

DAEJAN HOLDINGS PLC

REPORT AND FINANCIAL STATEMENTS

1998

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

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 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

RESULTS AT A GLANCE

| | Year ended 31 March | | |
|--|---------------------|--------|------------|
| | 1998 | 1997 | % increase |
| | £000 | £000 | |
| Profit before Taxation | 27,101 | 24,492 | 11 |
| Profit after Taxation | 19,541 | 16,751 | 17 |
| Earnings per Share | 119.1p | 102.6p | 16 |
| Dividends per Share | 42.0p | 38.0p | 11 |
| Equity Shareholders' Funds per Share (based on Balance Sheet values) | £17.87 | £16.72 | 7 |

Final Dividend of 23p per share payable on 1 October 1998

I am pleased to report that the Group has had another successful year. Profits before tax for the year ended 31 March 1998 have increased to £27.1 million from £24.5 million in the previous year – an increase of 10.6%.

CHAIRMAN'S STATEMENT

In view of the increase in profits, your Board is recommending a final dividend of 23p per share, bringing the total distribution for the year to 42p. As will be apparent from the five-yearly record on page 26, the proposed dividend represents an increase of 45% over the amount paid at the beginning of that period.

During the year we continued an active programme of property acquisitions, both of investment and trading properties, at a cost of £33 million. In addition to the purchase of commercial property investments in the United Kingdom at good yields and with growth potential, we also took advantage of an opportunity to increase our stock of residential property in the United States, which now totals 1,600 units mostly in the New York area.

Our Balance Sheet shows equity shareholders' funds of £291.2 million, an increase of 6.9%. This figure is calculated before account is taken of the substantial additional equity represented by the difference between the original cost of the trading stock, at which figure it is stated in the Balance Sheet, and the current market value. Last year's professional valuation of the trading portfolio disclosed a surplus of £67.5 million. The basis of that valuation was a conservative one and I am confident that this surplus has been at least maintained. Adopting last year's valuation figure for the trading properties, and subject only to tax arising on realisations, the Group has a net value of £358.7 million (£22 per share).

Our financial position remains very solid. Gearing — being the ratio of net debt to net assets — is low at 34.7%. We have healthy cash balances and substantial undrawn loan facilities. Accordingly, we are well placed to continue our careful property investment activity. This, coupled with active management of the existing portfolio, will promote continued steady growth.

The residential lettings market has been buoyant in the period under review and so far over 200 of the Group's residential units have been let on assured shorthold tenancies. Our past policy would have been for these units to be sold, which would have augmented the surplus on sale of properties. Whilst a reduction in the volume of residential units offered for sale reduces immediate trading profits, which this year amounted to £6.6 million, it enables us to retain the benefit of the properties for the future. Our confidence to expand our United Kingdom residential letting activity has been influenced by the Government's assurance that rents for assured shorthold tenancies will continue to be governed by market trends and that there are no plans to change the legislative framework within which these tenancies operate.

Some 75% by value of the Group's property assets are commercial property holdings. The residential properties which comprise the balance have, over a long period, been a powerful engine of growth for the Group, but remain the most sensitive to political influence. The Government's consultation paper on residential leasehold reform is due to be published in the autumn. We will welcome sensible reforms, but it is vital that the Government draws a careful balance between the merits of additional "consumer" protection and avoidance of damage to the legitimate interests of the investor. Only in the absence of such damage will greater investment be attracted and the residential investment and letting sectors thrive.

No review of our achievements can be complete without mention of the vital contribution of my many loyal and hard working colleagues who invest so much energy and enthusiasm to ensure the continued success of the Group. Our thanks to them is well deserved.


B S E FRESHWATER
Chairman

The Directors have pleasure in presenting their Report together with the Financial Statements for the year to 31 March 1998.

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 1998 by the Group's external valuers, Cardales, Chartered Surveyors, and a copy of their report appears on page 25. The resultant figures have been included in the Financial Statements now presented and the increase of £6,317,000 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 attributable to equity shareholders amounted to £19,410,000 (1997: £16,726,000). An Interim Dividend of 19p per share was paid on 16 March 1998 and the Directors now recommend the payment of a Final Dividend of 23p per share, making a total for the year of 42p per share, an increase of 4p over the previous year. The dividends will absorb £6,844,000 (1997: £6,192,000) and will leave £12,566,000 (1997: £10,534,000) to be added to retained profits.

A review of the activities of the Group is contained in the Chairman's Statement on page 2.

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 | 47,395 | 7,114 | 28,362 | 1,759 |
| Sales of Trading and Investment Properties | 14,194 | 324 | 9,238 | 324 |
| Other Activities | — | — | 216 | 74 |
| | <u>61,589</u> | <u>7,438</u> | <u>37,816</u> | <u>2,157</u> |
| Financing Charges (net) | | | (7,395) | (422) |
| Administrative and Other Expenses | | | (4,677) | (378) |
| | | | <u>25,744</u> | <u>1,357</u> |
| | | | 1,357 | |
| Profit before Taxation | | | <u>27,101</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 S I Freshwater who, being eligible, offers himself for re-election.

