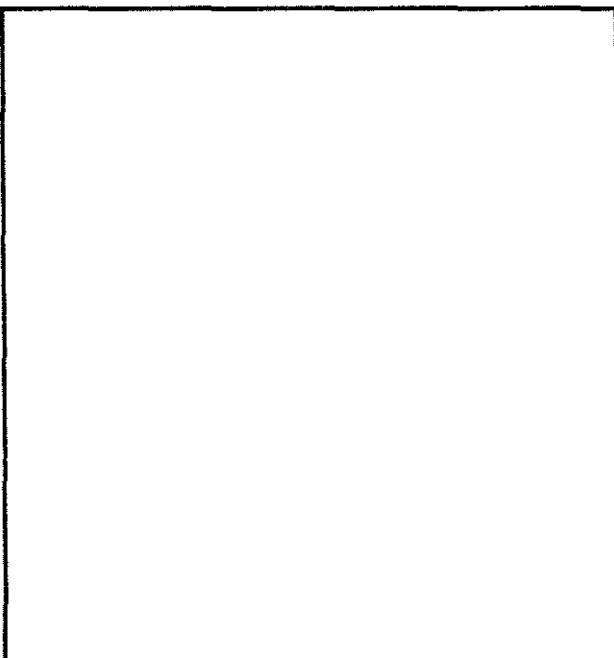
**Above:**  
*Sunscape Apartments,  
Tampa, Florida, USA*



**Right:**  
*Africa House,  
London WC2*



***Left:***  
Langlands House,  
Harlow, Essex



***Above:***  
Penhaligan House,  
Truro, Cornwall

***Left:***  
St Pauls Street,  
Baltimore, USA

## Chairman's Statement

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It gives me great pleasure to present to you my 25th Chairman's Statement together with the Report and Accounts for the year ended 31 March 2004. Looking back to my first Chairman's Statement in 1980, it is interesting to note that the dividend that year was 3.5p per share; approximately one sixteenth of this year's level. In the same period our net asset value as it appears on the face of the balance sheet has increased more than twenty fold.

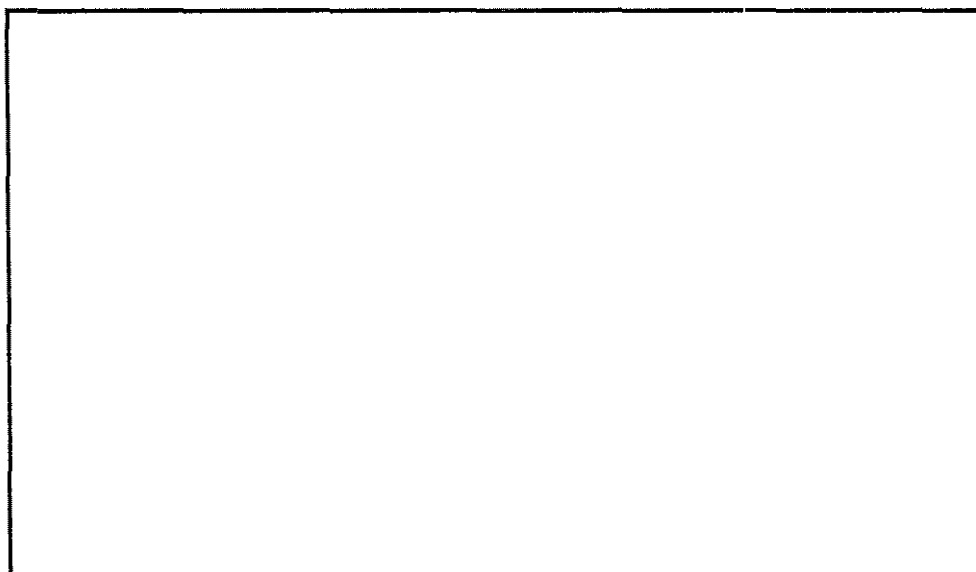
The revaluation of our investment properties shows an overall increase during the year of 4.4% to £573 million. The following table shows a breakdown of the changes in valuation of our various investment property holdings.

	Valuation March 2004	Percentage Change
Commercial Property		
UK	£434m	+3.8%
US	£ 23m	-2.8%*
Residential Property		
UK	£116m	+11.5%
Total	£573m	+4.4%

\* Percentage change in Dollar terms

As last year, our UK commercial portfolio has seen the highest rate of growth occur in our properties in the north of England; at 10.2% more than double the average rate for the UK commercial portfolio as a whole of 3.8%. As anticipated in my statement last year, we have seen a return to growth in our commercial properties in London with an increase of 5% (2003: 2.3% reduction). The reduction in value of our US commercial properties reflects general market

**Right:**  
Somerfield  
Supermarket,  
Diss, Norfolk



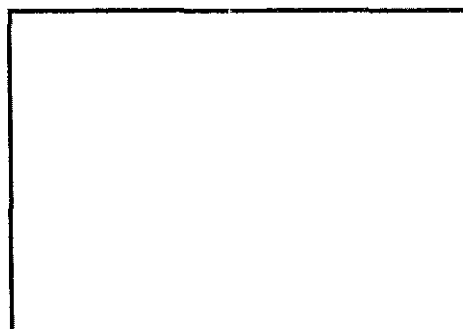
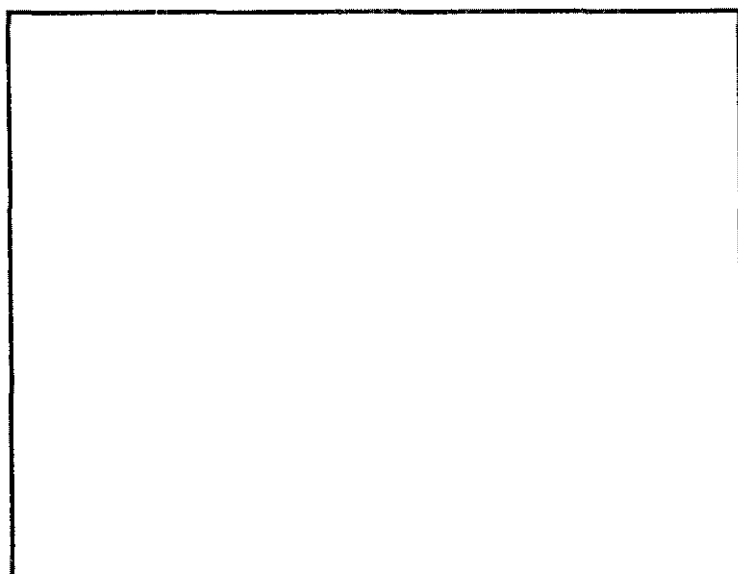
conditions in the Boston area in which they are located. We believe that this area will return to growth before too long.

