


Daejan Holdings PLC

Report & Financial Statements 2011

Daejan Holdings PLC

Report & Financial Statements 2011

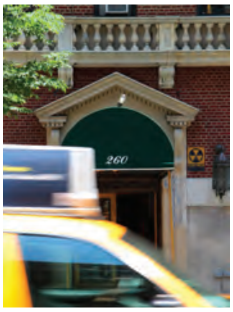
Summary of Results

	Year ended 31 March	
	2011	2010
	£000	£000
Profit before Taxation	**84,363**	61,129
Profit after Taxation	**67,833**	45,655
Earnings per Share	**£4.16**	£2.80
Dividends per Share	**75.0p**	74.0p
Equity Shareholders' Funds per Share	**£51.43**	£48.17

Final Dividend of 50p per share payable on 11 November 2011 to shareholders on the register on 14 October 2011.

Contents

Chairman's Statement



I have pleasure in presenting the Report and Financial Statements for the year ended 31 March 2011.

It is encouraging to be able to report that, notwithstanding the challenging economic environment, total rental and related income has exceeded £100 million for the first time in the Group's history.

Investment Property

The table below shows a summary of the annual revaluation of our Investment Property:

	Valuation March 2011 £m	Percentage Change
Commercial Property		
UK	575.4	+4.1%
USA	36.3	+2.0%
Residential Property		
UK	408.8	+7.0%
USA	205.9	+10.5%
Total	1,226.4	+6.1%

The rate of growth in the value of our portfolio reflected in the interim statement increased somewhat during the second half of the year to produce an overall annual uplift of 6.1% (2010–2.5%).

In the UK the uplift in valuation has been £49.7 million, equivalent to 5.3% (2010–4.4%). Property values have increased across all sectors of our portfolio with the exception of our holding of care

Above & right:
260 West End Avenue Manhattan, New York.

Far right:
Africa House, Kingsway, London WC2 (currently undergoing major refurbishment).

homes which is discussed in more detail below. The strongest growth has come from our residential portfolio, particularly in London, and from our office properties.

In the USA I am pleased to report a return to growth in values with an overall like-for-like gain on revaluation in dollar terms of 4.9% (2010–5.3% reduction).

The table below provides an analysis of the movement in the value of the investment property portfolio and the impact of both revaluation and foreign exchange movements over the year:

Movement in Valuation of the Total Investment Property Portfolio

	2011	2010
	£m	£m
Opening Valuation	**1,155.4**	1,126.7
New Acquisitions	**23.2**	11.3
Additions to Existing Properties	**6.8**	5.6
Disposals	**(0.9)**	(0.2)
	1,184.5	1,143.4
Revaluation Gain	**52.0**	25.0
Foreign Exchange Loss	**(11.7)**	(13.0)
Closing Valuation*	**1,224.8**	1,155.4

*In this table and in the Financial Statements, the total valuation of £1,226.4 million is stated net of £1.6 million of lease incentives, as required by accounting standards – see Note 9.

This page:
77 North Washington, Boston, Mass.

Chairman's Statement *(continued)*

Acquisitions and Funding

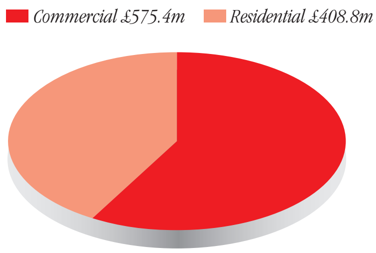
In the UK our primary focus has continued to be the enhancement of capital values and rental income within our existing portfolio. We continue to review the market for potential acquisitions which meet our rigorous criteria and it is possible that in the coming year more property will come onto the market as a consequence of owners seeking to reduce gearing and increase liquidity.

We have seen some easing in the general availability and pricing of finance in the UK but we take a long term approach to the ownership of property and there are still too few financial institutions who take a similarly long view.

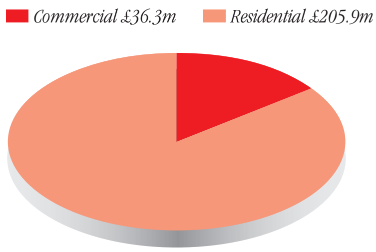
During the year we have continued our programme of acquisitions in the USA with the purchase of a number of residential properties in Bronx, New York at a total cost of $35.4 million.

Analysis by Property Type

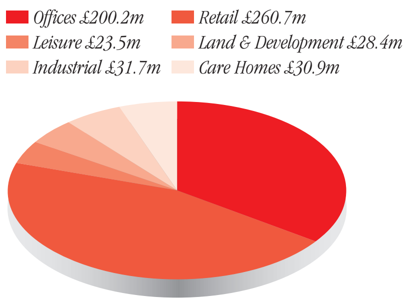
Property UK



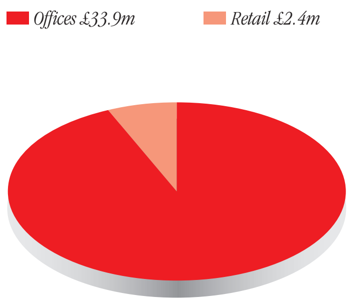
Property USA



Commercial Property UK

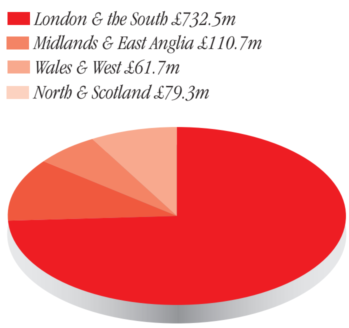


Commercial Property USA

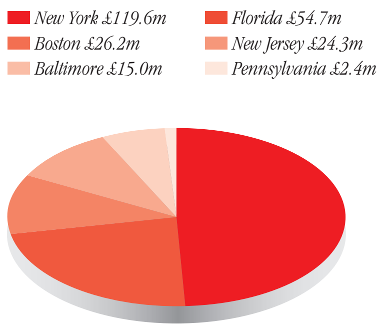


Analysis by Location

UK Valuations



USA Valuations



Top: *Park West, Marble Arch, London W2.*

Above: *Oslo Court, Regents Park, London NW8.*

Left & opposite page:
611, West 158th Street, Manhattan, New York.

Chairman's Statement *(continued)*

Mention needs to be made of the nine care homes, purchased in 2008, which are leased to Southern Cross Healthcare Group PLC whose financial difficulties have been widely reported in the media. In accordance with the requirements of accounting standards the care homes have been included in the independent professional valuation at 31 March 2011 on the basis of the information which was available on that date. We are actively exploring alternative courses of action aimed at sustaining the value of these properties. However, it is likely that, at least in the short term, the income and the value of our care homes will be adversely affected. At 31 March 2011 the combined book value of these properties represented 2.5% of the total investment property portfolio.

Development Activity

I am pleased to report that work commenced on site at the beginning of January this year on our major scheme of refurbishment and extension of Africa House WC2. Based on progress to date, the building will become available for occupation in early 2013.

Development projects can take several years to bring to fruition and at any time we have a number of potential projects under consideration.

The developments which we have completed in the last few years at 164 Shaftesbury Avenue WC2, 25/29 Worship Street, EC2 and 49/50 Great Marlborough Street WC1, are now all fully let.

Results for the Year

The profit before taxation for the year ended 31 March 2011 amounts to £84.4 million (2010 – £61.1 million); this result includes a net valuation gain of £52.0 million arising on investment property (2010 – £25.0 million).

This page:
The Franconia,
20 West 72nd Street,
Manhattan,
New York.

Opposite page:
The Square,
Broad Street,
Birmingham.

The table below shows the performance of our core rental business before and after property valuation movements:

	2011	2010
	£m	£m
Total Rental and Related Income from Investment Property	**102.7**	99.9
Property Operating Expenses	**(60.7)**	(56.0)
Net Rental and Related Income from Investment Property	**42.0**	43.9
Profit on Disposals of Investment Property	**9.3**	5.1
Administrative Expenses	**(10.6)**	(10.0)
Net Operating Profit before Net Valuation Gains	**40.7**	39.0
Net Valuation Gains on Investment Property	**52.0**	25.0
Net Financing Costs	**(8.3)**	(2.9)
Profit before Tax	**84.4**	61.1

The increase in total rental income principally arises in the USA whilst increases in UK residential rents have largely been offset by an increase in commercial voids.

The last year has seen a significant reduction in UK residential vacancy rates and the cost of the refurbishment works necessary to achieve this improvement has contributed to an increase in the level of property operating expenses.

It remains our policy not actively to seek the sale of properties from our portfolio and the surplus on disposals of £9.3 million (2010–£5.1 million) arises largely from the sale of leasehold extensions in the UK.

Chairman's Statement *(continued)*

A decrease of £6.2 million in the accounting adjustment for the net fair value gains on financial instruments is the cause of the increase in net financing costs. Interest payments actually decreased slightly year on year.

Dividend

Your Board has for some time pursued a policy of increasing dividend levels prudently in line with the Group's continuing progress and this year we are pleased to recommend an increase in total dividend to 75p (2010--74p).

Balance Sheet

At 31 March 2011 shareholders' funds stood at £838 million (2010--£785 million). This is equivalent to £51.43 per share (2010--£48.17) an increase of 6.8%.

Top & below:
515 West 85th Street,
Manhattan,
New York.

Below Right:
Prestamex House,
Preston Road,
Brighton,
East Sussex.

Cash deposits at 31 March were £71.6 million (2010--£24.6 million) with undrawn medium and long term facilities of £30.6 million (2010--£41.6 million). Gearing, although still relatively low, has risen to 18.6% (2010--16.6%) principally as a result of a short term borrowing of £41 million which was repaid in April.

Environment

We recognise our responsibility to take all possible steps to minimise the environmental impact arising from our business activities. Every year we undertake programmes of repair and refurbishment which provide opportunities to improve the energy efficiency of our buildings and the plant therein.

