

Daejan Holdings PLC

Report & Financial Statements 2003

Summary of Results

	Year ended 31 March	
	2003	2002
	£000	£000
Profit before Taxation	30,692	30,081
Profit after Taxation	20,635	20,819
Earnings per Share	126.3p	127.4p
Dividends per Share	55.0p	52.0p
Equity Shareholders' Funds per Share (based on Balance Sheet values)	£28.81	£27.17

Final Dividend of 33p per share payable on 3 November 2003 to shareholders on the register on 3 October 2003

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Some of our Properties

Right:
*Dudley Court and
Clarendon Court,
Finchley Road,
London NW11*



Above and right:
*Seaplane House,
Rochester,
Kent*



Far right:
*Simpson House,
Croydon,
Surrey*





Far left:
*Kew House,
Brentford,
Middlesex*



Left:
*Frankie & Benny's
restaurant,
Boongate Retail Park,
Peterborough*



Left and below:
*The Promenade,
Cheltenham Spa,
Gloucestershire*



**Centre left &
bottom left:**
*The Orchards,
Dartford,
Kent*



Left:
*New College Court,
Swiss Cottage,
London NW3*

Chairman's Statement

It gives me pleasure to present the Report and Accounts for the year ended 31 March 2003, which has been another year of satisfactory progress.

The revaluation of our investment properties at £549 million has given rise to an overall increase of 3.0% in the year. Whilst this level of increase is below the levels which we have recorded in recent years it has been achieved in a year which has seen falls in value in some sectors of the property market. The geographical spread of the Group's portfolio and the substantial residential holding has provided a buffer against these short term adverse trends. The table below shows how our various holdings contributed to the year's investment property valuation surplus:

	Valuation March 2003	Percentage Increase
Commercial Property		
UK	£418m	+2.0%
US	£27m	+4.4%*
Residential Property		
UK	£104m	+10.2%
Total	£549m	+3.0%

*underlying percentage increase in US dollar terms.

Within our UK commercial portfolio, properties in the North and Scotland and those in the South and West saw the highest rates of increase but these were offset by decreases in the London area. By value, some 28% of our UK commercial portfolio is situated in London and although this part of the portfolio decreased in value by 2.3%, it has provided significant capital growth in past years and will, I believe, do so again in the future.

Right:
Wimbledon Close,
London SW19



Far right:
Talgarth Mansions,
London W4



We have for some time pursued a strategic aim of increasing our diversification into holdings of property in the USA. During the year we acquired as trading stock three residential blocks in Baltimore, Maryland at a cost of \$11.5 million. Based on the latest valuation, together with subsequent acquisitions at cost, our US trading properties amounted to £70.7 million, equivalent to 29.7% of the total of our trading properties. Our total US investment property holdings amounted to £27 million, equivalent to 5% of our total investment property holdings.

The profit after tax for the financial year amounted to £20.6 million, a slight reduction on the previous year (£20.8 million). Net rental income decreased by £3.2 million of which the principal contributory factors were an increase in property refurbishment expenses net of recoveries, of £1 million and also the impact of currency depreciation of £1.2 million on our US rental income.

The letting market in the UK remains subdued and we are currently holding commercial vacancies equivalent in rental value to 8.9% of the commercial portfolio which level is somewhat higher than we have experienced in recent years.

We have continued our substantial programme of property repairs and refurbishment which will enhance future lettable and rental values throughout the portfolio. In total, the cost of repairs amounted to some £17 million (2002 - £16 million) of which £9 million will be contributed by our lessees by way of service charges (2002 - £9 million). At 31 March 2003 major works projects totalling some £23 million had been approved; given the nature of these projects, their costs and related recoveries will be spread over more than one financial period.



Left:
*Montrose Court,
Finchley Road,
London NW11*

Chairman's Statement (continued)

We continue to focus on building our core rental income and with this in mind seek in many instances to re-let residential units as they become vacant rather than offering them for sale. However, our property portfolio is subject to continual review and we regularly realise by way of sale those properties that no longer fit our strategic objectives.

The underlying strength of the Group's performance enables your Board to recommend an increase in the total dividend for the year from 52p to 55p, an increase of 5.8%. If approved by shareholders, this will be the twenty fourth consecutive increase in annual dividend. Your Board will continue to increase dividend levels prudently in the light of the Group's continuing progress.

Based on the balance sheet as at 31 March 2003, equity shareholders funds had increased to £469.5 million (2002 - £442.8 million) an increase of 6%. Taking into account those items not included in the balance sheet, the adjusted net asset value per share at 31 March 2003 was £32.83 (2002 - £32.05) an increase of 2.4%. The adjusted net asset value, takes equity shareholders' funds and adjusts for the revaluation surplus on trading stock, the tax which would arise on disposal of properties at valuation and the fair value of financial instruments as described more fully on page 7 and in note 15 to the financial statements.