DIRECTORS' REPORT CONTINUED

Neither Mr D Davis nor Mr S I Freshwater have 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 Section A of the Best Practice Provisions annexed to the Listing Rules of the London Stock Exchange with the exception of the provision relating to the formation and constitution of a remuneration committee (see page 8). In determining remuneration policy, the Board has given full consideration to Section B of the 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 Director's 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.

No Director has a service contract which cannot be terminated by less than twelve months' notice.

**DIRECTORS'
REPORT**
CONTINUED

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

| | 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

| | Salary £ | Fees £ | Sub-total £ | Pensions £ | Total £ |
|---------------------|-------------|-----------|----------------|---------------|------------|
| 1997 | | | | | |
| Mr B S E Freshwater | 315,000 | 15,000 | 330,000 | 65,000 | 395,000 |
| Mr D Davis | — | 15,000 | 15,000 | — | 15,000 |
| Mr S I Freshwater | 301,352 | 15,000 | 316,352 | — | 316,352 |
| | 616,352 | 45,000 | 661,352 | 65,000 | 726,352 |

Pension to Widow of former
managing director

£65,000

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 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 20 to the financial statements.

| |
|---|
| DIRECTORS' REPORT CONTINUED |
|---|

Substantial Interests and Interests of Directors

| <i>Daejian Holdings PLC</i> | | 31 March | 31 March |
|-----------------------------|---------------------|----------|----------|
| <i>Ordinary Shares</i> | | 1998 | 1997 |
| 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 (1997-4,363,116) 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 1998 a total of 7,876,431 shares (1997-7,876,431) 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 1998.

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 |

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 <i>CONTINUED</i> |
|--|

Charitable Donations

During the year the Group made charitable donations totalling £120,000 (1997-£60,000) net under Deed of Covenant.

Millennium Issues

The Group is carrying out a detailed review of all its internal systems with the object of ensuring that they will be Year 2000 compliant. Updating those systems that are not already Year 2000 compliant is progressing well and should be completed by the end of March 1999.

The costs of updating systems that are not already Year 2000 compliant are not anticipated to be significant.

The Group is also carrying out a review of the systems within its properties with the objective of eliminating any problems relating to the continuity of services which it provides. 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 also written to its major suppliers seeking confirmation of their approach in dealing with this issue.

Auditors

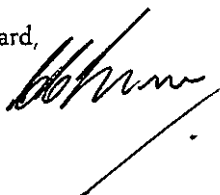
The Company's auditors, KPMG Audit Plc, have expressed their willingness to continue in office. In accordance with Section 384 of the Companies Act 1985, a resolution for the reappointment of KPMG Audit Plc as auditors of the Company, and to authorise the Directors to determine their remuneration, is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

By Order of the Board,

C C MORSE

Secretary

7 August 1998



General matters

The Board is required by the Stock Exchange to report on the extent of its compliance with specified provisions contained within the Code of Best Practice drawn up by the Cadbury Committee on Corporate

CORPORATE GOVERNANCE

Governance and outlined in The Financial Aspects of Corporate Governance as supplemented by the related guidance for directors.

Your Board supports fully the goal of better Corporate Governance and we comply with the majority of items in the code.

We do not comply with the code's recommendation 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.

Internal Controls

The Directors are responsible for 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.

The Directors have reviewed the framework of internal financial control and have considered its appropriateness for the Group and its effectiveness in relation to the "Criteria for assessing effectiveness" described in "Internal control and financial reporting" issued by the Cadbury Internal Control Working Group.

Compliance with the Cadbury Code of Best Practice during the year ended 31 March 1998

The Board considers that the Company has complied with those provisions contained within the Code of Best Practice that the London Stock Exchange requires it to report on with the exception of the following paragraphs:

| <i>paragraph</i> | <i>subject</i> |
|------------------|--|
| 1.2 | division of responsibilities between chairman and chief executive |
| 2.1 | } selection, appointment and independence of non-executive Directors |
| 2.2 | |
| 2.3 | |
| 2.4 | |
| 4.3 | 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.

Review report by KPMG Audit Plc
to Daejan Holdings PLC
on corporate governance matters

In addition to our audit of the financial statements, we have reviewed the Directors' statements on pages 8 and 9 on the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. This guidance does not require us to perform any additional work necessary to, and we do not, express a separate opinion on the effectiveness of either the Group's system of internal financial control or the Company's corporate governance procedures, or on the ability of the Group to continue in operational existence.

Opinion

With respect to the Directors' statements on internal financial control on page 8, and going concern on page 9, in our opinion the Directors have provided the disclosures required by the Listing Rules and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain Directors and officers of the Company, and examination of relevant documents, in our opinion the Directors' statement on page 9 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review by the Listing Rules.

KPMG Audit Plc

KPMG Audit Plc

Chartered Accountants

7 August 1998

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 11 to 24. We have also examined the amounts disclosed relating to emoluments and Directors' pension entitlements which form part of the Directors' Report on page 5.