It continues to be our policy that when undertaking developments or major schemes of refurbishment we seek to achieve the highest BREEAM rating consistent with the nature of the building and the scheme being undertaken. BREEAM is a widely used environmental assessment method for buildings.

Wherever possible we ensure that the waste which we generate is recycled.

Employees

The Group continues to enjoy a stable workforce with low staff turnover. This ensures that the costs of recruitment are minimised and that the experience of the staff gained over the years is retained for the benefit of the Group. Staff are supported by the Group in the pursuit of programmes of appropriate professional training.

Health and Safety

It is important that our properties provide a safe and healthy environment for our tenants, staff and all other users.

Our properties are risk assessed on a regular basis and with the help of outside consultants comprehensive Health and Safety policies have been established. The Board monitors progress in this area on an annual basis.

Sub-contractors are required to employ risk management procedures of an equivalent standard.

This page:
30 Kensington Church Street, London W8.

Chairman's Statement *(continued)*

Above:
43-30 48th Street, Sunnyside, Queens, New York.

Community

We continue to support community activities, focusing principally on education; donations this year totalled £150,000 (2010–£120,000). Some years ago shares representing 6.3% of the capital of the Company were donated to charitable companies which, in consequence, received dividend payments in the year of £760,000 (2010–£750,000).

Risks

Economic recovery in the UK and USA is slow and uneven. In the UK, continuing pressure on household consumption has led to a number of failures in the retail sector and this trend may continue for some time. In the USA unemployment remains stubbornly high.

Against this background the Group is exposed to the risk of increasing bad debts and voids. This risk will be greater if economic growth falters or there is a return to recession.

The Group depends on the availability of funding in order to finance acquisitions, developments and major schemes of refurbishment. We have seen some further easing in this area but increased regulatory and financial pressure on lenders resulting in a reduction in the availability of finance on acceptable terms could constrain our ability to grow.

With almost 20% by value of the Group's property portfolio located in the USA, movements in the

Above: *677 West End Avenue, Manhattan, New York.*

Right:
164 Shaftesbury Avenue, London WC2.

sterling/dollar exchange rate will produce accounting adjustments in the Group's consolidated financial statements. The overall impact in the current year is not significant but this may not always be the case.

The Group is exposed to general valuation movements in the UK and USA property markets.

Outlook

In today's uncertain economic conditions it is particularly pleasing to have been able to report another year of progress with encouraging growth in the value of our properties.

It is more than usually difficult at present to form a clear view of what the immediate future may hold for us. Nevertheless, our property portfolio is diverse and our finances are sound and this gives us the confidence that your Group will sustain its progress through the continued application of the prudent, long term business approach which has served us so well over the years.

Loyal and hardworking staff are essential to our continued success; to them must go our sincere thanks.

B S E Freshwater
Chairman

This page:
Swan Courtyard,
Yardley, Birmingham.

Directors' Report

The Directors have pleasure in presenting their Report together with the Financial Statements for the year to 31 March 2011.

Principal Activities of the Group

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

Investment Property

A professional valuation of all the Group's properties was carried out at 31 March 2011. The resultant figures are included in the Financial Statements now presented and the net increase of £52.0 million (2010 – £25.0 million) over previous book values has been included in the Income Statement. The Group's UK properties were valued by Colliers CRE, Chartered Surveyors and produced a revaluation surplus of £44.6 million (2010 – £38.8 million). The Group's USA properties were valued by Colliers, Meredith & Grew, Joseph J. Blake and Associates Inc. and Metropolitan Valuation Services Inc. All the USA firms are General Certified appraisers. The revaluation surplus arising on the USA properties was £7.4 million (2010 – £13.8 million deficit).

Business Review

The Group's Business Review is included in the Chairman's Statement set out on pages 2 to 11 and is included in this report by reference.

Results and Dividend

The profit for the year amounted to £67.8 million (2010 – £45.7 million). An Interim Dividend of 25p per share was paid on 4 March 2011 and the Directors now recommend the payment of a Final Dividend of 50p per share, making a total for the year of 75p per share (2010 – 74p per share).

Financial Objectives and Policies and Exposure to Financial Risk

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. The Group aims to ensure that the cost of capital is kept to a minimum through the maintenance of its 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 fixed rate debt and financial derivative instruments whilst retaining some flexibility in relation to short term interest rates.

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

Payment Policy

It is 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, providing that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group does not, however, follow any formal code or statement on payment practice.

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	
Mr R E Freshwater	(appointed 6 July 2010)
Mr A M Freshwater (USA)	(appointed 6 July 2010)

Brief biographies of the Directors are as follows:

Mr B S E Freshwater. Aged 63 – 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 76 – A Chartered Accountant and member of the Institute of Taxation, was previously a partner in Cohen Arnold, 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 60 – 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.

Mr R E Freshwater Aged 41 – He is currently pursuing an academic career and lectures to graduate students. He is an actual and a potential beneficiary of trusts with substantial holdings of the Company's equity.

Mr A M Freshwater Aged 40 – He is resident in the UK and sits as an Arbitrator in complex commercial disputes. He is a potential beneficiary of trusts and a trustee of certain other trusts with substantial holdings of the Company's equity.

The rules governing the election and re-election of Directors are set out in the Corporate Governance section on page 18. The powers of Directors of the Company are as set out in the Company's articles of association.

Directors' Interests in Transactions

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. They have no beneficial interest in the share capital of Highdorn Co. Limited. Mr B S E Freshwater, Mr S I 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. Mr R E Freshwater has a beneficial interest in a trust holding interests in shares in Highdorn Co. Limited.

Details of the amounts paid for the provision of these services are set out in Note 18 to the Financial Statements.

Directors' Report *(continued)*

Share Capital and Substantial Directors' and other Shareholdings

The structure of the Company's Share Capital, including the rights and obligations attaching to the shares, is given in Note 14 to the Financial Statements.

Directors' interests in the Share Capital of the Company are as follows:

		Daejan Holdings PLC Ordinary Shares	
		31 March 2011	31 March 2010
D Davis	(Notes 2 & 3)	**763**	763
B S E Freshwater	(Notes 1, 2, 3 & 4)	**340,033**	340,033
S I Freshwater	(Notes 2, 3 & 4)	**89,270**	89,270
R E Freshwater	(Notes 2 & 3)	**–**	–
A M Freshwater	(Notes 2 & 3)	**–**	–

Notes:

1. All the above holdings were beneficially owned. Mr B S E Freshwater's shareholding represents 2.1% of the Issued Share Capital of the Company.
2. A further 2,908,116 shares (2010 – 2,908,116) representing 17.8% 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, Mr D Davis and Mr A M Freshwater have no beneficial interest. Mr D Davis and Mr A M Freshwater are trustees of a trust which owns 250,000 shares representing 1.5% of the Issued Share Capital of the Company. Mr R E Freshwater has a beneficial interest in certain trusts referred to in this Note 2 which together hold 326,294 shares, representing 2.0% of the Issued Share Capital of the Company.
3. In addition to the holdings shown in the table and in Note 2 above, companies owned and controlled by Mr B S E Freshwater, Mr S I Freshwater, their families and family trusts, held at 31 March 2011 a total of 7,876,431 shares (2010 – 7,876,431) representing 48.3% of the Issued Share Capital of the Company. Mr D Davis and Mr A M Freshwater have a non-beneficial interest in some of these shares, either as a Director of the companies concerned, or as a trustee. Mr R E Freshwater has a beneficial interest in certain trusts included in this Note 3 which indirectly have interests in 3,774,853 shares, representing 23.2% of the Issued Share Capital of the Company.
4. Of these shares 89,270 are held by a company owned jointly by Mr B S E Freshwater and Mr S I Freshwater.

Included in Notes 2 and 3 are the following holdings at 31 March 2011, 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 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
Tabard Property Investment Company Limited	500,000	3.1

In addition, the Company has been notified of the following substantial interests in its Share Capital at 31 March 2011:

	Shares	%
Valand Investments Limited	1,000,000	6.1
Silda 2 Limited	705,000	4.3

The Company is not aware of any changes to any of the above interests from 31 March 2011 up to the date of signing this report.

Significant Agreements

Part 6 of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 requires the Company to identify those significant agreements to which the Company is party that take effect, alter or terminate upon a change of control of the Company following a takeover bid and the effects of any such agreements.

The Group has five bank loan and mortgage facilities which contain change-of-control clauses.Three of these facilities require the prior written consent of the lender to a change of control over the parent company, without which such change of control would constitute an event of default. A change of control under the remaining two facilities would similarly constitute an event of default but no provision is made for the prior written consent of the lender. At 31 March 2011, these facilities represented £112.3 million (2010 – £72.2 million) of the loans and borrowings in the financial statements and all of the undrawn facilities (£30.6 million, 2010 – £41.6 million).

Charitable Donations

Charitable Donations made by the Group amounted to £150,000 (2010 – £120,000). There were no political contributions (2010 – £Nil).

Auditors

The Company's auditors, KPMG Audit Plc, have expressed their willingness to continue in office. In accordance with Section 489 of the Companies Act 2006, 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.

Statement of Disclosure of Information to Auditors

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

By Order of the Board,

M R M Jenner
Secretary

22 July 2011

Directors' Remuneration Report

Audited Information

Remuneration

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

2011	**Salary £**	**Fees £**	**Total £**
Mr B S E Freshwater	720,000	20,000	740,000
Mr D Davis	–	20,000	20,000
Mr S I Freshwater	651,000	20,000	671,000
Mr R E Freshwater	–	15,000	15,000
Mr A M Freshwater	–	15,000	15,000
	1,371,000	90,000	1,461,000
2010			
Mr B S E Freshwater	700,000	20,000	720,000
Mr D Davis	–	20,000	20,000
Mr S I Freshwater	638,000	20,000	658,000
	1,338,000	60,000	1,398,000

Unaudited Information

Compliance

The Company's compliance with the requirements of The Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2008 (the "Combined Code") is set out under Corporate Governance on page 20.

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.

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.