In line with our long term strategic objective of seeking investment opportunities in both the UK and the USA, we have again added to our USA portfolio by the purchase of an apartment complex at Fort Lauderdale, Florida at a cost of \$26 million. This property provides scope for improved rental income and capital value in the short term following the completion of refurbishment works and brings the total value of our US properties to \$170 million.

The profit after tax for the year amounted to £22.9 million, which is an improvement on the previous year (£20.6 million). Net rental income showed a slight decline of £0.6 million; this is because the underlying increase in rental income was more than offset by continued heavy expenditure on property refurbishment and also by the impact of the depreciation of the US dollar which accounted for £0.7 million.

Our property repair and refurbishment programme has continued with £21 million being spent during the year of which £12 million is recoverable from lessees via service charges. During the year, projects totalling a further £17 million were approved for works to be carried out over several accounting periods. The level of our expenditure on refurbishments has risen from £16 million 3 years ago to this year's level of £21 million. Whilst we shall continue to spend large sums on maintaining our property portfolio, it is anticipated that this expenditure will stabilise with further increases being at a somewhat more modest rate.

The year under review has been a busy period for letting activity with over 1,000 lease negotiations completed, mostly at increased rent levels and producing an increase in gross rental income of £1.4 million. Despite an improvement in the UK letting market, we are still holding commercial vacancies at a level somewhat higher than we have experienced in recent years.



***Above:***

Orton Close,  
Sutton Coldfield

***Left:***

Commercial Union House,  
Kingston, Surrey

## *Chairman's Statement* (continued)

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A small number of properties were sold during the year for a total consideration of £10 million. We will continue to sell a limited number of properties as opportunities present themselves; our principal focus however remains the enhancement of the quality of the portfolio so as to deliver sustainable rental income and capital growth for the future.

The continuing strength of the Group's performance enables your Board to recommend an increase in the total dividend for the year from 55p to 58p an increase of 5.5%. Your Board will continue with the policy of increasing dividend levels prudently in the light of the Group's continuing progress.

Based on the balance sheet, equity shareholders' funds have increased to £505 million (2003 - £470 million) an increase of 7% after allowing for the proposed final dividend. When those items not included in the balance sheet are taken into account, the adjusted net asset value per share at the year end was £34.60 (2003 - £32.80) an increase of 5.5%. The adjusted net asset value is calculated by taking equity shareholders' funds and adjusting for the 2002 revaluation surplus on trading stock, the tax which would be payable on disposal of properties at valuation and the fair value of financial instruments as more fully described on page 35 and in note 15 to the Financial Statements.

The Group has sustained its position of financial strength built up over many years; gearing at the year end was at a low and prudent level of 22% (2003 - 26%). We are also reasonably liquid with cash and undrawn facilities amounting to £126 million as at 31 March 2004. The Group therefore remains in a strong position to further enhance its property portfolio as opportunities become available.

During the last year it has been satisfying to see the market price of our shares move somewhat closer to the underlying net asset value. Whilst our share price will always be heavily influenced by the wider trends in the market place, this welcome re-rating is not before time.

During the current year to date, we have continued to make satisfactory progress. The longer term should see us benefiting from the investment policies that we have pursued in the past. However, the property industry remains at risk of being effected by the results, not always intended, of Government intervention. Specifically, I am concerned that the proposed restrictions on the traditional UK rent review could have an effect on the status of property as a superior class of investment asset. A shift in valuation yields arising from any material reassessment of this valuable status could have serious repercussions not only for the property industry but also for the economy as a whole.

Overall, we are well placed to continue our record of success. We have built up a broadly based and substantial property portfolio, which provides us with an excellent position from which to achieve continued sustainable growth. As always, our thanks go to my hard working and dedicated colleagues whose efforts are vital to the success we continue to enjoy.

B.S.E. FRESHWATER  
Chairman

## *Directors' Report*

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The Directors have pleasure in presenting their Report together with the Financial Statements for the year to 31 March 2004.

### *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 2004 by the Group's external valuers, Cardales, Chartered Surveyors, and a copy of their report appears on page 41. The resultant figures have been included in the Financial Statements now presented and the increase of £28.5 million over previous book values has been transferred to Revaluation Reserve. The Group's trading portfolio in the UK was professionally valued at 31 March 2002 by the Group's external valuers Cardales and showed a surplus over book value of £148.5 million which has not been incorporated into the Financial Statements. The Group's United States investment properties were also professionally valued at 31 March 2004 by KTR Newmark and Meredith & Grew US General Certified Appraisers and the decrease of £0.7 million over previous book values has been transferred to Revaluation Reserve. The Group's United States trading properties were professionally valued at 31 March 2002 and produced a surplus of £26.2 million which has not been incorporated into the Financial Statements.

### *Net Asset Values*

Equity shareholders' funds per share based on balance sheet values are £30.96 (2003 - £28.81).

Adjusted Net Asset Value per share of £34.59 (2003 - £32.83) representing equity shareholders' funds with the trading stock based on a professional valuation as at 31 March 2002 (as adjusted for sales since that date) but after full allowance is made for tax (at applicable UK and US rates) on realisation of investment and trading properties at valuation and for the deduction of the fair value adjustment after tax of £8.3 million (2003 - £10.9 million), as calculated under Financial Reporting Standard 13. The adjustment for trading properties amounted to £168.5 million (2003 - £171.8 million) while the tax adjustment in respect of the trading properties amounted to £53.2 million (2003 - £54.2 million) and the tax adjustment in respect of properties held for investment amounted to £47.9 million (2003 - £41.3 million).