Respective responsibilities of Directors and Auditors

As described above the Company's Directors are responsible for the preparation of financial statements.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 1998 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

KPMG Audit Plc

Chartered Accountants

Registered Auditor

London

7 August 1998

| | Notes | 1998 £000 | 1997 £000 |
|---|-------|--------------|--------------|
| Net Rental Income | 2 | 30,121 | 28,061 |
| Surplus on Sale of Trading Properties | 2 | 6,636 | 7,637 |
| Other Income | | 290 | 80 |
| Gross Profit | | 37,047 | 35,778 |
| Administrative and Other Expenses | | (5,055) | (4,910) |
| Operating Profit | | 31,992 | 30,868 |
| Surplus on Sale of Investment Properties | 2 | 2,926 | 1,698 |
| Net Interest Payable and Other Similar Items | 3 | (7,817) | (8,074) |
| Profit on Ordinary Activities before Taxation | 4 | 27,101 | 24,492 |
| Tax on Profit on Ordinary Activities | 5 | (7,560) | (7,741) |
| Profit on Ordinary Activities after Taxation | 6 | 19,541 | 16,751 |
| Minority Interests — Equity | | (131) | (25) |
| Profit Attributable to Equity Shareholders | | 19,410 | 16,726 |
| Dividends: 1st Interim | | (3,096) | (2,607) |
| 2nd Interim | | — | (2,607) |
| Final (proposed) | | (3,748) | (978) |
| | | (6,844) | (6,192) |
| Retained Profit for the Year | 17 | 12,566 | 10,534 |
| Earnings per Share | 7 | 119.1p | 102.6p |

All activities are continuing.

The notes on pages 16 to 24 form part of these Financial Statements.

CONSOLIDATED BALANCE SHEET

DAEJAN HOLDINGS PLC

AS AT 31 MARCH 1998

| | Notes | £000 | 1998 £000 | £000 | 1997 £000 |
|---|-------|----------------|----------------|---------------|----------------|
| FIXED ASSETS | | | | | |
| Tangible Assets | 8 | | 351,257 | | 330,333 |
| Investments | 9 | | 617 | | 617 |
| | | | <u>351,874</u> | | <u>330,950</u> |
| CURRENT ASSETS | | | | | |
| Properties held for Trading | 10 | 56,143 | | 42,049 | |
| Debtors: Due within one year | 11 | 15,008 | | 15,189 | |
| Due after one year | 11 | 3,446 | | 6,691 | |
| | | <u>18,454</u> | | <u>21,880</u> | |
| Investments | 12 | 150 | | 845 | |
| Cash at Bank | | 31,215 | | 16,182 | |
| | | <u>105,962</u> | | <u>80,956</u> | |
| Creditors: Amounts falling due within one year | 13 | (71,658) | | (45,740) | |
| Net Current Assets | | | <u>34,304</u> | | <u>35,216</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | <u>386,178</u> | | <u>366,166</u> |
| Creditors: Amounts falling due after more than one year | 14 | | (93,121) | | (92,038) |
| Provisions for liabilities and charges | 15 | | (1,073) | | (1,085) |
| NET ASSETS | | | <u>291,984</u> | | <u>273,043</u> |
| CAPITAL AND RESERVES | | | | | |
| Called up Share Capital | 16 | | 4,074 | | 4,074 |
| Share Premium Account | 17 | | 555 | | 555 |
| Revaluation Reserve | 17 | | 131,455 | | 127,788 |
| Other Reserves | 17 | | 4,378 | | 4,227 |
| Profit and Loss Account | 17 | | 150,783 | | 135,791 |
| Equity Shareholders' Funds | | | <u>291,245</u> | | <u>272,435</u> |
| Minority Interests — Equity | | | 739 | | 608 |
| | | | <u>291,984</u> | | <u>273,043</u> |
| Equity Shareholders' Funds per Share | 7 | | <u>£17.87</u> | | <u>£16.72</u> |

The Financial Statements on pages 11 to 24 were approved by the Board of Directors on 7 August 1998 and were signed on its behalf by:

B S E FRESHWATER

D DAVIS

Directors

The notes on pages 16 to 24 form part of these Financial Statements.

AS AT 31 MARCH 1998

| | Notes | £000 | 1998 £000 | £000 | 1997 £000 |
|---|-------|----------|--------------|----------|--------------|
| FIXED ASSETS | | | | | |
| Investment in subsidiary undertakings | 18 | | 325,413 | | 285,627 |
| CURRENT ASSETS | | | | | |
| Debtors: Due after one year | 11 | 937 | | 4,063 | |
| | | 937 | | 4,063 | |
| Creditors: Amounts falling due within one year | 13 | (34,964) | | (14,583) | |
| Net Current Liabilities | | | (34,027) | | (10,520) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | | | |
| | | | 291,386 | | 275,107 |
| Creditors: Amounts falling due after more than one year | 14 | | (141) | | (2,672) |
| NET ASSETS | | | 291,245 | | 272,435 |
| CAPITAL AND RESERVES | | | | | |
| Called up Share Capital | 16 | | 4,074 | | 4,074 |
| Share Premium Account | 17 | | 555 | | 555 |
| Revaluation Reserve | 17 | | 146,105 | | 136,183 |
| Profit and Loss Account | 17 | | 140,511 | | 131,623 |
| | | | 291,245 | | 272,435 |

The Financial Statements on pages 11 to 24 were approved by the Board of Directors on 7 August 1998 and were signed on its behalf by:

B S E FRESHWATER

Directors

D DAVIS

The notes on pages 16 to 24 form part of these Financial Statements.