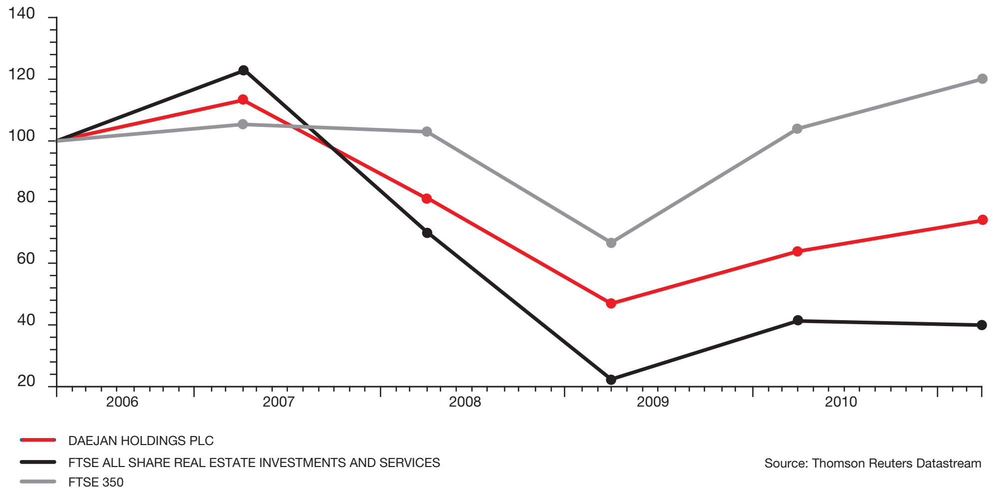
Service Contracts

No Director has a service contract.

Total Shareholder Return

The following graph shows the total shareholder returns for the Company (rebased as at 1 April 2006) for each of the last five financial years compared to the FTSE All Share Real Estate Investment and Services Index and the FTSE 350 Index. The Company is a constituent of both these indices and the Board considers these to be the most appropriate broad market equity indices for illustrating the Company's performance.

Total Shareholder Return Performance Graph



Approved by the Board on 22 July 2011 and signed on its behalf by

M R M Jenner
Company Secretary

Corporate Governance

Corporate Governance

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 the Combined Code.

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

We do not comply with the provisions of the Combined Code in connection with non-executive representation on the Board, as we are doubtful that further extending independent 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 non-executive Directors. For this reason the matters which the Combined Code recommends should be reserved for audit, nomination and remuneration committees are dealt with by the entire Board and it is intended to continue this practice. In view of the fact that the Board comprises only five Directors it is also not considered necessary to split the roles of Chairman and Chief Executive. Executive remuneration is not directly related to performance, but a link is established by the fact that remuneration is not agreed upon until after the results for the year are known.

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, the current structure has stood the Company in good stead over many years and should continue to do so in the future.

The Board

The Group is controlled through its Board of Directors. The Board's main roles are to create value for shareholders, to provide entrepreneurial leadership of the Group, to approve the Group's strategic objectives and to ensure that the necessary financial and other resources are made available to enable those objectives to be met.

The Board meets regularly throughout the year on both a formal and 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 the 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 Board consults on a regular basis with the Group's external auditors and are charged with ensuring that their objectivity and independence is safeguarded.

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 at Annual General Meetings at regular intervals and at least every three years.

During the year there were two full, formal Board Meetings attended by all Directors and three further formal executive Board Meetings attended by both executive Directors.

Directors and Directors' Independence

The Board currently comprises the Chairman, one executive Director and three non-executive Directors. The names of the Directors together with their biographical details are set out on page 13. Mr R E Freshwater and Mr A M Freshwater are not independent by virtue of their membership of the Freshwater family. The Board acknowledges that in view of his length of service, D Davis is not technically independent.

Directors' Remuneration

Details of the Directors' remuneration are contained in the Directors' Remuneration Report on page 16.

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 and not absolute assurance against material misstatement or loss.

The Combined Code requires that the Directors review the effectiveness of the Group's system of internal controls, covering financial, operational and compliance controls and risk management.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant business risks faced by the Group and 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.

The Board has considered the benefits likely to arise from the appointment of an internal audit function and has concluded that this is not currently necessary having regard to other controls which operate within the Group.

Key elements of the Group's system of internal controls are as follows:
Controls environment: The Group is committed to the highest standards of business conduct and seeks to maintain these standards across all its operations. 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 is responsible for the identification and evaluation of key risks applicable to the areas of the property market which impact its 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. Financial performance 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

Corporate Governance (continued)

or fraud. Measures include physical controls, segregation of duties, reviews by management and reviews by external audit to the extent necessary to arrive at their audit opinion.

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 executive 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 the 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 Combined 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 is responsible for the preparation of the Report and Financial Statements within which it seeks to present a balanced and understandable assessment of the Group's business. Further details are given in the Chairman's Statement.

Compliance Statement

The Board considers the Company has complied throughout the year ended 31 March 2011 with the provisions of the Combined Code with the exception of the following paragraphs:

Paragraph	Subject
A.2.1–2	split of Chairman and CEO roles
A.3.2–3	strong independent non-executive element
A.4.1–4, A.4.6	appointment of nomination committee and their proceedings
A.1.3; A.6	performance evaluation of the Board
A.7.2	length of service of non-executive directors
B.1.1	performance related remuneration for executive directors
B.2.1–2	appointment of remuneration committee and their proceedings
C.3.1–6	appointment of audit committee and their proceedings

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages 2 to 11, which also refers to the financial position of the Group, its cash flows, liquidity position and borrowing facilities. In addition, Note 17 to the financial statements includes the Group's objectives, policies and processes for managing its financial risks, together with details of its financial instruments, hedging activities and exposures to credit, liquidity and market risks.

As shown in the Consolidated Statement of Cash Flows, the Group generated net cash from operating activities of £26.1 million during the year (2010 – £17.0 million). Gearing, on the basis of gross debt to total assets, was 18.6% (2010 – 16.6%, as restated). Net debt (total loans and borrowings less cash and cash equivalents) has remained broadly unchanged at £174.5 million (2010 – £176.0 million, as restated). Furthermore, the Group has undrawn committed facilities of £30.6 million at the balance sheet date. The Group therefore has considerable financial resources and very low gearing. As a consequence, the Directors consider that the Group is well placed to manage its business risks successfully despite the continued uncertain economic outlook. Consequently, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Directors' Responsibilities

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS") and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company 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;
- for the group financial statements, state whether they have been prepared in accordance with IFRS;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

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

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

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

By order of the Board,

B S E Freshwater
Director

22 July 2011

Independent Auditor's Report

Independent auditor's report to the members of Daejan Holdings PLC

We have audited the financial statements of Daejan Holdings PLC for the year ended 31 March 2011 set out on pages 25 to 53. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2011 and of the group's profit for the year then ended;

- the group financial statements have been properly prepared in accordance with IFRS as adopted by the EU;

- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

Independent Auditor's Report *(continued)*

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 18 to 21 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on pages 20 and 21, in relation to going concern;
- the part of the Corporate Governance Statement on page 20 relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to Shareholders by the Board on directors' remuneration.

W E J Holland (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL

22 July 2011

Consolidated Income Statement

for the year ended 31 March 2011	*Notes*	**Year ended 31 March 2011**	Year ended 31 March 2010 *(as restated*)*
		£000	£000
Gross Rental Income		**88,613**	85,878
Service Charge Income		**14,079**	14,035
Total Rental and Related Income from Investment Property		**102,692**	99,913
Property Operating Expenses	*3*	**(60,743)**	(55,983)
Net Rental and Related Income from Investment Property		**41,949**	43,930
Profit on Disposal of Investment Property		**9,257**	5,073
Net Valuation Gains on Investment Property	*9*	**52,024**	24,997
Administrative Expenses	*4*	**(10,558)**	(10,013)
Net Operating Profit before Net Financing Costs		**92,672**	63,987
Fair Value Gains on Fixed Rate Loans and Borrowings		**1,495**	6,265
Fair Value Gains on Derivative Financial Instruments		**556**	1,981
Fair Value (Losses)/Gains on Current Investments		**(16)**	16
Other Financial Income	*5*	**512**	571
Financial Expenses	*5*	**(10,856)**	(11,691)
Net Financing Costs		**(8,309)**	(2,858)
Profit before Taxation		**84,363**	61,129
Income Tax	*6*	**(16,530)**	(15,474)
Profit for the Year		**67,833**	45,655
Attributable to:			
Equity Holders of the Parent		**67,823**	45,636
Minority Interest		**10**	19
Profit for the Year		**67,833**	45,655
Basic and Diluted Earnings per Share	*7*	**£4.16**	£2.80

*See Note 1(t).