The Group continues in a position of financial strength. Cash resources and undrawn facilities totalled £108 million at 31 March 2003 (2002 - £70 million). Our gearing at that date, being the ratio between debt and gross assets, was at the relatively low but prudent level of 26% (2002 - 27%). We are therefore well placed both to acquire further quality property investments and also to maximise the potential of our existing portfolio.

A buoyant property market ultimately relies on a growing economy. At present we see the UK economy on the cusp between growth and stagnation with little or no growth in the Euro zone. The US economy seems to be poised for a further period of growth but the impact has yet to be felt. Against this background we will continue to pursue growth in a spirit of enterprise tempered by caution - in the tried and tested manner that has served us so well in the past.

In these challenging times the success of the Group is particularly dependent on the dedication and professionalism of my hardworking colleagues; our thanks are due to all of them.

B.S.E. FRESHWATER
Chairman

Directors' Report

The Directors have pleasure in presenting their Report together with the Financial Statements for the year to 31 March 2003.

Principal Activities of the Group

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

Properties

A professional revaluation of all the Group's United Kingdom investment properties was carried out at 31 March 2003 by the Group's external valuers, Cardales, Chartered Surveyors, and a copy of their report appears on page 41. The resultant figures have been included in the Financial Statements now presented and the increase of £17.5 million over previous book values has been transferred to Revaluation Reserve. The Group's trading portfolio in the UK was professionally valued at 31 March 2002 by the Group's external valuers Cardales and showed a surplus over book value of £148.5 million which has not been incorporated into the Financial Statements. The Group's United States investment properties were also professionally valued at 31 March 2003 by KTR Newmark and Meredith & Grew US General Certified Appraisers and the increase of £1.1 million over previous book values has been transferred to Revaluation Reserve. The Group's United States trading properties were professionally valued at 31 March 2002 and produced a surplus of £26.2 million which has not been incorporated into the Financial Statements.

Net Asset Values

Equity shareholders funds per share based on balance sheet values are £28.81.

Adjusted Net Asset Value per share of £32.83 (2002 - £32.05) representing equity shareholders funds with the trading stock based on a professional valuation as at 31 March 2002 (as adjusted for sales during the year) but after full allowance is made for tax (at applicable UK and US rates) on realisation of investment and trading properties at valuation and for deduction of the fair value adjustment after tax of £10.9 million (2002 - £4.7 million), as calculated under Financial Reporting Standard 13. The adjustment for trading properties amounted to £171.8 million (2002 - £174.7 million) while the tax adjustment in respect of the trading properties amounted to £54.2 million (2002 - £55.0 million) and the tax adjustment in respect of properties held for investment amounted to £41.3 million (2002 - £35.4 million).

Results & Dividend

The profit for the financial year amounted to £20,584,000 (2002 - £20,766,000). An Interim Dividend of 22p per share was paid on 14 March 2003 and the Directors now recommend the

Directors' Report *(continued)*

payment of a Final Dividend of 33p per share, making a total for the year of 55p per share, an increase of 3p over the previous year. The dividends will absorb £8,962,000 (2002 - £8,474,000) and will leave £11,622,000 (2002 £12,292,000) to be added to retained profits.

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

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

	Property Income		Profit	
	UK £000	USA £000	UK £000	USA £000
Rents and Charges	63,374	13,790	32,288	5,435
Sales of Trading and Investment Properties	9,312	54	7,911	54
Other Activities	35	124	35	124
	<u>72,721</u>	<u>13,968</u>	40,234	5,613
Financing Charges (net)			(6,462)	(2,221)
Administrative and Other Expenses			(5,938)	(534)
			<u>27,834</u>	<u>2,858</u>
			2,858	
Profit before Taxation			<u>30,692</u>	

Payment Policy

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

Directors

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

Mr B S E Freshwater

Mr D Davis

Mr S I Freshwater

The Director retiring by rotation is Mr D Davis who, being eligible, offers himself for re-election.

Brief biographies of the Directors are as follows:-

Mr B S E Freshwater. Aged 55 - 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 68 - A Chartered Accountant and member of the Institute of Taxation, was previously a partner in Cohen, Arnold & Co., the Group's consulting accountants. He relinquished his partnership in 1971 in order to devote more time to his numerous business and other interests. He has been a non-executive Director of the Company since December 1971.

Mr S I Freshwater. Aged 52 - Directs the Group's operations in the USA and also has responsibility for the Group's UK sales division. He has been a Director of the Company since January 1986.

Directors' Interests

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

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

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

Substantial Interests & Interests of Directors

Daejan Holdings PLC		31 March	31 March
Ordinary Shares		2003	2002
D Davis	(notes 2 & 3)	763	763
B S E Freshwater	(notes 1, 2, 3 & 4)	590,033	590,033
S I Freshwater	(notes 2, 3 & 4)	89,270	89,270

Notes:

- All the above holdings were beneficially owned. Mr B S E Freshwater's shareholding represents 3.6% of the Issued Share Capital of the Company.
- A further 4,363,116 shares (2002 - 4,363,116) representing 26.8% of the Issued Share Capital of the Company were held by Freshwater family trusts and by charitable companies in which Mr B S E Freshwater, Mr S I Freshwater and Mr D Davis have no beneficial interest.
- In addition to the holding shown in the table and in note 2 above, companies owned and controlled by Mr B S E Freshwater, Mr S I Freshwater and by their families, and family trusts, held at 31 March 2003 a total of 7,876,431 shares (2002 - 7,876,431) representing 48.3% of the Issued Share Capital of the Company. Mr D Davis has a non-beneficial interest in some of these shares as a Director of the companies concerned, or as a trustee.
- Of these shares 89,270 are held by a company owned jointly by Mr B S E Freshwater and Mr S I Freshwater.
- There have been no changes in any of the above interests since 31 March 2003.