### *Results & Dividend*

The profit for the financial year amounted to £22,919,000 (2003 - £20,584,000). An Interim Dividend of 22p per share was paid on 12 March 2004 and the Directors now recommend the

## Directors' Report *(continued)*

payment of a Final Dividend of 36p per share, making a total for the year of 58p per share, an increase of 3p over the previous year. The dividends will absorb £9,451,000 (2003 - £8,962,000) and will leave £13,468,000 (2003 - £11,622,000) to be added to retained profits.

A review of the activities of the Group is contained in the Chairman's Statement on pages 4 to 6.

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

	Property Income		Profit	
	UK £000	USA £000	UK £000	USA £000
Rents and Charges	69,017	13,394	32,489	4,649
Sales of Trading and Investment Properties	10,289	—	8,491	—
Other Activities	38	158	38	158
	79,344	13,552	41,018	4,807
Financing Charges (net)			(5,344)	(2,697)
Administrative and Other Expenses			(6,569)	(773)
			29,105	1,337
			1,337	
Profit before Taxation			30,442	

### *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 Group does not have material trade creditor balances.

### *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 S I Freshwater who, being eligible, offers himself for re-election.

Brief biographies of the Directors are as follows:-

Mr B S E Freshwater. Aged 56 - 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. Aged 69 - 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. Aged 53 - 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' 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.

### *Substantial Interests & Interests of Directors*

Daejan Holdings PLC		31 March	31 March
Ordinary Shares		2004	2003
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 (2003 - 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 2004 a total of 7,876,431 shares (2003 - 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 2004 up to the date of signing this report.

## *Directors' Report* (continued)

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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
Centremanor Limited	1,000,000	6.1
Mayfair Charities Limited	565,000	3.5

### *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.

### *Charitable Donations*

Charitable Donations made by the Group amounted to £120,000 (2003 - £120,000). There were no political contributions (2003 - £Nil).

### *Auditors*

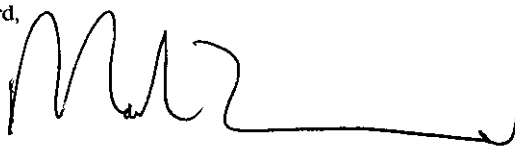
The Company's auditors, KPMG Audit Plc, have expressed their willingness to continue in office. In accordance with Section 384 of the Companies Act 1985, resolutions for the reappointment of KPMG Audit Plc as auditors of the Company, and to authorise the Directors to determine their remuneration, are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

By Order of the Board,

M R M Jenner

Secretary

6 August 2004



## Directors' Remuneration Report

### Audited Information

#### Remuneration

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

	Salary	Fees	Sub-total	Pensions	Total
	£	£	£	£	£
2004					
Mr B S E Freshwater	430,000	20,000	450,000	49,000	499,000
Mr D Davis	—	20,000	20,000	—	20,000
Mr S I Freshwater	416,000	20,000	436,000	—	436,000
	846,000	60,000	906,000	49,000	955,000

Pension to Widow of former  
managing director

£77,500

	Salary	Fees	Sub-total	Pensions	Total
	£	£	£	£	£
2003					
Mr B S E Freshwater	410,000	20,000	430,000	49,659	479,659
Mr D Davis	—	20,000	20,000	—	20,000
Mr S I Freshwater	417,000	20,000	437,000	—	437,000
	827,000	60,000	887,000	49,659	936,659

Pension to Widow of former managing director

£77,500

#### 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 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 defined contribution scheme to which Mr B S E Freshwater contributes 15% of gross salary per annum. The figure for pension contributions shown above is the contribution paid by the Group.

### Unaudited Information

#### 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 13). In determining remuneration policy, the Board has given full consideration to the Principles of Good Governance and Code of Best Practice as set out in Section 1 of the Combined Code annexed to the Listing Rules of the Financial Services Authority.

#### 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

## *Directors' Remuneration Report* (continued)

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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.

### **Remuneration of Non Executive Directors**

The fees of the non-executive Directors are reviewed periodically by the Executive Directors who make recommendations to the Board. The current level of £20,000 has been fixed for a number of years.

### **Service Contracts**

No Director has a service contract.

### **Total Shareholder Return**

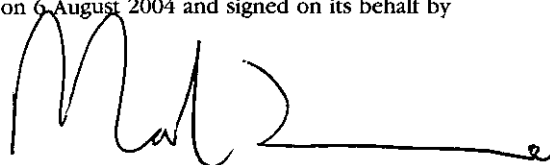
The following graph shows the total shareholder returns for the Company for each of the last five financial years compared to the FTSE All-Share Real Estate Index. The Company is a constituent of the FTSE All-Share Real Estate Index, and the Board considers this to be the most appropriate broad market equity index for illustrating the Company's performance.

### **Daejan Holdings Total Shareholder Return Index versus FTSE Real Estate Sector Total Return Index**

for the five financial years ended 31 March 2004 (rebased as at 1 April 1999)

Approved by the Board on 6 August 2004 and signed on its behalf by

M R M Jenner  
Company Secretary



## *Corporate Governance*

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### *General matters*

The Board is required by the Financial Services Authority to report on the extent of its application of the principles and of its compliance with the provisions contained in Section 1 of the Combined Code ("the Code").

Your Board fully supports the goal of better Corporate Governance and we comply with the majority of provisions of the Code with the exception of matters referred to below:-

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 the Board will continue to keep under review any proposals which may improve the efficiency of its operations including the appointment of additional directors, 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 formation 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. All Directors retire by rotation and submit themselves to shareholders for re-election at Annual General Meetings at regular intervals and at least every three years.

## *Corporate Governance* (continued)

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### *Directors' Remuneration*

Details of the Directors' remuneration are contained in the Remuneration Report on page 11.

### *Internal Controls*

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable but not absolute assurance against material misstatement or loss.

The Board confirms that there is an ongoing process for identifying, evaluating and managing any significant business risks faced by the Group, that this process has been in place for the year under review and up to the date of approval of the Annual Report and Accounts. This process is reviewed by the Board at regular intervals and accords with the Turnbull guidance.

**Key elements of the Group's system of internal controls are as follows:—**

**Controls environment:** The Group is committed to the highest standard of business conduct and seeks to maintain these standards across all its operations across the world. The Group has a clear organisational structure for planning, executing and monitoring business operations in order to achieve the Group's objectives. Lines of responsibility and delegation of authority are well defined.