Consolidated Statement of Comprehensive Income

for the year ended 31 March 2011	**Year ended 31 March 2011 £000**	Year ended 31 March 2010 £000
Profit for the Year	**67,833**	45,655
Foreign Exchange Translation Differences	**(2,648)**	(8,063)
Total Comprehensive Income for the Year	**65,185**	37,592
Attributable to:		
Equity Holders of the Parent	**65,183**	37,580
Minority Interest	**2**	12
Total Comprehensive Income for the Year	**65,185**	37,592

Consolidated Statement of Changes in Equity

for the year ended 31 March 2011	Issued Share Capital £000	Share Premium Account £000	Translation Reserve £000	Retained Earnings £000	Equity Shareholders' Funds £000	Minority Interest £000	Total Equity £000
Balance at 1 April 2009	4,074	555	29,112	725,552	759,293	135	759,428
Profit for the Year	–	–	–	45,636	45,636	19	45,655
Foreign Exchange Translation Differences	–	–	(8,056)	–	(8,056)	(7)	(8,063)
Movements in Minority Interest	–	–	–	–	–	(4)	(4)
Dividends to Equity Shareholders	–	–	–	(11,897)	(11,897)	–	(11,897)
Balance at 1 April 2010	4,074	555	21,056	759,291	784,976	143	785,119
Profit for the Year	–	–	–	67,823	67,823	10	67,833
Foreign Exchange Translation Differences	–	–	(2,640)	–	(2,640)	(8)	(2,648)
Movements in Minority Interest	–	–	–	–	–	17	17
Dividends to Equity Shareholders	–	–	–	(12,059)	(12,059)	–	(12,059)
Balance at 31 March 2011	4,074	555	18,416	815,055	838,100	162	838,262

Consolidated Balance Sheet

as at 31 March 2011	*Notes*	**31 March 2011** **£000**	31 March 2010 *(as restated*)* £000
Assets			
Investment Property	*9*	**1,224,800**	1,155,384
Deferred Tax Assets	*10*	**4,378**	5,533
Total Non-Current Assets		**1,229,178**	1,160,917
Trade and Other Receivables	*11*	**41,221**	40,274
Current Investments	*12*	**246**	256
Cash and Cash Equivalents	*13*	**75,296**	28,268
Total Current Assets		**116,763**	68,798
Total Assets		**1,345,941**	1,229,715
Equity			
Share Capital	*14*	**4,074**	4,074
Share Premium		**555**	555
Translation Reserve		**18,416**	21,056
Retained Earnings		**815,055**	759,291
Total Equity Attributable to Equity Holders of the Parent		**838,100**	784,976
Minority Interest		**162**	143
Total Equity		**838,262**	785,119
Liabilities			
Loans and Borrowings	*16*	**194,577**	200,519
Deferred Tax Liabilities	*10*	**196,204**	191,048
Total Non-Current Liabilities		**390,781**	391,567
Loans and Borrowings	*16*	**55,248**	3,734
Trade and Other Payables	*15*	**40,821**	38,141
Current Taxation		**20,829**	11,154
Total Current Liabilities		**116,898**	53,029
Total Liabilities		**507,679**	444,596
Total Equity and Liabilities		**1,345,941**	1,229,715

The Financial Statements on pages 25 to 49 were approved by the Board of Directors on 22 July 2011 and were signed on its behalf by:

B.S.E. Freshwater Director

D. Davis Director

*See Note 1(t).

Consolidated Statement of Cash Flows

for the year ended 31 March 2011	£000	**Year ended 31 March 2011 £000**	£000	Year ended 31 March 2010 £000
Cash Flows from Operating Activities				
Cash Receipts – Rent and Service Charges	**113,164**		106,252	
Cash Paid to Suppliers and Employees	**(77,568)**		(76,796)	
Cash Generated from Operations	**35,596**		29,456	
Interest Received	**519**		565	
Interest Paid	**(10,942)**		(11,541)	
Receipts from/(Distributions to) Minority Interest	**17**		(4)	
UK Corporation Tax Recovered/(Paid)	**1,523**		(1,249)	
Overseas Tax Paid	**(575)**		(260)	
Net Cash from Operating Activities		**26,138**		16,967
Cash Flows from Investing Activities				
Acquisition and Development of Investment Property	**(29,990)**		(16,932)	
Proceeds from Sale of Investment Property	**10,163**		5,255	
Net Cash from Investing Activities		**(19,827)**		(11,677)
Cash Flows from Financing Activities				
Repayment of Bank Loans	**(1,375)**		(11,375)	
New Bank Loans	**41,000**		–	
Repayment of Mortgages	**(2,171)**		(1,678)	
New Mortgages	**16,089**		22,549	
Dividends Paid	**(12,059)**		(11,897)	
Net Cash from Financing Activities		**41,484**		(2,401)
Net Increase in Cash and Cash Equivalents		**47,795**		2,889
Cash and Cash Equivalents Brought Forward		**28,058**		26,174
Effect of Exchange Rate Fluctuations on Cash Held		**(557)**		(1,005)
Cash and Cash Equivalents (Note 13)		**75,296**		28,058

Notes to the Consolidated Financial Statements

1. Significant accounting policies

Daejan Holdings PLC is a company domiciled in the United Kingdom. The Consolidated Financial Statements of the Company for the year ended 31 March 2011 comprise the Company and its subsidiaries (together referred to as the "Group").

The Consolidated Financial Statements were authorised for issuance on 22 July 2011.

(a) Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS") and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Company has elected to prepare its parent Company Financial Statements in accordance with UK GAAP and these are presented on pages 50 to 53.

(b) Basis of preparation

The Consolidated Financial Statements are presented in sterling, the Company's functional currency, rounded to the nearest thousand. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: investment property, derivative financial instruments, fixed rate loans and borrowings and current asset investments.

Except as noted below, the accounting policies set out in this Note 1 have been applied consistently throughout the Group to all periods presented in the Consolidated Financial Statements.

During the financial year the following revised standards were adopted by the Company:

- IFRS 3 Business Combinations (revised)
- IAS 27 Consolidated and Separate Financial Statements (revised)

The adoption of these revised standards did not have a material impact on the Consolidated Financial Statements.

The following revised standard has been endorsed but is not effective for the financial year and has not been adopted early:

- IAS 24 Related Party Disclosures (revised)

The Company does not expect the adoption of the above revised standard to have a material impact on the Consolidated Financial Statements.

The financial statements have been prepared on a going concern basis as explained in the Corporate Governance section on pages 20 and 21.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of the events or amounts involved, actual results ultimately may differ from those estimates. The areas involving a higher degree of complexity, judgement or estimation are set out in Note 1(u) below.

(c) Subsidiaries

Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain

Notes to the Consolidated Financial Statements *(continued)*

benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

(d) Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

(e) Income available for distribution

Under the Articles of Association of certain Group investment undertakings, realised capital surpluses are not available for distribution as dividends.

(f) Foreign currency translation

The assets and liabilities of foreign operations are translated to sterling at the foreign exchange rate ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to sterling at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on re-translation are recognised directly in a separate component of equity. The cumulative translation difference for all foreign operations was deemed to be zero as at the date of transition to IFRS. The year end and average rates used for these purposes were as follows:

	Year end		*Average*	
	2011	*2010*	***2011***	*2010*
US Dollar	**1.60**	1.52	**1.56**	1.60

(g) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to interest rate risk arising from operational and financing activities. As these derivatives do not qualify for hedge accounting, they are accounted for as trading instruments. Derivative financial instruments are initially recognised, and subsequently recorded, at fair value. The fair value of interest rate swaps is the estimated amount that the Group would recover or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the credit worthiness of the swap counterparties. The gain or loss on re-measurement to fair value is recognised immediately in the Income Statement.

(h) Investment property

IFRS defines investment properties as those which are held either to earn rental income or for capital appreciation or both. All of the Group's property portfolio falls within this definition. Investment property is initially recognised at cost and subsequently recorded at fair value.

External, independent valuation firms having appropriate recognised professional qualifications and recent relevant experience in the location and category of property being valued, value the portfolio annually at the Company's year end. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The valuations are prepared either by considering the aggregate of the net annual rent receivable from the properties using a market yield which reflects the risks inherent in the net cash flow which is then applied to the net annual rents, or on a sales comparison basis. Any gains or losses arising from a change in fair value are recognised in the Income Statement.

When the Group begins to redevelop an existing investment property for continued future use as an investment property, the property remains an investment property, and is measured based on the fair value model. Interest is not capitalised on such developments as the property is held at fair value.

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the Group holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value. Where material, the present value of minimum future lease payments under such leases is recognised as a liability.

When the Group uses only part of a property it owns and retains the remainder to generate rental income or capital appreciation, the extent of the Group's utilisation is considered to determine the classification of the property. If the Group's utilisation is less than five per cent., this is regarded as immaterial such that the whole property is classified as an investment property and stated at fair value.

Acquisitions and disposals are recognised on the date that the significant risks and rewards of ownership have been transferred. It is Group policy to sell, as individual units, flats in residential blocks which have been held as investment properties but which are now considered uneconomic to retain. Occasionally there are sales of residential and commercial investment blocks. Any resulting gain or loss based on the difference between sale proceeds and valuation is included in the Income Statement and taxation applicable thereto is shown as part of the taxation charge.

(i) Current Investments

Investments comprise equity securities held for trading and classified as current assets stated at fair value, with any resultant gain or loss recognised in the Income Statement.

(j) Trade and other receivables

Trade and other receivables are initially stated at fair value and subsequently carried at cost less an allowance for impairment. These assets are not discounted as it is deemed immaterial.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short term deposits. These short term deposits are highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are repayable on demand and form an integral part of the Group's cash management. Bank overdrafts have therefore been included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

(l) Dividends

Dividends are recognised as a liability in the period in which they are approved.

(m) Trade and other payables

Trade and other payables are stated at their amortised cost.

(n) Net rental income

Net rental income comprises rent and service charges receivable less applicable provisions and costs associated with the properties. Rental income from investment property leased out under operating

Notes to the Consolidated Financial Statements *(continued)*

leases is recognised in the Income Statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income. Service charge income is recognised as the services are provided. Net rental income is stated net of recoverable VAT.

The cost of repairs is written off to the Income Statement in the year in which the expenditure occurred. Lease payments under operating leases are recognised in the Income Statement on a straight-line basis over the term of the lease.

(o) Dividend income

Dividend income is recognised in the Income Statement on the date the entity's right to receive payments is established which, in the case of quoted securities, is the ex-dividend date.

(p) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

(q) Segmental reporting

The Company has identified its operating segments on the basis of those components of the Group which are engaging in business activities from which they may earn revenues and incur expenses and for which discrete financial information is available and regularly reviewed by the Chief Operating Decision Maker in order to allocate resources and assess performance. The Company has determined the Chief Operating Decision Maker to be the Board of Directors.

(r) Impairment

The carrying amounts of the Group's assets, other than investment property (see Note 1 (h)) and deferred tax assets (see Note 1 (p)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists the asset's recoverable amount is estimated and an impairment loss recognised whenever the carrying amount of the asset exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

The recoverable amount of an asset is the greater of its fair value less costs to sell and its value-in-use. The value-in-use is determined as the net present value of the future cashflows expected to be derived from the asset, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(s) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(t) Loans and borrowings

Floating rate loans and borrowings are initially recognised at fair value and are subsequently recorded at amortised cost. Fixed rate loans and borrowings are initially recognised, and subsequently recorded, at fair value. In the case of floating rate loans and borrowings, transaction costs are deducted from the fair value at recognition and any differences between the amount initially recognised and the redemption value is recognised in the Income Statement over the period of the borrowings on an effective interest rate basis.