CONSOLIDATED CASH FLOW STATEMENT

DAEJAN HOLDINGS PLC

FOR THE YEAR ENDED 31 MARCH 1998

| | £000 | 1998 £000 | £000 | 1997 £000 |
|--|----------|--------------|----------|--------------|
| OPERATING ACTIVITIES | | | | |
| Net cash inflow from operating activities (note 19(i)) | | 25,909 | | 31,573 |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | | |
| Interest received | 1,750 | | 1,583 | |
| Interest paid | (9,386) | | (9,242) | |
| Net cash outflow from returns on investments and servicing of finance | | (7,636) | | (7,659) |
| TAXATION | | | | |
| UK Corporation tax paid | (8,393) | | (6,918) | |
| Overseas tax paid | (40) | | (2) | |
| | | (8,433) | | (6,920) |
| CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT | | | | |
| Purchase of investment properties | (17,713) | | (353) | |
| Sale of investment properties | 6,032 | | 3,903 | |
| Net cash (outflow)/inflow from investing activities | | (11,681) | | 3,550 |
| EQUITY DIVIDENDS PAID | | (6,681) | | (5,703) |
| CASH (OUTFLOW)/INFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING | | (8,522) | | 14,841 |
| MANAGEMENT OF LIQUID RESOURCES AND FINANCING | | | | |
| Repayment of secured loans | (2,286) | | (47,584) | |
| Revolving loan facilities | 19,000 | | — | |
| Secured loan repayable 2015 | 15,000 | | 49,000 | |
| Repayment of mortgage advances | (14,116) | | (1,669) | |
| New mortgage advances | 6,509 | | — | |
| Repayment of Unsecured loan stock | (17) | | (1,136) | |
| Repayment of Debenture stock | (550) | | — | |
| Net cash inflow/(outflow) from financing (note 19(iii)) | | 23,540 | | (1,389) |
| Increase in cash (note 19(iii)) | | 15,018 | | 13,452 |

The notes on pages 16 to 24 form part of these Financial Statements.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 MARCH 1998

| | 1998 £000 | 1997 £000 |
|---|--------------|--------------|
| Profit for the year after taxation and minority interests | 19,410 | 16,726 |
| Unrealised surplus on revaluation of investment properties | 6,317 | 12,903 |
| Tax on realisation of revalued properties | (397) | (441) |
| Translation differences on foreign currency net investments | 324 | (251) |
| Total net recognised gains relating to the year | 25,654 | 28,937 |

NOTE OF CONSOLIDATED HISTORICAL COST PROFITS AND LOSSES

FOR THE YEAR ENDED 31 MARCH 1998

| | 1998 £000 | 1997 £000 |
|--|--------------|--------------|
| Reported profit on ordinary activities before taxation | 27,101 | 24,492 |
| Realisation of investment property revaluation gains of previous years | 2,650 | 1,989 |
| Historical cost profit on ordinary activities before taxation | 29,751 | 26,481 |
| Historical cost profit for the year retained in the profit and loss account after tax, minority interests and dividends | 14,819 | 12,082 |

RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 MARCH 1998

| | 1998 £000 | 1997 £000 |
|--|--------------|--------------|
| Profit for the year after taxation and minority interests | 19,410 | 16,726 |
| Dividends: 1st Interim | (3,096) | (2,607) |
| 2nd Interim | — | (2,607) |
| Final (proposed) | (3,748) | (978) |
| Retained profit for the year | 12,566 | 10,534 |
| Other net recognised gains and losses relating to the year | 6,244 | 12,211 |
| Net increase in shareholders' funds | 18,810 | 22,745 |
| Equity Shareholders' Funds brought forward | 272,435 | 249,690 |
| Equity Shareholders' Funds carried forward | 291,245 | 272,435 |

The notes on pages 16 to 24 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.