**Risk identification and evaluation:** Management are responsible for the identification and evaluation of key risks applicable to the areas of the property market which impact their objectives. These risks are assessed on a continual basis and may be associated with a variety of internal and external sources. The Board considers the risk implications of business decisions including those affecting all major transactions.

**Information and communication:** Periodic strategic reviews are carried out which include the consideration of long-term financial projections. Annual budgets are prepared and performance against plan is actively monitored at Board level. Through these mechanisms Group performance is monitored, risks identified in a timely manner, their implications assessed, control procedures re-evaluated and corrective actions agreed and implemented.

**Control Procedures:** The Group has implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the potential exposure to loss of assets or fraud. Measures include physical controls, segregation of duties and reviews by management and external advisers.

**Monitoring and corrective action:** The Board meets regularly, formally and informally, throughout the year to review the internal controls. This includes an annual review of the significant business risks, formally considering the scope and effectiveness of the Group's system of internal control. In addition, the Directors and senior management staff have a close involvement in the day to day operations of the Group and as such the controls are subject to ongoing monitoring.

### *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. 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 Annual General Meetings. Details of proxy voting on each resolution are disclosed to the Meeting after it has been dealt with by a show of hands. In accordance with the Code, notice of the Annual General Meeting and the Report and Financial Statements will be sent to shareholders at least twenty working days before the meeting.

### *Financial Reporting*

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

## *Corporate Governance (continued)*

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### *Compliance Statement*

The Board consider the Company has complied throughout the year ended 31 March 2004 with the provisions of the Code with the exception of the following paragraphs:-

paragraph	subject
A.2.1	strong independent non-executive element
A.3.1-2	appointment of non-executive directors
B.1.1-3	
B.1.9	
B.2.1-3	appointment of remuneration committee and their proceedings
B.2.5	
C.2.3	
D.3.1-2	appointment of audit committee and their proceedings

### *Revised Combined Code*

The Combined Code was substantially revised in July 2003, following the Higgs review. The Revised Combined Code is effective for listed companies for periods commencing on or after 1 November 2003 and hence does not apply for the year ended 31 March 2004.

The Board is aware of the principles of the Revised Combined Code, which will apply for the year ending 31 March 2005, and will consider the implications for the Group in the coming year.

### *Going Concern*

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in 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 ensure 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.

The fair values as at 31 March 2004 as set out in note 15 on page 35 exceeded the book values of the Group's borrowings and receivables by £13 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 79p and would increase balance sheet gearing. After taking account of tax relief, the adjustment to net assets would be 51p 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*

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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:-

- 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.

## *Independent Auditors' Report*

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### *Independent auditors' report to the members of Daejan Holdings PLC*

We have audited the financial statements on pages 21 to 40. 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 & auditors*

The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 18, 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 page 16 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.

## *Independent Auditors' Report* (continued)

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### *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 31 March 2004 and of the profit of the group for the year then ended; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc.*

**KPMG Audit Plc**

Chartered Accountants

Registered Auditor

London

6 August 2004

*Consolidated Profit & Loss Account**for the year ended 31 March 2004*

	<i>Notes</i>	<b>2004</b> <b>£000</b>	<b>2003</b> <b>£000</b>
Turnover	2	90,007	84,132
Net Rental Income	2	37,138	37,723
Surplus on Sale of Trading Properties	2	7,002	6,587
Other Income	2	196	159
Gross Profit		44,336	44,469
Administrative and Other Expenses		(7,342)	(6,472)
Operating Profit		36,994	37,997
Surplus on Sale of Investment Properties	2	1,489	1,378
Profit on Ordinary Activities before Interest		38,483	39,375
Net Interest Payable and Other Similar Items	3	(8,041)	(8,683)
Profit on Ordinary Activities before Taxation	4	30,442	30,692
Tax on Profit on Ordinary Activities	5	(7,522)	(10,057)
Profit on Ordinary Activities after Taxation	6	22,920	20,635
Minority Interests - Equity		(1)	(51)
Profit for the Financial Year		22,919	20,584
Dividends: Interim		(3,585)	(3,585)
Final (proposed)		(5,866)	(5,377)
		(9,451)	(8,962)
Retained Profit for the Year	18	13,468	11,622
Basic and diluted earnings per Share	7	140.6p	126.3p
Dividends per Share		58.0p	55.0p

All activities are continuing.

The notes on pages 27 to 40 form part of these Financial Statements.

*Consolidated Balance Sheet*

<i>as at 31 March 2004</i>	<i>Notes</i>	<b>2004</b>	<b>2003</b>
		<b>£000</b>	<b>£000</b>
Fixed Assets			
Tangible Assets	8	573,218	548,651
Investments	9	617	617
		<b>573,835</b>	<b>549,268</b>
Current Assets			
Properties held for Trading	10	71,648	65,920
Debtors: Due within one year	11	24,127	30,206
Due after one year	11	—	1,699
		<b>24,127</b>	<b>31,905</b>
Investments	12	158	128
Cash at Bank		44,014	57,204
		<b>139,947</b>	<b>155,157</b>
Creditors: Amounts falling due within one year	13	(64,387)	(93,494)
Net Current Assets		<b>75,560</b>	<b>61,663</b>
Total Assets Less Current Liabilities		<b>649,395</b>	<b>610,931</b>
Creditors: Amounts falling due after more than one year	14	(137,265)	(132,557)
Provisions for liabilities and charges	16	(7,492)	(8,695)
Net Assets		<b>504,638</b>	<b>469,679</b>
Capital and Reserves			
Called up Share Capital	17	4,074	4,074
Share Premium Account	18	555	555
Revaluation Reserve	18	269,581	246,095
Other Reserves	18	6,784	6,784
Profit and Loss Account	18	223,511	211,998
Equity Shareholders' Funds		<b>504,505</b>	<b>469,506</b>
Minority Interests - Equity		133	173
		<b>504,638</b>	<b>469,679</b>
Equity Shareholders' Funds per Share	7	<b>£30.96</b>	<b>£28.81</b>

The Financial Statements on pages 21 to 40 were approved by the Board of Directors on 6 August 2004 and were signed on its behalf by:-

B S E Freshwater  
D Davis

Director  
Director

The notes on pages 27 to 40 form part of these Financial Statements.