Previously, the adjustment required to re-measure fixed rate loans and borrowings at fair value at each balance sheet date has been included within Fair Value Gains and Losses on Financial Instruments in the Income Statement and as part of Derivative Financial Instruments within Trade and Other Payables in the Balance Sheet. In order to show the carrying value of fixed rate loans and borrowings more clearly, the required adjustment is now shown separately in the Income Statement and within the carrying value of the fixed rate component of Loans and Borrowings in the Balance Sheet. Comparative amounts have been reclassified accordingly by transferring an amount of £15,224,000 from Derivative Financial Instruments to Loans and Borrowings, £211,000 against Current Liabilities and £15,013,000 against Non-current Liabilities.

(u) Significant judgements, key assumptions and estimates

The Group's significant accounting policies are set out above. Not all of these policies require management to make subjective or complex judgements or estimates. The following is intended to provide further detail relating to those accounting policies that management consider particularly significant because of the level of complexity, judgement or estimation involved in their application and their impact on the Consolidated Financial Statements.

(i) Property valuations

The valuation of the Group's property portfolio is inherently subjective, depending on many factors, including the individual nature of each property, its location and expected future rental values, market yields and comparable market transactions. Therefore the valuations are subject to a degree of uncertainty and are made on the basis of assumptions which may not prove to be accurate, particularly in periods of market volatility or low transaction volumes, as is the case in current economic conditions. As noted in Note 1 (h) above, all the Group's properties are valued by external valuers with appropriate qualifications and experience.

(ii) Income taxes

The tax treatment of some transactions and calculations cannot be determined until a formal resolution has been reached with the relevant tax authorities. In such cases, the Group's policy is to be prudent in its assessment of the tax benefit which may accrue in accordance with the contingent asset rules in IAS 37. Where the final outcome of such matters is different from the amounts initially recorded, those differences will be reflected in the income and deferred taxes amounts at the time of formal resolution.

Notes to the Consolidated Financial Statements (continued)

Additionally, judgement has been exercised in relation to the recognition of deferred tax assets where the utilisation of the underlying tax losses is uncertain.

The Group's operational policy is generally to hold its investment property for the long term. Consequently, the revalued carrying amount of its properties will be recovered through use and thus the deferred tax relating to the revaluation is calculated accordingly, i.e. without taking account of indexation.

(iii) Fixed interest rate loans and borrowings

The treatment of fixed rate debt as at fair value through profit and loss reflects the Group's overall management, on a fair value basis, of its investment property portfolio together with the large majority of the debt which finances it. This treatment also is in order to provide consistency of accounting measurement between fixed rate debt and floating rate debt which has been fixed through the use of interest rate swaps; these two categories of debt comprise the large majority of the Group's total loans and borrowings.

(iv) Valuation of hedging instruments

The fair value of hedging instruments that are not traded in an active market is determined by using valuation techniques. Management, based on independent advice, uses its judgement to select appropriate methods and assumptions which are based mainly on market conditions existing at the balance sheet date.

(v) Trade receivables

Management uses details of the age of trade receivables and the status of any disputes together with external evidence of the credit status of the counterparty in making judgements concerning any need to impair the carrying values.

2. *Segmental Analysis*

The Group is managed through two discrete geographical divisions and has only one product or service, being investment in property for the generation of rental income and/or capital appreciation. This is reflected in the Group's structure and in the segment information reviewed by the Board.

	UK	***USA***	***Eliminations***	***Total***
for the year ended 31 March 2011	**£000**	**£000**	**£000**	**£000**
Rental and related income	74,542	28,150	–	102,692
Property operating expenses	(41,746)	(18,997)	–	(60,743)
Profit on disposal of property	9,257	–	–	9,257
Net valuation movements on property	44,643	7,381	–	52,024
Administrative expenses	(10,107)	(451)	–	(10,558)
Profit before finance costs	76,589	16,083	–	92,672
Fair value (losses)/gains	(384)	2,419	–	2,035
Other financial income	421	622	(531)	512
Financial expenses	(4,266)	(7,121)	531	(10,856)
Profit before taxation	72,360	12,003	–	84,363
Income tax charge	(9,616)	(6,914)	–	(16,530)
Profit for the year	62,744	5,089	–	67,833
Capital expenditure	4,488	25,502	–	29,990
as at 31 March 2011				
Investment property	982,653	242,147	–	1,224,800
Other assets	102,269	23,772	(4,900)	121,141
Total segment assets	1,084,922	265,919	(4,900)	1,345,941
Total segment liabilities	(337,509)	(175,070)	4,900	(507,679)
Capital employed	747,413	90,849	–	838,262

No single lessee accounted for more than 5% of the Group's rental and related income in the year.

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 March 2010	***UK*** **£000**	***USA*** **£000**	***Eliminations*** **£000**	***Total*** **£000**
Rental and related income	73,986	25,927	–	99,913
Property operating expenses	(38,548)	(17,435)	–	(55,983)
Profit on disposal of properties	5,073	–	–	5,073
Net valuation movements on properties	38,811	(13,814)	–	24,997
Administrative expenses	(9,623)	(390)	–	(10,013)
Profit/(Loss) before financing costs	69,699	(5,712)	–	63,987
Fair value gains	2,652	5,610	–	8,262
Other financial income	378	765	(572)	571
Financial expenses	(5,323)	(6,940)	572	(11,691)
Profit/(Loss) before taxation	67,406	(6,277)	–	61,129
Income tax (charge)/credit	(17,496)	2,022	–	(15,474)
Profit/(Loss) for the year	49,910	(4,255)	–	45,655
Capital expenditure	3,461	13,471	–	16,932
as at 31 March 2010				
Investment properties	933,352	222,032	–	1,155,384
Other assets	48,225	34,576	(8,470)	74,331
Total segment assets	981,577	256,608	(8,470)	1,229,715
Total segment liabilities	(288,231)	(164,835)	8,470	(444,596)
Capital employed	693,346	91,773	–	785,119

No single lessee accounted for more than 5% of the Group's rental and related income in the year.

3. Property Operating Expenses

	2011 **£000**	*2010* £000
Porterage, Cleaning and Repairs	**31,445**	27,447
Insurance	**3,917**	3,761
Building Services	**15,248**	15,739
Other Management Costs	**10,133**	9,036
	60,743	55,983

Of the property operating expenses shown above, an amount of £1,704,000 (2010 – £1,823,000) related to properties which generated no income during the year.

4. *Administrative Expenses*

	2011 £000	2010 £000
Salaries	**5,855**	5,230
Directors' Remuneration	**1,497**	1,439
Audit and Accountancy	**779**	725
Legal and Other Administrative Expenses	**2,427**	2,619
	10,558	10,013

Auditors' Remuneration

During the year the Group paid KPMG Audit Plc £20,000 (2010 – £20,000), excluding VAT, for the audit of the Company and £331,000 (2010 – £322,500), excluding VAT, for the audit of the Group's subsidiaries.

The Group jointly employed an average of 141 persons during the year (2010 – 143). The aggregate payroll costs were:

	2011 £000	2010 £000
Wages	**5,028**	4,427
NI Contributions	**446**	390
Pensions	**381**	413
	5,855	5,230

Details of Directors' Remuneration are as set out in the Directors' Remuneration Report.

5. *Financial Income and Expenses*

	2011 £000	2010 £000
Financial income:		
Bank interest receivable	**200**	198
Other financial income	**312**	373
	512	571
Financial expenses:		
Interest payable on bank loans	**2,328**	3,990
Interest payable on mortgages	**8,505**	7,679
Other interest payable	**23**	22
	10,856	11,691

Notes to the Consolidated Financial Statements *(continued)*

6. Taxation

Taxation based on the profit for the year of the Company and its subsidiaries:

	2011	*2010*
	£000	£000
UK Corporation Tax	**7,734**	7,395
UK Prior Year Adjustment	**577**	(1,518)
	8,311	5,877
Overseas Taxation	**416**	274
Total Current Tax	**8,727**	6,151
Deferred Tax	**5,888**	9,323
Deferred Tax Prior Year Adjustment	**1,915**	–
	7,803	9,323
Total Tax Charge	**16,530**	15,474
Reconciliation of Tax Expense		
Profit before Taxation	**84,363**	61,129
Corporation Tax at the Standard Rate of 28% (2010 – 28%)	**23,622**	17,116
Reduction in Future Tax Rate	**(12,152)**	–
Higher Tax Rate on Overseas Operations	**1,837**	48
Prior Year Adjustments	**2,492**	(1,518)
Other	**731**	(172)
Total Tax Charge	**16,530**	15,474

The Finance (No. 2) Act 2010 enacted a reduction in the UK Corporation Tax rate from 28% to 27% with effect from April 2011. On 23 March 2011 the UK Government announced that the Corporation Tax rate would reduce to 26% from April 2011, with three further annual 1% cuts to 23% by April 2014. Other than the change to 26%, which became substantively enacted on 29 March 2011, the effects of the announced changes are not reflected in these financial statements as they were either substantively enacted after the balance sheet date or they have not yet been enacted and, in each case, the impact has not yet been estimated.

7. Earnings per Share

Earnings per share is calculated on the earnings, after taxation and minority interests, of £67,823,000 (2010 – £45,636,000) and the weighted average shares in issue during the year of 16,295,357 (2010 – 16,295,357).