(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 18). 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 (as amended) 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. 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 | 1998 Gross profit £000 | Property Income £000 | Costs £000 | 1997 Gross profit £000 |
|--|----------------------------|---------------|---------------------------------|----------------------------|---------------|---------------------------------|
| Rents and service charges receivable (see (i) below) | 54,509 | (24,388) | 30,121 | 47,847 | (19,786) | 28,061 |
| Trading property sales | 8,255 | (1,619) | 6,636 | 9,974 | (2,337) | 7,637 |
| Investment property sales | 6,263 | (3,337) | 2,926 | 4,110 | (2,412) | 1,698 |
| | 69,027 | (29,344) | 39,683 | 61,931 | (24,535) | 37,396 |

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

| | UK £000 | USA £000 | 1998 Total £000 | UK £000 | USA £000 | 1997 Total £000 |
|---|------------|-------------|-----------------------|------------|-------------|-----------------------|
| Property income | 61,589 | 7,438 | 69,027 | 58,729 | 3,202 | 61,931 |
| Profit before financing charges | 33,139 | 1,779 | 34,918 | 31,974 | 592 | 32,566 |
| Financing charges | (7,395) | (422) | (7,817) | (8,071) | (3) | (8,074) |
| Profit on ordinary activities before taxation | 25,744 | 1,357 | 27,101 | 23,903 | 589 | 24,492 |
| Net assets | 271,553 | 20,431 | 291,984 | 260,766 | 12,277 | 273,043 |

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

| | 1998 £000 | 1997 £000 |
|-----------------------|--------------|--------------|
| Wages and salaries | 1,167 | 1,118 |
| Social security costs | 97 | 90 |
| | 1,264 | 1,208 |

These figures relate only to portage staff of whom an average number of 121 (1997 - 122) were employed during the year.

CONTINUED

| | 1998 £000 | 1997 £000 |
|---|--------------|--------------|
| 3 NET INTEREST PAYABLE AND OTHER SIMILAR ITEMS | | |
| Interest payable on bank loans and overdrafts | 9,454 | 9,369 |
| Less: Interest receivable | (1,796) | (1,595) |
| Foreign exchange movements | 159 | 300 |
| | <u>7,817</u> | <u>8,074</u> |

| | 1998 £000 | 1997 £000 |
|---|--------------|--------------|
| 4 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | |
| Profit on ordinary activities before taxation is stated after charging the following: | | |
| Auditors' remuneration – Audit services | 296 | 288 |

No other fees were paid to the Company's auditors during the year (1997 – Nil).

| | 1998 £000 | 1997 £000 |
|--|--------------|--------------|
| Staff costs (including directors' remuneration): | | |
| Salaries | 3,116 | 2,944 |
| Social Security costs | 234 | 231 |
| Pension contributions | 162 | 193 |
| | <u>3,512</u> | <u>3,368</u> |

These figures include the Group's proportion of Administrative Staff costs which are equivalent to an average of 137 employees (1997 – 140 employees).

| | 1998 £000 | 1997 £000 |
|---|----------------------|----------------------|
| 5 TAX ON PROFIT ON ORDINARY ACTIVITIES | | |
| (a) Taxation based on the profit for the year of the Company and its subsidiaries | | |
| UK corporation tax at 31% (1997 – 33%) | 7,652 | 7,540 |
| Overseas taxation | 40 | 2 |
| Deferred taxation | (180) | 114 |
| | <u>7,512</u> | <u>7,656</u> |
| Prior years' charges | 48 | 85 |
| | <u>7,560</u> | <u>7,741</u> |
| | <u>1998 £000</u> | <u>1997 £000</u> |

| | | |
|-------------------------------|------------|----------|
| (b) Deferred Taxation Asset | | |
| Short term timing differences | | |
| At 1 April 1997 | — | 114 |
| Credit/(charge) for the year | 180 | (114) |
| At 31 March 1998 (Note 11) | <u>180</u> | <u>—</u> |

Note 15 sets out the Group's deferred taxation provision.

6 PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION

Profit after taxation of £15,732,000 arises in the holding company, £8,720,000 being dividends paid by subsidiary companies (1997 – £100,476,000; Dividends – £99,450,000).

7 EARNINGS PER SHARE/EQUITY SHAREHOLDERS FUNDS PER SHARE

Earnings per share is calculated on earnings, after taxation and minority interests, of £19,410,000 (1997 – £16,726,000) and the weighted average number of shares in issue during the year of 16,295,357 (1997 – 16,295,357).

Equity Shareholders' Funds per Share are calculated on Equity Shareholders' Funds of £291,245,000 (1997 – £272,435,000) and the number of shares in issue at the year end of 16,295,357 (1997 – 16,295,357).

| 8 TANGIBLE ASSETS – INVESTMENT PROPERTIES | Freehold £000 | Long Leasehold £000 | Short Leasehold £000 | Total 1998 £000 |
|--|------------------|---------------------------|----------------------------|-----------------------|
| At Valuation 1 April 1997 | 253,645 | 63,417 | 13,271 | 330,333 |
| Additions | 17,373 | 340 | — | 17,713 |
| Disposals | (2,894) | (109) | (103) | (3,106) |
| Transfer | 117 | — | (117) | — |
| Revaluation | 5,155 | 1,189 | (27) | 6,317 |
| At Valuation 31 March 1998 | 273,396 | 64,837 | 13,024 | 351,257 |

The historical cost of investment properties is £217,528,000.