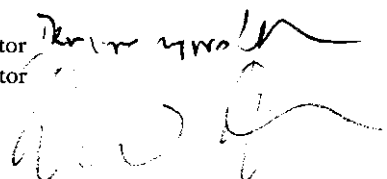
*Company Balance Sheet*

<i>as at 31 March 2004</i>	<i>Notes</i>	<b>£000</b>	<b>2004 £000</b>	<b>2003 £000</b>
Fixed Assets				
Investment in subsidiary undertakings	19		558,794	557,663
Current Assets				
Debtors: Due within one year	11	—	—	
Cash at Bank		8,871		7,336
		8,871		7,336
Creditors: Amounts falling due within one year	13	(24,410)		(55,743)
Net Current Liabilities			(15,539)	(48,407)
Total Assets Less Current Liabilities			543,255	509,256
Creditors: Amounts falling due after more than one year	14		(38,750)	(39,750)
Net Assets			504,505	469,506
Capital and Reserves				
Called up Share Capital	17		4,074	4,074
Share Premium Account	18		555	555
Revaluation Reserve	18		287,627	268,026
Other Reserves	18		893	893
Profit and Loss Account	18		211,356	195,958
			504,505	469,506

The Financial Statements on pages 21 to 40 were approved by the Board of Directors on 6 August 2004 and were signed on its behalf by:-

B S E Freshwater  
D Davis

Director  
Director



The notes on pages 27 to 40 form part of these Financial Statements.

*Consolidated Cash Flow Statement**for the year ended 31 March 2004*

	2004	2003
£000	£000	£000
Operating activities		
Net cash inflow from operating activities (note 20(i))	34,618	27,393
Returns on investments and servicing of finance		
Interest received	2,472	1,510
Interest paid	(9,794)	(11,174)
Minority interests	17	(31)
Net cash outflow from returns on investments and servicing of finance	(7,305)	(9,695)
Taxation		
UK Corporation tax paid	(7,688)	(9,728)
Overseas tax paid	(44)	(480)
	(7,732)	(10,208)
Capital expenditure		
Purchase of investment properties	(1,547)	—
Sale of investment properties	2,636	2,334
Net cash inflow for capital expenditure	1,089	2,334
Equity Dividends paid	(8,962)	(8,474)
Cash inflow before financing	11,708	1,350
Financing		
Repayment of secured loans	(33,558)	(5,064)
Repayment of mortgage advances	(2,325)	(407)
New mortgage advances	12,857	14,663
Net cash (outflow)/inflow from financing (note 20(iii))	(23,026)	9,192
(Decrease)/increase in cash in the year (note 20(ii&iii))	(11,318)	10,542

The notes on pages 27 to 40 form part of these Financial Statements.



## *Consolidated Statement of Total Recognised Gains & Losses*

<i>for the year ended 31 March 2004</i>	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Profit for the financial year	22,919	20,584
Unrealised surplus on revaluation of investment properties	27,843	18,557
Tax on realisation of revalued properties	(1)	(167)
Translation differences on foreign currency net investments	(6,311)	(3,281)
Total net recognised gains and losses relating to the year	<b>44,450</b>	<b>35,693</b>

## *Note of Consolidated Historical Cost Profits & Losses*

<i>for the year ended 31 March 2004</i>	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Reported profit on ordinary activities before taxation	30,442	30,692
Realisation of investment property revaluation gains of previous years	882	879
Historical cost profit on ordinary activities before taxation	<b>31,324</b>	<b>31,571</b>
Historical cost profit for the year retained after tax, minority interests and dividends	<b>14,349</b>	<b>12,334</b>

The notes on pages 27 to 40 form part of these Financial Statements.

## *Reconciliation of Movements in Consolidated Shareholders' Funds*

*for the year ended 31 March 2004*

	2004 £000	2003 £000
Profit for the financial year	22,919	20,584
Dividends: Interim	(3,585)	(3,585)
Final (proposed)	(5,866)	(5,377)
Retained profit for the year	13,468	11,622
Other net recognised gains and losses relating to the year	21,531	15,109
Net increase in shareholders' funds	34,999	26,731
Equity Shareholders' Funds brought forward	469,506	442,775
Equity Shareholders' Funds carried forward	504,505	469,506

The notes on pages 27 to 40 form part of these Financial Statements.

## *Notes to the Financial Statements*

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### *1. Principal Accounting Policies*

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**The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's Financial Statements.**

#### **(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 tax is provided in respect of all timing differences that have originated but not reversed at the balance sheet date where an event has occurred that results in an obligation to pay more or less tax in the future, except that:

## *Notes to the Financial Statements (continued)*

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- (i) provision is not made in respect of property revaluation surpluses unless the sale has been completed and rollover relief is not available to cover any gain arising; and
- (ii) deferred tax assets are recognised only to the extent that it is more likely than not that there will be suitable deferred tax profits from which the future reversal of the relevant timing differences can be deducted.

Deferred tax is measured on a non discounted basis at the tax rates which apply at the balance sheet date.

### (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 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 as shown in the subsidiaries financial statements.

### (l) Turnover

Turnover comprises rent and service charges receivable less applicable provisions and proceeds from the sale of trading properties.

## 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:

	<i>Property Income £000</i>	<i>Costs £000</i>	<i>2004 Profit Arising £000</i>	<i>Property Income £000</i>	<i>Costs £000</i>	<i>2003 Profit Arising £000</i>
Rents and service charges receivable (see (i) below)	82,411	(45,273)	37,138	77,164	(39,441)	37,723
Trading property sales	7,596	(594)	7,002	6,968	(381)	6,587
	90,007	(45,867)	44,140	84,132	(39,822)	44,310
Investment property sales	2,693	(1,204)	1,489	2,398	(1,020)	1,378
Other income	196	—	196	159	—	159
	92,896	(47,071)	45,825	86,689	(40,842)	45,847

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

	<i>UK £000</i>	<i>USA £000</i>	<i>2004 Total £000</i>	<i>UK £000</i>	<i>USA £000</i>	<i>2003 Total £000</i>
Property income	79,344	13,552	92,896	72,721	13,968	86,689
Profit before financing charges	34,449	4,034	38,483	34,296	5,079	39,375
Financing charges	(5,344)	(2,697)	(8,041)	(6,462)	(2,221)	(8,683)
Profit on ordinary activities before taxation	29,105	1,337	30,442	27,834	2,858	30,692
Net assets	473,982	30,656	504,638	429,292	40,387	469,679

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

	<i>2004 £000</i>	<i>2003 £000</i>
Wages and salaries	1,020	1,014
Social security costs	88	81
	1,108	1,095

These figures relate only to portering staff of whom an average number of 76 (2003 - 84) were employed during the year.