8. Dividends

	2011	2010
	£000	£000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year to 31 March 2009		
Paid 6 November 2009 @ 48p per share		7,823
Interim dividend for the year to 31 March 2010		
Paid 5 March 2010 @ 25p per share		4,074
Final Dividend for the year to 31 March 2010		
Paid 12 November 2010 @ 49p per share	**7,985**	
Interim Dividend for the year to 31 March 2011		
Paid 4 March 2011 @ 25p per share	**4,074**	
	12,059	11,897

The Board has recommended a Final Dividend for the year to 31 March 2011 of £8,148,000, representing 50p per share. The dividend has not been included as a liability in these financial statements.

9. Investment Property

	Freehold	*Long Leasehold*	*Short Leasehold*	***Total 2011***	*Total 2010*
	£000	£000	£000	**£000**	£000
Balance at 1 April	919,300	223,656	12,428	**1,155,384**	1,126,694
Disposals	(905)	(1)	–	**(906)**	(182)
New Acquisitions	23,068	108	–	**23,176**	11,294
Additions to Existing Properties	6,698	116	–	**6,814**	5,638
Revaluation	30,586	24,088	(2,650)	**52,024**	24,997
Foreign Exchange Movements	(9,564)	(2,128)	–	**(11,692)**	(13,057)
Balance at 31 March	969,183	245,839	9,778	**1,224,800**	1,155,384

Professional valuations of all the Group's UK investment properties were carried out at 31 March 2011 by Colliers CRE, Chartered Surveyors. The revalued figures of £984.2 million are based on open market values in accordance with the Practice Statements in the RICS Appraisal and Valuation Manual. The Group's USA investment properties were also professionally valued at 31 March 2011 by Colliers, Meredith & Grew, Joseph J Blake and Associates, Inc. and Metropolitan Valuation Services Inc., USA General Certified Appraisers. The revalued figures of £242.2 million are based on open market values. Professional valuations included in the above table have been stated net of £1.6 million of lease incentives which are included in Trade and Other Receivables.

The present value of future minimum lease payments in relation to the leasehold investment properties is not material.

Contractual obligations not yet invoiced or paid, for the purchase, construction, development or enhancement of investment properties, amounted to £32.1 million at 31 March 2011 (2010 – £0.8 million). In 2011, these related principally to the refurbishment and extension of Africa House, WC2.

Notes to the Consolidated Financial Statements (continued)

10. Deferred Tax Assets and Liabilities

	Assets 2011 £000	Liabilities 2011 £000	Net 2011 £000	Assets 2010 £000	Liabilities 2010 £000	Net 2010 £000
Investment Property	–	(179,100)	(179,100)	–	(179,870)	(179,870)
Accelerated Tax Depreciation	–	(17,104)	(17,104)	–	(11,178)	(11,178)
Financial Instruments	4,378	–	4,378	5,533	–	5,533
	4,378	(196,204)	(191,826)	5,533	(191,048)	(185,515)

Movement in Deferred Tax:

	Investment Property £000	Accelerated Tax Depreciation £000	Financial Instruments £000	Total 2011 £000	Total 2010 £000
Balance at 1 April	(179,870)	(11,178)	5,533	(185,515)	(176,192)
Recognised in Income	(485)	(6,390)	(928)	(7,803)	(9,323)
Foreign Exchange Movements	1,255	464	(227)	1,492	–
Balance at 31 March	(179,100)	(17,104)	4,378	(191,826)	(185,515)

At the balance sheet date, the Group had unutilised tax losses of £6,569,000 (2010 – £5,782,000) available for offset against certain future profits, on which no deferred tax asset has been recognised due to uncertainty over the future recoverability of those losses.

11. Trade and Other Receivables

	2011 £000	2010 £000
Rent and Service Charges	20,972	20,527
Other Debtors and Prepayments	19,602	19,005
Mortgages granted repayable within one year	647	742
	41,221	40,274

The ageing of rent and service charge receivables was as follows:

	Gross 2011 £000	Impairment 2011 £000	Net 2011 £000	Gross 2010 £000	Impairment 2010 £000	Net 2010 £000
Not past due	9,365	–	9,365	7,162	–	7,162
Past due by less than one month	6,708	(969)	5,739	7,631	(912)	6,719
Past due by one to three months	3,792	(547)	3,245	3,829	(458)	3,371
Past due by three to six months	1,849	(267)	1,582	2,123	(254)	1,869
Past due by more than six months	10,884	(9,843)	1,041	10,657	(9,251)	1,406
	32,598	(11,626)	20,972	31,402	(10,875)	20,527

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

	2011	*2010*
	£000	£000
Balance at 1 April	**10,875**	9,749
Amounts written off	**(808)**	(721)
Movement in allowance for impairment	**1,559**	1,847
Balance at 31 March	**11,626**	10,875

12. Current Investments

	2011	*2010*
	£000	£000
Listed Securities	**246**	256

13. Cash and Cash Equivalents

	2011	*2010*
	£000	£000
Bank Balances	**67,237**	16,510
Short Term Deposits	**8,059**	11,758
Cash and Cash Equivalents in the Balance Sheet	**75,296**	28,268
Bank Overdrafts	**–**	(210)
Cash and Cash Equivalents in the Cash Flow Statement	**75,296**	28,058

Included within Bank Balances are tenants' deposits of £2,035,000 (2010 – £2,043,000) in the UK and £1,693,000 (2010 – £1,626,000) in the USA, which cannot be used in the ordinary course of business.

14. Share Capital

		2011	*2010*
	Number	**£000**	£000
Allotted, Called Up and Fully Paid:			
Ordinary Shares of 25 pence per share	**16,295,357**	**4,074**	4,074

The Company has one class of share, which carries no special rights or rights to fixed income. There are no restrictions on the transfer of these shares or restrictions on voting rights.

Notes to the Consolidated Financial Statements (continued)

15. Trade and Other Payables

	2011 £000	2010 (as restated*) £000
Rent and Service Charges charged in advance	**14,495**	12,980
Other Creditors and Accruals	**22,344**	20,623
Derivative Financial Instruments	**3,982**	4,538
	40,821	38,141

16. Loans and Borrowings

	2011 £000	2010 (as restated*) £000
Non-current Liabilities		
Mortgages	**148,296**	152,863
Bank Loans	**46,281**	47,656
	194,577	200,519
Current Liabilities		
Bank Overdrafts	**–**	210
Mortgages	**12,873**	2,149
Bank Loans	**42,375**	1,375
	55,248	3,734
Total Loans and Borrowings		
Bank Overdrafts	**–**	210
Mortgages	**161,169**	155,012
Bank Loans	**88,656**	49,031
	249,825	204,253

All mortgages and bank loans are secured on specific investment properties owned by subsidiary undertakings.

The maturity profile of the Group's loans and borrowings was as follows:

	2011 Bank loans and overdrafts £000	2011 Mortgages £000	2011 Total £000	2010 Total (as restated*) £000
Due within one year	**42,375**	**12,873**	**55,248**	3,734
Due within one to two years	**1,375**	**13,851**	**15,226**	14,515
Due within two to five years	**4,125**	**49,105**	**53,230**	53,326
Due after more than five years	**40,781**	**85,340**	**126,121**	132,678
	88,656	**161,169**	**249,825**	204,253

* See Note 1(t).

The risk profile of the Group's loans and borrowings, after taking account of interest rate swaps, was as follows:

	2011			*2010 (as restated*)*		
	Fixed	***Floating***	***Total***	*Fixed*	*Floating*	*Total*
	£000	**£000**	**£000**	£000	£000	£000
Sterling	**48,665**	**63,656**	**112,321**	48,240	24,241	72,481
US Dollar	**137,504**	**–**	**137,504**	131,772	–	131,772
	186,169	**63,656**	**249,825**	180,012	24,241	204,253

Floating rate bank loans bear rates based on LIBOR. The Group's interest rate swaps are set out in Note 17. The interest rate profile of the Group's fixed rate mortgages was as follows:

	2011	*2010*
	£000	£000
Per cent.		
4.0-4.5	**16,956**	6,813
4.5-5.0	**2,435**	2,692
5.0-5.5	**26,378**	23,466
5.5-6.0	**41,887**	42,736
6.0-6.5	**46,020**	48,906
6.5-7.0	**11,494**	12,265
7.5-8.0	**2,193**	18,134
9.5-10.0	**13,806**	–
	161,169	155,012

The weighted average rate (after taking account of interest rate swaps) and the weighted average term of the Group's fixed rate loans and borrowings were as follows:

	2011	*2010*	***2011***	*2010*
	Per cent.	Per cent.	**Years**	Years
Sterling	**6.17**	6.17	**13.0**	14.0
US Dollar	**6.04**	6.08	**5.7**	6.8

*See Note 1(t)

Notes to the Consolidated Financial Statements (continued)

17. Financial Assets and Liabilities

The Group's financial instruments are analysed into category as follows:

	2011 Carrying amount £000	2011 Financing Income/ (expense) £000	2010 Carrying amount £000	2010 Income/ (expense) £000
Current Asset Investments	**246**	**(16)**	256	16
Current Assets at Fair Value	**246**	**(16)**	256	16
Derivative Financial Instruments	**(3,982)**	**556**	(4,538)	1,981
Fixed Rate Loans and Borrowings	**(161,169)**	**(7,010)**	(155,012)	(1,414)
Current and Non-current Liabilities at Fair Value	**(165,151)**	**(6,454)**	(159,550)	567
Trade and Other Receivables	**41,221**	**312**	40,274	373
Cash and Cash Equivalents	**75,296**	**200**	28,268	198
Current Assets at Amortised Cost	**116,517**	**512**	68,542	571
Trade and Other Payables	**(36,839)**	**(23)**	(33,603)	(22)
Floating Rate Loans and Borrowings	**(88,656)**	**(2,328)**	(49,241)	(3,990)
Current and Non-current Liabilities at Amortised Cost	**(125,495)**	**(2,351)**	(82,844)	(4,012)
Total Financial Instruments	**(173,883)**	**(8,309)**	(173,596)	(2,858)

In common with all businesses, the Group is exposed to the following types of risk which arise from its use of financial instruments:

Credit risk

Liquidity risk

Market risk

This note presents information about the nature of the Group's exposure to such risks, its objectives, policies and processes for measuring and managing risk and the Group's management of capital. Reference to disclosures given elsewhere in the financial statements is included as appropriate.