A professional valuation of all the Group's United Kingdom investment properties was carried out at 31 March 1998 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 25.)

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 1997 by Cardales, Chartered Surveyors of £650,000 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 | 1998 Total £000 | UK £000 | USA £000 | 1997 Total £000 |
|--|------------|-------------|-----------------------|------------|-------------|-----------------------|
| At the lower of cost and net realisable value | 23,155 | 32,988 | 56,143 | 23,144 | 18,905 | 42,049 |

£6,850,000 (1997 – £5,800,000) of the properties held for trading in the USA are held through shares in co-operative corporations.

| 11 DEBTORS | The Group 1998 £000 | 1997 £000 | The Company 1998 £000 | 1997 £000 |
|--|---------------------------|--------------|-----------------------------|--------------|
| Rents and service charges | 10,148 | 9,911 | — | — |
| Other debtors and prepayments | 4,680 | 5,278 | — | — |
| Short term timing differences (note 5(b)) | 180 | — | — | — |
| Due within one year | 15,008 | 15,189 | — | — |
| Mortgages granted repayable after one year | 2,509 | 5,795 | — | 3,167 |
| ACT recoverable after one year | 937 | 896 | 937 | 896 |
| Due after one year | 3,446 | 6,691 | 937 | 4,063 |
| | 18,454 | 21,880 | 937 | 4,063 |

12 INVESTMENTS HELD AS CURRENT ASSETS

Investments held as current assets include listed securities of £111,000 (1997 – £101,000) held at the lower of cost and net realisable value. The market value of these securities is £198,000 (1997 – £158,000).

CONTINUED

| 13 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR | The Group 1998 £000 | 1997 £000 | The Company 1998 £000 | 1997 £000 |
|--|---------------------------|--------------|-----------------------------|--------------|
| Debenture stock 1992-97 7.75% | — | 550 | — | — |
| Mortgage advances 7.75%-9.45% | 9,029 | 4,958 | — | — |
| Bank loans and overdrafts (see note below) | 30,386 | 11,629 | 27,571 | 8,730 |
| Rents and service charges charged in advance | 9,941 | 9,639 | — | — |
| Other creditors and accruals | 10,595 | 7,165 | 454 | 464 |
| Taxation | 7,959 | 8,214 | 3,191 | 1,804 |
| Dividends payable | 3,748 | 3,585 | 3,748 | 3,585 |
| | 71,658 | 45,740 | 34,964 | 14,583 |

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 | The Group 1998 £000 | 1997 £000 | The Company 1998 £000 | 1997 £000 |
|---|---------------------------|--------------|-----------------------------|--------------|
| Unsecured loan stocks | 1,823 | 1,840 | — | — |
| Mortgage advances | 33,367 | 45,235 | — | — |
| Amounts due to subsidiary undertakings | — | — | 141 | 2,672 |
| Secured bank loan | 57,931 | 44,963 | — | — |
| | 93,121 | 92,038 | 141 | 2,672 |

Analysis of creditors falling due after more than one year

| | Interest Rate | The Group 1998 £000 | 1997 £000 | The Company 1998 £000 | 1997 £000 |
|--|------------------|---------------------------|--------------|-----------------------------|--------------|
| Amounts repayable after 1 April 2003 | | | | | |
| Unsecured loan stock 2007 | 8.25% | 1,823 | 1,840 | — | — |
| Mortgages | 7.29%-9.45% | 19,376 | 36,234 | — | — |
| Amounts due to subsidiary undertakings | | — | — | 141 | 2,672 |
| Secured bank loan | 8.55% | 44,199 | 32,443 | — | — |
| | | 65,398 | 70,517 | 141 | 2,672 |
| Amounts repayable between 1 April 2000 and 31 March 2003 | | | | | |
| Mortgages | 7.50%-9.50% | 12,517 | 7,360 | — | — |
| Secured bank loan | 8.55% | 10,961 | 10,090 | — | — |
| | | 23,478 | 17,450 | — | — |
| Amounts repayable between 1 April 1999 and 31 March 2000 | | | | | |
| Mortgages | 7.75%-9.45% | 1,474 | 1,641 | — | — |
| Secured bank loan | 8.55% | 2,771 | 2,430 | — | — |
| | | 4,245 | 4,071 | — | — |
| Total amount of Long Term Loans | | 93,121 | 92,038 | 141 | 2,672 |
| Amount of Long Term Loans secured on certain of the Group's properties | | 91,298 | 90,198 | — | — |

The secured bank loan is repayable by instalments terminating December 2015.

15 PROVISIONS FOR LIABILITIES AND CHARGES

The Group
£000

| | |
|---------------------------|-------|
| Deferred taxation: | |
| At 1 April 1997 | 1,085 |
| Foreign exchange movement | (12) |
| At 31 March 1998 | 1,073 |

Apart from the above items there was at 31 March 1998 a potential liability for deferred taxation in respect of Industrial Building Allowances of £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 £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.