## 3. *Net Interest Payable*

	<i>2004 £000</i>	<i>2003 £000</i>
Interest payable on loans	9,771	11,051
Interest payable on overdrafts	11	14
	9,782	11,065
Interest receivable	(1,741)	(2,382)
Net interest payable	8,041	8,683

*Notes to the Financial Statements (continued)**4. Profit on Ordinary Activities before Taxation*

	2004 £000	2003 £000
Profit on ordinary activities before taxation is stated after charging the following:		
Auditors' remuneration - Audit services (including irrecoverable VAT) - Group	425	385
- Company	20	20
No other fees were paid to KPMG Audit Plc during the year (2003: Nil)		

The Group jointly employed an average of 146 persons during the year (2003 - 148). The aggregate payroll costs were £4,873,000 (2003 - £4,570,000). Details of the Directors' remuneration are contained in the Directors' Remuneration Report on page 11.

The Group contributes to a Director's Pension Scheme as described in the Directors' Remuneration Report on page 11. There were no outstanding contributions or prepayments at the year end.

*5. Tax on Profit on Ordinary Activities*

	2004 £000	2003 £000
Taxation based on the profit for the year		
UK corporation tax at 30% (2003 - 30%)	8,449	9,155
Overseas taxation	101	381
	8,550	9,536
Adjustments to prior years' charges	(609)	(65)
Total current tax	7,941	9,471
Deferred tax on origination and reversal of timing differences (Note 16)	(419)	586
	7,522	10,057
<b>Factors affecting the tax charge for the year</b>		
Profit on ordinary activities before taxation	30,442	30,692
Corporation tax at the standard rate of 30% (2003 - 30%)	9,133	9,208
Expenses disallowed	184	95
Adjustments in respect of previous periods - UK	(609)	(65)
Reduced tax on overseas profits not subject to UK corporation tax	(40)	(248)
Timing differences	(630)	23
Non-taxable income and other differences	(97)	(200)
Tax on release of provisions	—	658
	7,941	9,471

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

*6. Profit on Ordinary Activities After Taxation*

Profit after taxation of £23,786,000 arises in the holding company, £14,665,000 being dividends paid by subsidiary companies (2003 - £21,355,000; dividends - £12,386,000).

## 7. *Basic and Diluted Earnings per Share/Equity Shareholders' Funds per Share*

Earnings per share is calculated on earnings, after taxation and minority interests, of £22,919,000 (2003 - £20,584,000) and the weighted average number of shares in issue during the year of 16,295,357 (2003 - 16,295,357).

Equity Shareholders' Funds per Share are calculated on Equity Shareholders' Funds of £504,505,000 (2003 - £469,506,000) and the number of shares in issue at the year end of 16,295,357 (2003 - 16,295,357).

## 8. *Tangible Assets – Investment Properties*

	<i>Freehold</i>	<i>Long Leasehold</i>	<i>Short Leasehold</i>	<i>Total 2004</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At Valuation 1 April 2003	436,964	95,364	16,323	548,651
Disposals	(1,348)	—	—	(1,348)
Additions	1,522	—	25	1,547
Revaluation	21,664	5,384	795	27,843
Foreign Exchange movements	(3,475)	—	—	(3,475)
At Valuation 31 March 2004	455,327	100,748	17,143	573,218

The historical cost of investment properties is £302m.

A professional valuation of all the Group's United Kingdom investment properties was carried out at 31 March 2004 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 41.)

The Group's two US properties held for investment were also professionally valued at 31 March 2004 by KTR Newmark and Meredith & Grew US General Certified Appraisers. The revalued figures are based on open market values.

## 9. *Investments held as Fixed Assets*

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

## Notes to the Financial Statements (continued)

### 10. Properties held for Trading

	UK £000	USA £000	2004 Total £000	UK £000	USA £000	2003 Total £000
At the lower of cost and net realisable value	21,424	50,224	71,648	21,423	44,497	65,920

£4,712,000 (2003 - £7,365,000) of the properties held for trading in the USA are held through shares in co-operative corporations.

The trading properties were professionally valued at 31 March 2002. This resulted in a surplus over book value of £148.5m in respect of the UK properties and £26.2m for the US properties which have not been incorporated into the financial statements. The Directors are satisfied that the net realisable value of the properties remain substantially in excess of their book value.

	<i>The Group</i>		<i>The Company</i>	
	2004 £000	2003 £000	2004 £000	2003 £000
11. Debtors				
Rents and service charges	14,810	20,101	—	—
Other debtors and prepayments	8,661	9,756	—	—
Mortgages granted repayable within one year	656	349	—	—
Due within one year	24,127	30,206	—	—
Mortgages granted repayable after one year	—	1,699	—	—
Due after one year	—	1,699	—	—
	24,127	31,905	—	—

### 12. Investments held as current assets

Investments held as current assets include listed securities of £136,000 (2003 - £111,000) held at the lower of cost and net realisable value. The market value of these securities at 31 March 2004 was £167,000 (2003 - £130,000).