The Board has overall responsibility for determining the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, have delegated to the finance function the authority for designing and operating processes that ensure the effective implementation of those objectives. The overall objectives of the Board are to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

Credit Risk

The Group's exposure to credit risk arises from the potential financial loss if a tenant or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's trade receivables from tenants.

Trade receivables

The majority of the Group's rental income is demanded quarterly in advance and demands are sent out prior to the due date. Management monitors arrears continually and prompt action is taken to address potential significant defaults as appropriate. The credit worthiness of each tenant is assessed prior to the agreement of the lease. Collateral is generally required by the Group to support lease obligations. In many cases this takes the form of a tenant security deposit but also includes parent company guarantees or bank guarantees where appropriate. Provision is made on a sliding scale against any rental arrears where recovery is in doubt or where solicitors have been instructed to recover the debt, with full provision for impairment usually being made where a tenant is in arrears for more than a year. Details of the Group's trade receivables and the extent of impairment provisions against them are set out in Note 11.

Due to the large number of tenants across various sectors and geographical locations, the Board does not consider there to be a significant concentration of credit risk.

Cash and derivative financial instruments

The credit rating of counterparties to financial instruments is kept under review, particularly in the current economic conditions. The Group's interest rate swaps are currently significantly out-of-the-money; consequently, counterparty risk on swaps does not represent a major risk at the current time. The counterparty risk on cash and short-term deposits is managed by limiting the aggregate exposure to any institution by reference to their credit rating. Such balances are generally placed with major financial institutions where credit risk is not considered significant.

Maximum exposure

The aggregate carrying amounts of the Group's financial assets, which are stated net of impairment provisions, represents the Group's maximum exposure to credit risk, before taking into account the value of the tenant security deposits held and other collateral.

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due and arises from the Group's management of its working capital and the finance charges and amortisation of its loans and borrowings.

The Group's policy is to seek to maintain cash balances to meet all short and medium term requirements. The Group has a low level of gearing relative to the property investment sector as a whole and has long standing relationships with many leading banks and financial institutions from which the Board expect to be able to raise further funds if required. At 31 March 2011, gearing was 18.6 per cent. (2010 – 16.6 per cent., as restated) on the basis of gross debt to gross assets. In April 2011, £41.0 million of bank loans, which had only been drawn down for a short period, were repaid; excluding this repayment, £14.2 million of loans and borrowing were repayable within one year. Cash and short term deposits at 31 March 2011, excluding the cash being held for the loan repayment of £41.0 million and tenants deposits, were £30.6 million (2010 – £24.6 million). In addition, at the same date, the Group had undrawn committed facilities of £30.6 million (2010 – £41.6 million) or £71.6 million after the loan repayment in April 2011. Of this, £61.6 million expires in 2015 and £10.0 million in 2018.

Notes to the Consolidated Financial Statements *(continued)*

The maturity analysis of the undiscounted cash flows arising from the Group's financial liabilities at 31 March 2011 was as follows:

	Carrying amount	*Aggregate undiscounted cash flows*	*Due within one year*	*Due within 1-2 years*	*Due within 2-5 years*	*Due after more than 5 years*
	£000	£000	£000	£000	£000	£000
Bank loans	88,656	88,656	42,375	1,375	4,125	40,781
Mortgages	161,169	147,440	11,784	12,690	45,002	77,964
Interest	–	69,786	9,017	8,337	19,931	32,501
Interest rate swaps	3,982	9,230	1,207	1,207	3,622	3,194
Trade and other payables	36,839	36,839	36,839	–	–	–
	290,646	351,951	101,222	23,609	72,680	154,440

Market Risk

Market risk arises mainly from the impact that changes in interest rates might have on the cost of Group borrowing and the impact that changes in the US$/£ exchange rate might have on the Group's USA net assets.

Interest rates

The Group seeks to reduce the interest rate risk by fixing rates on a majority of its loans and borrowings, whilst maintaining some loans at floating rates in order to retain flexibility in relation to short term interest rates. Interest rates are fixed either through the use of fixed rate mortgage finance or through interest rate swaps. The Group does not speculate in treasury products but uses these only to limit exposure to potential interest rate fluctuations. The interest rate profile of the Group's loans and borrowings is set out in Note 16.

It is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before taxation by approximately £0.2 million, after taking account of the interest swaps in place.

There also exists a risk to the Income Statement arising from the recognition and re-measurement of fixed rate debt and interest rate swaps at fair value. It is estimated that a general increase of one percentage point in interest rates would give rise to a reduction in fair value of fixed rate debt and interest rate swaps of £7.7 million.

Interest rate swaps

The interest rate swaps held by the Group at the year end were as follows:

	Contracted rate (excluding margin)		*Notional principal*		*Fair value*	
	2011	*2010*	***2011***	*2010*	***2011***	*2010*
	Per cent.	*Per cent.*	***£000***	*£000*	***£000***	*£000*
Maturing in less than one year	**–**	7.8	**–**	26,611	**–**	318
Maturing in more than five years	**5.6**	5.6	**25,000**	25,000	**3,982**	4,220
			25,000	51,611	**3,982**	4,538

Foreign exchange rates

The Group seeks to reduce its exposure to foreign currency risk in relation to its USA net assets by funding its USA investment property with US Dollar denominated loans and borrowings. As the Group's investment in USA assets are held for the long term and funds are not usually returned to the UK, the Group's policy is not to hedge its residual exposure. Management monitors exchange rates on a regular basis and elects to transfer funds only when the rate is favourable to do so.

It is estimated that a 10 per cent. movement in the US$/£ exchange rate would cause a movement in the sterling value of the Group's USA net assets of £8.3 million.

Capital Management

The capital structure of the Group consists of equity attributable to equity holders of the parent together with net debt. This is kept under constant review to ensure the Group has sufficient capital to fund its operations and that the Group's strategy of low gearing is maintained. The Group seeks to maintain a balance between longer-term finance appropriate to fund its long-term investment property holding strategy and cost effectiveness, given availability of debt in the market. Equity comprises issued share capital, reserves and retained earnings as set out in the Consolidated Statement of Changes in Equity. Net debt comprises a mix of fixed rate mortgages and shorter-term bank loans as set out in Note 16 and cash and short term deposits as set out in Note 13. All loans and borrowings are secured against investment property and the bank loans are drawn against committed facilities.

Fair Values of Financial Instruments

With the exception of floating rate loans and borrowings which have not been fixed through the use of interest rate swaps, the Group's financial instruments are either recorded at fair value or their fair values are not materially different from their carrying amounts. The fair value of the Group's floating rate loans and borrowings is as follows:

	2011	*2010*
	£000	*£000*
Floating rate loans and borrowings at carrying amount	**63,656**	24,241
Adjustment to fair value	**(1,911)**	(2,083)
Floating rate loans and borrowings at fair value	**61,745**	22,158

The fair values of fixed rate loans and borrowings and derivative financial instruments recorded in the financial statements, together with the fair values of floating rate loans and borrowings shown above, have been determined by discounting the differences between cash flows based on contractual principal and interest amounts and cash flows based on forecast market rates. As such these measurements are classified as Level 2 as defined by IFRS 7. The amount of the change in the fair value of the Group's fixed rate loans and borrowings, both during the period and cumulatively, which is attributable to changes in the credit risk of the liability is immaterial. This has been determined by assessing the amount of change that is not due to changes in market conditions.

18. Related party transactions

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. They have no beneficial interest in the share capital of Highdorn Co. Limited. Mr B S E Freshwater, Mr S I Freshwater and Mr D Davis are Directors of the parent company of Freshwater Property Management Limited but have no beneficial interest in either company. Mr R E Freshwater has a beneficial interest in a trust holding interests in shares in Highdorn Co. Limited.

In their capacity as property managing agents, Highdorn Co. Limited and Freshwater Property Management Limited collect rents and incur direct property expenses on behalf of the Group. At

Notes to the Consolidated Financial Statements (continued)

31 March 2011, the aggregate net amounts due to the Group from Highdorn Co. Limited and Freshwater Property Management Limited in relation to such agency receipts and payments was £3.0 million (2010 – £5.2 million). These amounts are not secured and are payable on demand. No guarantees have been given or received and the amounts are settled in cash.

The amounts paid by the Group for the provision of property and other management services by Highdorn Co. Limited and Freshwater Property Management Limited, not included above, were as follows:

	2011	2010
	£000	£000
Balance due to related party managing agents at 1 April	**843**	701
Charged during the year	**3,668**	3,259
Paid during the year	**(3,839)**	(3,117)
Balance due to related party managing agents at 31 March	**672**	843

The Directors' interests in the Company and the principal shareholders are described on page 14.

The Board considers that the Directors are the key management personnel of the Group and their remuneration is disclosed on page 16.

19. Contingent liabilities

The Group is from time to time party to legal actions arising in the ordinary course of business. The Directors are not aware of any current actions which could have a material adverse effect on the financial position of the Group.

20. Operating lease agreements

The Group earns rental income by leasing its investment properties to tenants under operating leases which vary in terms and provisions between type of property and type of tenure. Leases providing for contingent rents are rare within the Group's property portfolio and no amounts for contingent rents are included in rental income for the year (2010 – £nil).

At the balance sheet date, future minimum lease payments receivable by the Group under such leases were as follows:

	2011	2010
	£000	£000
Due within one year	**81,429**	77,987
Due within one to two years	**49,236**	49,442
Due within two to five years	**103,644**	106,288
Due after more than five years	**301,871**	316,387
	536,180	550,104

Many of the Group's residential properties are let under assured shorthold tenancies which typically are for initial terms of 12 months or less whereafter they are cancellable at short notice. The Group's experience is that a significant proportion of such tenancies are held over after the expiry of their initial term.

21. Principal Subsidiary Undertakings

Except where indicated the following are indirect subsidiaries of the Company. All are wholly owned property investment companies and are included in the Consolidated Financial Statements.