16 SHARE CAPITAL

Number
1998
£000
1997
£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 |

17 RESERVES

The Group
£000
£000
The Company
£000
£000

| | | | |
|--|---------|---------|---------|
| Share Premium Account: | | | |
| At 1 April 1997 and 31 March 1998 | | 555 | 555 |
| Revaluation Reserve: | | | |
| At 1 April 1997 | 127,788 | | 136,183 |
| Transfer to profit and loss account of revaluation surplus on investment properties now realised | (2,650) | | |
| Fixed asset revaluation | 6,317 | | 9,922 |
| At 31 March 1998 | | 131,455 | 146,105 |
| Other Non-Distributable Reserves: | | | |
| At 1 April 1997 | 4,227 | | — |
| Translation differences on foreign currency net investments | 324 | | — |
| Transfer to profit and loss account | (173) | | — |
| At 31 March 1998 | | 4,378 | Nil |
| Profit and Loss Account: | | | |
| At 1 April 1997 | 135,791 | | 131,623 |
| Revaluation reserve realised on disposal | 2,650 | | — |
| Tax on revaluation reserve realised | (397) | | — |
| Transfer from other non-distributable reserves | 173 | | — |
| Retained profit for the year | 12,566 | | 8,888 |
| At 31 March 1998 | | 150,783 | 140,511 |

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

CONTINUED

| 18 INVESTMENT IN SUBSIDIARY UNDERTAKINGS | Shares at valuation £000 | Loans £000 | Total £000 |
|--|--------------------------------|---------------|---------------|
| The Company | | | |
| At 1 April 1997 | 146,534 | 139,093 | 285,627 |
| Additions | 6,836 | 23,354 | 30,190 |
| Revaluation | 9,922 | — | 9,922 |
| Effect of foreign exchange differences | (326) | — | (326) |
| At 31 March 1998 | 162,966 | 162,447 | 325,413 |

The historical cost of shares in subsidiary undertakings is £17,876,000 (1997 – £11,040,000).

Shares in subsidiary undertakings have been valued by the Directors at 31 March 1998 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 (1997 – £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 (1997 – £40,000) and their aggregate liabilities at 31 March 1998 were £54,000 (1997 – £54,000). The inclusion of these undertakings would not materially affect the Consolidated Financial Statements.

| 19 CASH FLOW STATEMENT | 1998 £000 | 1997 £000 |
|--|--------------|--------------|
| (i) Reconciliation of operating profit to net cash inflow from operating activities. | | |
| Operating profit | 31,992 | 30,868 |
| Increase in properties held for trading | (14,052) | (411) |
| Decrease in debtors | 3,584 | 1,186 |
| Increase/(decrease) in creditors | 3,704 | (523) |
| Decrease in investments held as current assets | 681 | 453 |
| Net cash inflow from operating activities | 25,909 | 31,573 |
| (ii) Reconciliation of net cash flow to movement in net debt | | |
| | 1998 £000 | 1997 £000 |
| Increase in cash | 15,018 | 13,452 |
| Revolving loan facilities | (19,000) | — |
| Secured loan repayable 2015 | (15,000) | (49,000) |
| New mortgage advances | (6,509) | — |
| Repayment of financing | 16,969 | 50,389 |
| Change in net debt resulting from cash flows | (8,522) | 14,841 |
| Exchange movement | 194 | 966 |
| Change in net debt | (8,328) | 15,807 |
| Opening net debt | (92,993) | (108,800) |
| Closing net debt | (101,321) | (92,993) |

19 CASH FLOW STATEMENT (CONTINUED)

(iii) Analysis of changes in net debt

| | 1 April 1997 £000 | Cash flow £000 | Exchange movements £000 | 31 March 1998 £000 |
|--------------------------|-------------------------|----------------------|-------------------------------|--------------------------|
| Cash at bank and in hand | 16,182 | 15,039 | (6) | 31,215 |
| Overdrafts | (88) | (21) | 10 | (99) |
| | 16,094 | 15,018 | 4 | 31,116 |
| Secured loans | (56,504) | (31,714) | — | (88,218) |
| Debenture stock | (550) | 550 | — | — |
| Unsecured loan stock | (1,840) | 17 | — | (1,823) |
| Mortgage advances | (50,193) | 7,607 | 190 | (42,396) |
| | (92,993) | (8,522) | 194 | (101,321) |

20 DIRECTORS' INTERESTS

Day-to-day management of the Group's properties in the United Kingdom is mainly carried out by Highdom 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 Highdom 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:

| Highdom Co. Ltd | | Freshwater Property Management Ltd | |
|-----------------|-------|---------------------------------------|-------|
| 1998 | 1997 | 1998 | 1997 |
| £000 | £000 | £000 | £000 |
| 1,527 | 1,404 | 1,084 | 1,030 |

At 31 March 1998 £823,000 was due to Highdom Co. Limited and £845,000 was due to Freshwater Property Management Limited.

The principal shareholders of the Company and the Directors interests in the Company are described on pages 5 and 6.