	<i>The Group</i>		<i>The Company</i>	
	2004 £000	2003 £000	2004 £000	2003 £000
13. Creditors: amounts falling due within one year				
Bank loans and overdrafts (see note below)	17,930	52,882	18,728	50,233
Unsecured loan stock	—	1,792	—	—
Mortgage instalments	2,655	944	—	—
Rents and service charges charged in advance	12,805	15,818	—	—
Other creditors and accruals	18,661	11,680	718	883
Taxation	6,470	5,001	(902)	(750)
Dividends payable	5,866	5,377	5,866	5,377
	64,387	93,494	24,410	55,743

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> <b>2004</b>	<b>2003</b>	<i>The Company</i> <b>2004</b>	<b>2003</b>
	£000	£000	£000	£000
Mortgage advances	58,180	51,117	—	—
Secured bank loans	79,085	81,440	38,750	39,750
	<b>137,265</b>	<b>132,557</b>	<b>38,750</b>	<b>39,750</b>

Analysis of creditors falling due after more than one year

	<i>Interest rate</i>	<i>The Group</i> <b>2004</b>	<b>2003</b>	<i>The Company</i> <b>2004</b>	<b>2003</b>
		£000	£000	£000	£000
Amounts repayable after 1 April 2009					
Mortgages	4.37%-7.89%	45,908	34,062	—	—
Secured bank loans	4.64%-8.55%	68,516	71,181	34,750	35,750
		<b>114,424</b>	<b>105,243</b>	<b>34,750</b>	<b>35,750</b>
Amounts repayable between 1 April 2006 and 31 March 2009					
Mortgages	5.75%-8.4%	11,973	16,756	—	—
Secured bank loans	4.64%-8.55%	8,272	7,903	3,000	3,000
		<b>20,245</b>	<b>24,659</b>	<b>3,000</b>	<b>3,000</b>
Amounts repayable between 1 April 2005 and 31 March 2006					
Mortgages	5.89%	300	300	—	—
Secured bank loans	4.64%-8.55%	2,296	2,355	1,000	1,000
		<b>2,596</b>	<b>2,655</b>	<b>1,000</b>	<b>1,000</b>
Amount of Long Term Loans secured on certain of the Group's properties					
		<b>137,265</b>	<b>132,557</b>	<b>38,750</b>	<b>39,750</b>

## Notes to the Financial Statements (continued)

### 15. Financial instruments

The Group's strategy in respect of the use of financial instruments to manage risk is detailed on page 16.

#### Financial assets

The Group's financial assets are investments held as fixed assets (Note 9), short and long term debtors (Note 11), current asset investments (Note 12) and cash at bank and in hand.

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

	2004 £000	2003 £000
Cash - Sterling denominated	32,299	44,797
Cash - US dollar denominated	11,715	12,407
Total	44,014	57,204

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 short term debtors of £6,775,000 (2003 - £6,914,000) denominated in US dollars.

The Group has mortgages receivable of £Nil (2003 - £2,048,000 denominated in US dollars).

Current asset investments and investments held as fixed assets are denominated in Sterling.

#### Financial liabilities

##### Liquidity risk - profile

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

	2004 £000	2003 £000
Within one year or less or on demand	20,585	55,618
Between one and two years	2,596	2,655
Between two and five years	20,245	24,659
After five years	114,424	105,243
	157,850	188,175

The Group has undrawn borrowing facilities of £77m (2003 - £45.9m) expiring within one year and £5m (2003 - £5m) expiring after five years.

##### Interest rate risk - profile

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

	2004 £000	2003 £000
Floating rate liabilities — Sterling denominated	48,703	80,090
Floating rate liabilities — US dollar denominated	7,727	8,983
Fixed rate liabilities — Sterling denominated	52,490	56,891
Fixed rate liabilities — US dollar denominated	48,930	42,211
	157,850	188,175

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 7.43% (2003 - 7.7%) and the weighted average period for which the borrowing is fixed at 31 March 2004 was 10 years (2003 - 11 years).

All of the £61,690,000 of fixed rate swaps mature after five years.

*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:

			2004		2003
	Book value	Notional	Fair value	Fair value	Fair value
	£000	Principal	adjustment	£000	adjustment
		£000	£000		£000
Financial instruments held or issued to					
finance the Group's operations					
<i>Assets:</i>					
Investments held as current assets	136	—	31	167	19
Mortgages receivable	—	—	—	—	230
<i>Liabilities:</i>					
Floating rate debt	(56,430)	—	—	(56,430)	—
Fixed rate debt	(101,420)	—	(12,898)	(114,318)	(14,189)
Interest rate swaps	—	—	—	—	(1,585)
Fair value adjustment			(12,867)		(15,525)

The fair values were calculated as at 31 March 2004 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 which 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 22 July 2004 (the last practical date before the printing of these Financial Statements) which due to movements in interest rates since 31 March 2004 has resulted in a current fair value adjustment of £7,867,000 in place of the March figure of £12,867,000.

*Currency profile*

The Group had net monetary assets of £1,032,000 (2003 - £1,189,000) denominated in US dollars held in entities using Sterling as the functional currency.

## Notes to the Financial Statements *(continued)*

<b>16. Provisions for liabilities and charges</b>	<b>2004</b>
	<b>£000</b>
Deferred taxation:	
At 1 April 2003	8,695
Credit to profit and loss account	(419)
Foreign exchange movement	(784)
At 31 March 2004	<b>7,492</b>

The provision represents deferred tax on timing differences resulting from capital allowances, tax depreciation and industrial building allowances.

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 £48.2m (2003 - £41.3m) and for which no provision has been made in these Financial Statements in accordance with FRS 19.

<b>17. Share Capital</b>	<b>Number</b>	<b>2004</b>	<b>2003</b>
		<b>£000</b>	<b>£000</b>
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	The Company £000
Share Premium Account:		
At 1 April 2003 and 31 March 2004	555	555
Revaluation Reserve:		
At 1 April 2003	246,095	268,026
Foreign exchange movements	(3,475)	(2,307)
Transfer to profit and loss account of revaluation surplus on investment properties now realised	(882)	—
Fixed asset revaluation	27,843	21,908
At 31 March 2004	269,581	287,627
Other Non-Distributable Reserves:		
At 1 April 2003 and 31 March 2004	6,784	893
Profit and Loss Account:		
At 1 April 2003	211,998	195,958
Foreign exchange movements	(2,836)	1,063
Revaluation reserve realised on disposal	882	—
Tax on revaluation reserve realised	(1)	—
Retained profit for the year	13,468	14,335
At 31 March 2004	223,511	211,356

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 2003	285,808	271,855	557,663
Repayments	—	(18,470)	(18,470)
Revaluation	21,908	—	21,908
Effect of foreign exchange differences	(2,307)	—	(2,307)
At 31 March 2004	305,409	253,385	558,794

The historical cost of shares in subsidiary undertakings is £17,876,000 (2003 - £17,876,000).