Incorporated in Great Britain and registered in England and Wales

Astral Estates (London) Limited
Bampton Holdings Limited
Bampton (B&B) Limited
Bampton (Redbridge) Limited
Brickfield Properties Limited
City and Country Properties Limited
City and Country Properties (Birmingham) Limited
City and Country Properties (Camberley) Limited
City and Country Properties (Midlands) Limited
Coinsun Limited
Daejan (Brighton) Limited
Daejan (Cambridge) Limited
Daejan (Cardiff) Limited
Daejan (Care Homes) Limited*
Daejan Commercial Properties Limited
Daejan (Dartford) Limited
Daejan Developments Limited
Daejan (Durham) Limited
Daejan Enterprises Limited
Daejan Estates Limited
Daejan (FH 1998) Limited
Daejan (FHNV 1998) Limited
Daejan (High Wycombe) Limited
Daejan Investments Limited
Daejan Investments (Grove Hall) Limited
Daejan Investments (Harrow) Limited
Daejan Investments (Park) Limited
Daejan (Kingston) Limited
Daejan (Lauderdale) Limited
Daejan (Norwich) Limited
Daejan (NUV) Limited
Daejan Properties Limited
Daejan (Reading) Limited
Daejan Retail Properties Limited
Daejan (Taunton) Limited
Daejan Traders Limited*
Daejan (UK) Limited*
Daejan (US) Limited*
Daejan (Warwick) Limited
Daejan (Watford) Limited
Daejan (Worcester) Limited
Hampstead Way Investments Limited
Inputstock Limited
Inputstripe Limited
Lawnstamp Limited
Limebridge Co. Limited
Pegasus Investment Company Limited
Rosebel Holdings Limited
Seaglen Investments Limited
St. Leonards Properties Limited
The Bampton Property Group Limited
The Cromlech Property Co. Limited
The Halliard Property Co. Limited

Incorporated in the USA (see note)

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

* Directly owned.

Note: Minority interests arise on investments in a U.S. subsidiary.

Company Balance Sheet

as at 31 March 2011

	Notes		2011		2010
		£000	£000	£000	£000
Fixed Assets					
Investment in Subsidiary Undertakings	3		**1,016,886**		856,719
Current Assets					
Cash at Bank		**58,118**		4,808	
		58,118		4,808	
Creditors: Amounts falling due within one year	4	**(190,623)**		(28,895)	
Net Current Liabilities			**(132,505)**		(24,087)
Total Assets Less Current Liabilities			**884,381**		832,632
Creditors: Amounts falling due after more than one year	5		**(46,281)**		(47,656)
Net Assets			**838,100**		784,976
Capital and Reserves					
Called up Share Capital	6		**4,074**		4,074
Share Premium Account	7		**555**		555
Other Reserves	7		**893**		893
Profit and Loss Account	7		**832,578**		779,454
			838,100		784,976

The Financial Statements on pages 50 to 53 were approved by the Board of Directors on 22 July 2011 and were signed on its behalf by:

B.S.E. Freshwater Director

D. Davis Director

Notes to the Company Financial Statements

1. Accounting Policies

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

(a) Basis of Preparation

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of investments in subsidiaries, and in accordance with applicable UK accounting standards and applicable law. As permitted by section 408 of the Companies Act 2006, a separate profit and loss account dealing with the results of the Company has not been presented. The Company's profit for the year after taxation is £67,667,000 (2010 – £40,854,000).

(b) Investments in Subsidiary Undertakings

Investments in subsidiary undertakings comprise shares in, and loans to, those undertakings and are stated at fair value in order better to reflect the underlying value of those assets. Fair value has been assessed by the Directors having regard to the underlying net assets of the subsidiary undertakings and the fair values of the investment properties held by those undertakings where such fair value is not included in the net assets.

(c) Foreign Currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction and gains and losses on translation are included in the profit and loss account.

2. Profit on ordinary activities before taxation

The company has no staff other than its Directors and their remuneration is set out on page 16 of the Group accounts. The Parent Company audit fee is disclosed on page 37 of the Group accounts.

3. Investments in Subsidiary Undertakings

	Shares at Valuation £000	*Loans £000*	***Total £000***
At 1 April 2010	–	856,719	**856,719**
Loans	–	(10,526)	**(10,526)**
Additional Investments	115,930	–	**115,930**
Revaluation	(102,246)	159,914	**57,668**
Effect of Foreign Exchange Differences	(2,905)	–	**(2,905)**
At 31 March 2011	10,779	1,006,107	**1,016,886**

The historical cost of shares in subsidiary undertakings is £241.0 million (2010 – £125.1 million).

Notes to the Company Financial Statements (continued)

4. Creditors: Amounts falling due within one year

	2011 £000	2010 £000
Bank loans and overdrafts	**10,875**	1,375
Other creditors and accruals	**169,898**	23,323
Taxation	**9,850**	4,197
	190,623	28,895

5. Creditors: Amounts falling due after more than one year

	2011 £000	2010 £000
Secured bank loans	**46,281**	47,656

6. Share Capital

	Number	2011 £000	2010 £000
Allotted, called up and fully paid:			
Ordinary Shares of 25 pence per share	16,295,357	**4,074**	4,074

7. Reserves

	£000
Share Premium Account:	
At 1 April 2010 and 31 March 2011	**555**
Other Non-Distributable Reserves:	
At 1 April 2010 and 31 March 2011	**893**
Profit and Loss Account:	
At 1 April 2010	**779,454**
Foreign Exchange Movements	**(2,484)**
Profit after Tax for the Year	**67,667**
Dividend Paid in the Year	**(12,059)**
At 31 March 2011	**832,578**

In the year to 31 March 2009, the Company transferred its shareholdings in certain of its wholly owned subsidiary undertakings to three intermediate holding companies for a consideration of £832.9 million. As a result of that transaction, the parent company transferred £645.1 million of revaluation gains relating to these investments to the profit and loss reserve. As the transfer of these revaluation gains arose as a result of a sale of assets within the Group, it is unlikely that the Company will seek to treat the profit and loss reserve thus arising as distributable.

Under the Articles of Association of certain Group investment undertakings, realised capital surpluses are not available for distribution as dividends.

8. Reconciliation of Movements in Shareholders' Funds

	2011	*2010*
	£000	*£000*
Profit after Tax for the Year	**67,667**	40,854
Foreign Exchange Movements	**(2,484)**	(3,274)
Dividend Paid in the Year	**(12,059)**	(11,897)
Net Movement in Shareholders' Funds	**53,124**	25,683
Shareholders' Funds at 1 April	**784,976**	759,293
Shareholders' Funds at 31 March	**838,100**	784,976

Five-Year Record

	2007 £000	2008 £000	2009 £000	2010 £000	**2011 £000**
Total Rental and Related Income	90,176	86,952	95,973	99,913	**102,692**
Property Operating Expenses	(49,808)	(46,464)	(53,470)	(55,983)	**(60,743)**
Net Rental and Related Income	40,368	40,488	42,503	43,930	**41,949**
Profit on Disposal of Investment Properties	17,169	6,578	6,758	5,073	**9,257**
Net Valuation Gains/(Losses) on Investment Properties	153,872	20,664	(261,603)	24,997	**52,024**
Administrative Expenses	(7,630)	(8,629)	(12,039)	(10,013)	**(10,558)**
Net Operating Profit/(Loss) Before Financing Costs	203,779	59,101	(224,381)	63,987	**92,672**
Profit/(Loss) before Taxation	198,316	47,067	(248,037)	61,129	**84,363**
Income Tax (Expense)/Credit	(56,487)	7,040	69,341	(15,474)	**(16,530)**
Profit/(Loss) for the Year	141,829	54,107	(178,696)	45,655	**67,833**
Earnings/(Loss) per Share	868.6p	331.8p	(1,096.6)p	280.1p	**416.2p**
Total Assets	1,302,420	1,328,297	1,196,660	1,229,715	**1,345,941**
Equity Shareholders Funds	861,727	902,778	759,293	784,976	**838,100**
Equity Shareholders Funds £ per Share	52.88	55.40	46.60	48.17	**51.43**

Directors and Advisers

Directors

B S E Freshwater

(Chairman and Managing Director)

D Davis (non-executive)

S I Freshwater

A M Freshwater (non-executive)

R E Freshwater (non-executive)

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

Equiniti,

Aspect House

Spencer Road,

Lancing,

West Sussex BN99 8AH

Auditors

KPMG Audit Plc,

15 Canada Square

London E14 5GL

Consulting Accountants

Cohen Arnold

New Burlington House,

1075 Finchley Road,

London NW11 0PJ

Principal Bankers

Lloyds Banking Group plc

Barclays Bank PLC

The Royal Bank of Scotland Group plc

Stockbrokers

Brewin Dolphin Limited,

7 Drumsheugh Gardens,

Edinburgh EH3 7QH

Notice of Meeting

Notice is hereby given that the Seventy Sixth 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 Tuesday 20 September 2011 at 2.00 p.m. for the following purposes:

Ordinary Business
To consider and if thought fit, pass the following Ordinary Resolutions:

1. To receive the Financial Statements for the year ended 31 March 2011 together with the Reports of the Directors and the Auditors. (Resolution 1.)

2. To approve the Remuneration Report for the year ended 31 March 2011. (Resolution 2.)

3. To declare a final dividend. (Resolution 3.)

4. To re-elect B S E Freshwater as a Director, who retires by rotation. (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

22 July 2011

A member entitled to attend and vote at the Meeting may appoint another person(s) to exercise all or any of his rights to attend, speak and vote at the meeting. A proxy need not be a member of the Company but must attend the meeting for the member's vote to be counted. A member can appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by him.

As at 22 July 2011 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 16,295,357 ordinary shares, carrying one vote each. Therefore the total voting rights in the Company are 16,295,357.

The recommended final dividend will, if approved, be paid on 11 November 2011 to Shareholders registered at the close of business on 14 October 2011.

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Design, art direction and photography by Roger Watt