21 CONTINGENT LIABILITIES

The Company has guaranteed bank and mortgage indebtedness and unsecured loan stock of certain subsidiary undertakings which at 31 March 1998 amounted to £73.9m (1997 – £75.2m).

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.

CONTINUED

22 PRINCIPAL SUBSIDIARY UNDERTAKINGS

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

All subsidiary undertakings operate in their country of incorporation.

Incorporated in Great Britain and registered in England and Wales

| | |
|--|---|
| Astral Estates (London) Limited | Daejan (Kingston) Limited |
| Bampton Holdings Limited | Daejan (Lauderdale) Limited |
| Bampton (B&B) Limited | Daejan (Norwich) Limited |
| Bampton (Redbridge) Limited (75%) | Daejan (NUV) Limited |
| Brickfield Properties Limited | Daejan Properties Limited |
| City and Country Properties Limited | Daejan (Reading) Limited |
| City & Country Properties (Birmingham) Limited | Daejan Retail Properties Limited |
| City and Country Properties (Camberley) Limited | Daejan Securities Limited – <i>Share Dealer</i> |
| City and Country Properties (Midlands) Limited | Daejan (Taunton) Limited |
| Daejan (Brighton) Limited | Daejan (Warwick) Limited |
| Daejan (Cardiff) Limited | Daejan (Worcester) Limited |
| Daejan Commercial Properties Limited | Hampstead Way Investments Limited |
| Daejan (Dartford) Limited | Limebridge Co. Limited |
| Daejan Developments Limited | Pegasus Investment Company Limited |
| Daejan (Durham) Limited | Rosebel Holdings Limited |
| Daejan Enterprises Limited | Seaglen Investments Limited |
| Daejan Estates Limited | St. Leonards Properties Limited |
| Daejan (High Wycombe) Limited | The Bampton Property Group Limited |
| Daejan Investments Limited | The Cromlech Property Co. Limited |
| Daejan Investments (Grove Hall) Limited | The Halliard Property Co. Limited |
| Daejan Investments (Harrow) Limited | |
| Daejan Investments (Park) 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 1998. 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 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 1998 is £350,607,000 (three hundred and fifty million, six hundred and seven 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

11 May 1998

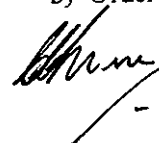
| | 1994 £000 | 1995 £000 | 1996 £000 | 1997 £000 | 1998 £000 |
|---|----------------|----------------|----------------|----------------|----------------|
| Net Rental Income | 19,095 | 21,548 | 22,829 | 28,061 | 30,121 |
| Surplus on Sale of Trading Properties | 7,890 | 7,335 | 3,733 | 7,637 | 6,636 |
| Other Income | 90 | 22 | 88 | 80 | 290 |
| | <u>27,075</u> | <u>28,905</u> | <u>26,650</u> | <u>35,778</u> | <u>37,047</u> |
| Group Profit before Taxation | 19,457 | 23,917 | 20,582 | 24,492 | 27,101 |
| Taxation | 5,467 | 5,842 | 6,053 | 7,741 | 7,560 |
| Minority Interests | 17 | 18 | 26 | 25 | 131 |
| Available Surplus | <u>13,973</u> | <u>18,057</u> | <u>14,503</u> | <u>16,726</u> | <u>19,410</u> |
| Earnings: p. per Share | 85.7 | 110.8 | 89.0 | 102.6 | 119.1 |
| Dividends: p. per Share | <u>29.0</u> | <u>32.0</u> | <u>35.0</u> | <u>38.0</u> | <u>42.0</u> |
| Gross Assets | 344,561 | 330,422 | 395,565 | 411,906 | 457,836 |
| Equity Shareholders' Funds | 223,458 | 239,487 | 249,690 | 272,435 | 291,245 |
| Equity Shareholders' Funds: £ per Share (based on balance sheet figures) | <u>13.71</u> | <u>14.70</u> | <u>15.32</u> | <u>16.72</u> | <u>17.87</u> |
| Represented by: | | | | | |
| Share Capital | 4,074 | 4,074 | 4,074 | 4,074 | 4,074 |
| Reserves and Retained Profit | <u>219,384</u> | <u>235,413</u> | <u>245,616</u> | <u>268,361</u> | <u>287,171</u> |
| Equity Shareholders' Funds | <u>223,458</u> | <u>239,487</u> | <u>249,690</u> | <u>272,435</u> | <u>291,245</u> |

Notice is hereby given that the Sixty-third 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 4 September 1998 at 12.00 noon, for the following purposes:-

NOTICE OF MEETING

1. To receive the Financial Statements for the year ended 31 March 1998 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 S I Freshwater as a Director. (Resolution 3).
4. To re-appoint KPMG Audit Plc as Auditors and to authorise the Directors to determine their remuneration. (Resolution 4).

By Order of the Board,

 C C MORSE
Secretary

12 August 1998

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 6.00pm on 2 September 1998 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 1998 to Shareholders registered at the close of business on 24 July 1998.

No Director has a service contract which cannot be terminated by less than twelve months' notice.

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

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