Shares in subsidiary undertakings have been valued by the Directors at 31 March 2004 based on the net asset values of the subsidiary undertakings.

## Notes to the Financial Statements (continued)

The results of certain subsidiary undertakings, acquired at a cost of £146,000 and valued by the Directors at £Nil (2003 - £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 (2003 - £40,000) and their aggregate liabilities at 31 March 2004 were £54,000 (2003 - £54,000). The inclusion of these undertakings would not materially affect the Consolidated Financial Statements.

20. Notes to the Consolidated Cash Flow Statement	2004 £000	2003 £000
(i) Reconciliation of operating profit to net cash inflow from operating activities.		
Operating profit	36,994	37,997
Increase in properties held for trading	(11,953)	(11,834)
Decrease/(increase) in debtors	6,108	(1,488)
Increase in creditors	3,495	3,102
(Increase)/decrease in investments held as current assets	(26)	16
Release of provision against trading properties	—	(400)
Net cash inflow from operating activities	34,618	27,393

(ii) Reconciliation of net cash flow to movement in net debt

	2004 £000	2003 £000
(Decrease)/increase in cash	(11,318)	10,542
New mortgage advances	(12,857)	(14,663)
Repayment of financing	35,883	5,471
Change in net debt resulting from cash flows	11,708	1,350
Exchange movements	5,427	3,388
Change in net debt	17,135	4,738
Opening net debt	(130,971)	(135,709)
Closing net debt	(113,836)	(130,971)

(iii) Analysis of changes in net debt

	1 April 2003 £000	Cash flow £000	Exchange movements £000	31 March 2004 £000
Cash at bank	57,204	(11,455)	(1,735)	44,014
Overdrafts	(339)	137	—	(202)
Secured loans	56,865	(11,318)	(1,735)	43,812
Unsecured loan stock	(133,983)	33,558	1,257	(99,168)
Mortgage advances	(1,792)	1,792	—	—
	(52,061)	(12,324)	5,905	(58,480)
	(130,971)	11,708	5,427	(113,836)

Cash at bank includes an amount of £794,000 (2003 - £799,000) which is held on behalf of tenants and cannot be utilised by the Group.

## *21. Related party transactions*

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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 net amounts paid for the provision of various management services charged by the Group's managing agents Highdorn Co. Limited and Freshwater Property Management Limited were £3.5m (2003 - £3.5m).

At 31 March 2004 £6.3m was due to Highdorn Co. Limited and Freshwater Property Management Ltd. (2003 - £1.2m due from).

The Directors interests in the Company and the principal shareholders are described on pages 9 and 10.

## *22. Contingent liabilities*

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The Company has guaranteed bank and mortgage indebtedness of certain subsidiary undertakings which at 31 March 2004 amounted to £51m (2003 - £44m).

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.

## Notes to the Financial Statements (continued)

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### 23. Principal Subsidiary Undertakings

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The following are wholly owned property investment or property trading companies included in the Consolidated Financial Statements.

#### *Incorporated in the UK and registered in England*

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



## *Report of the Valuers*

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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 2004. 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, outgoings 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, subject to our Standard Terms of Engagement and General Principles applied in the preparation of Valuations and Reports provided to you and in accordance with instructions, the properties are inspected on a three-yearly cycle.

Having regard to the foregoing we are of the opinion that the aggregate of the values of your Company's property interests in the United Kingdom as at 31 March 2004 is £548,143,000.

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 2004

*Five-Year Record*

	2000 £000	2001 Restated £000	2002 £000	2003 £000	2004 £000
Turnover	74,649	80,066	85,823	84,132	90,007
Net Rental Income	34,831	38,006	40,972	37,723	37,138
Surplus on Sale of Trading Properties	9,086	4,622	5,591	6,587	7,002
Other Income	177	1,679	143	159	196
Gross profit	44,094	44,307	46,706	44,469	44,336
Group Profit before Taxation	31,189	29,765	30,081	30,692	30,442
Taxation	8,500	8,436	9,262	10,057	7,522
Minority Interests	581	429	53	51	1
Available Surplus	22,108	20,900	20,766	20,584	22,919
Earnings: p. per Share	135.7	128.3	127.4	126.3	140.6
Dividends: p. per Share	46.0	49.0	52.0	55.0	58.0
Gross Assets	565,669	602,045	669,600	704,425	713,782
Equity Shareholders' Funds	355,294	382,851	442,775	469,506	504,505
Equity Shareholders' Funds: £ per Share (based on balance sheet figures)	21.80	23.49	27.17	28.81	30.96
Represented by:					
Share Capital	4,074	4,074	4,074	4,074	4,074
Reserves and Retained Profit	351,220	378,777	438,701	465,432	500,431
Equity Shareholders' Funds	355,294	382,851	442,775	469,506	504,505

## *Directors & Advisers*

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### *Directors*

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

### *Secretary*

M R M Jenner F.C.I.S.

### *Registered & 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.,  
New Burlington House,  
1075 Finchley Road,  
London NW11 0PJ

### *Principal Bankers*

Lloyds TSB Bank Plc  
Barclays Bank PLC  
The Royal Bank of Scotland Group

### *Stockbrokers*

Brewin Dolphin Securities Limited  
7 Drumsheugh Gardens  
Edinburgh EH3 7QH

## *Notice of Meeting*

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Notice is hereby given that the Sixty-ninth 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 Friday 15 October 2004 at 12 noon, for the following purposes:-

1. To receive the Financial Statements for the year ended 31 March 2004 together with the Reports of the Directors and the Auditors. (Resolution 1.)
2. To approve the Remuneration Report. (Resolution 2.)
3. To declare a final dividend. (Resolution 3.)
4. To re-elect Mr S I Freshwater as a Director. (Resolution 4.)
5. To re-appoint KPMG Audit Plc as Auditors, and to authorise the Directors to agree their remuneration. (Resolution 5.)

  
By Order of the Board,  
M R M Jenner  
Secretary

6 August 2004

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 13 October 2004 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 November 2004 to Shareholders registered at the close of business on 1 October 2004.

No Director has a service contract.