Directors' Report *(continued)*

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

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

In addition to the above Fidelity International Limited hold 489,852 Ordinary Shares representing 3% of the issued share capital.

Capital Gains Tax

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

Charitable Donations

Charitable Donations made by the Group amounted to £120,000 (2002 - £120,000). There were no political contributions (2002 - £Nil).

Auditors

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

By Order of the Board,

M R M Jenner

Secretary

7 August 2003

Directors' Remuneration Report

Audited Information

Remuneration

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

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

Pension to Widow of former managing director £77,500

2002	Salary £	Fees £	Sub-total £	Pensions £	Total £
Mr B S E Freshwater	390,000	20,000	410,000	52,659	462,659
Mr D Davis	—	20,000	20,000	—	20,000
Mr S I Freshwater	409,000	20,000	429,000	—	429,000
	799,000	60,000	859,000	52,659	911,659

Pension to Widow of former managing director £77,500

Pensions

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

Unaudited Information

Compliance

The Board considers that the Company has complied throughout the year with the requirements of the Combined Code in relation to Directors' remuneration with the exception of the provision relating to the formation and constitution of a remuneration committee (see page 13). In determining remuneration policy, the Board has given full consideration to the Principles of Good Governance and Code of Best Practice as set out in Section 1 of the Combined Code annexed to the Listing Rules of the Financial Services Authority.

Policy

The remuneration policy adopted by the Board is designed to ensure that the Directors' interests are allied to the long-term growth of the Group and therefore to the interests of the shareholders as a

Directors' Remuneration Report *(continued)*

whole. The Group does not operate any form of bonus scheme or share option scheme since the Executive Directors' salaries for the year are determined by the Board once the results for the year are known with any salary increase calculated and paid with effect from the beginning of the financial year.

Remuneration of Non Executive Directors

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

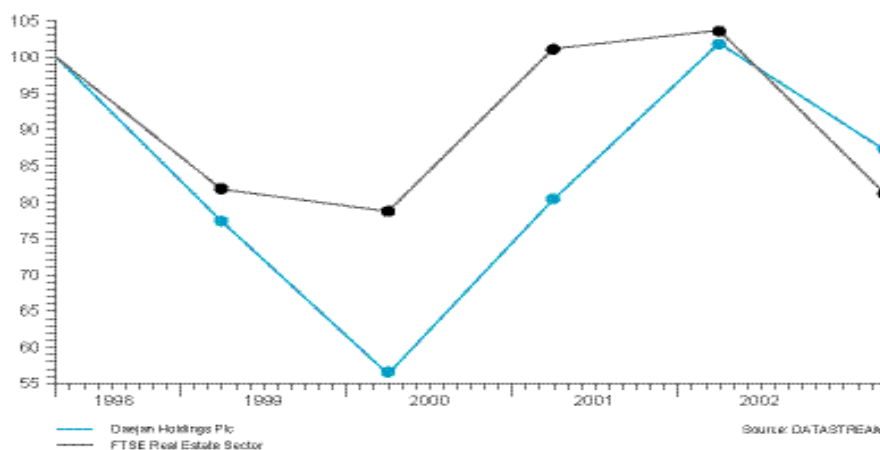
Service Contracts

No Director has a service contract.

Total Shareholder Return

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

Daejan Holdings Total Return Index versus FTSE Real Estate Sector Total Return Index
for the five financial years ended 31 March 2003 (rebased as at 1 April 1998)



Approved by the Board on 7 August 2003 and signed on its behalf by
Mark Jenner
Company Secretary

Corporate Governance

General matters

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

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

We do not comply with the provisions of the Code in connection with non-executive representation on the Board, as we are doubtful that further extending non-executive participation at present would benefit our shareholders. We consider it vital that the principles of a unitary Board of Directors sharing responsibility for all facets of the Company's business should not be undermined by reserving areas of decision making solely for the non-executive Directors. For this reason the matters which the Code recommends should be reserved for audit and remuneration committees are dealt with by the whole Board and it is intended to continue this practice. In view of the fact that the Board comprises only three Directors it is also not considered necessary to split the roles of Chairman and Chief Executive.

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

Directors

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

The entire Board is responsible for the selection and approval of candidates for appointment to the Board. All Directors retire by rotation and submit themselves to shareholders for re-election at Annual General Meetings at regular intervals and at least every three years.

Corporate Governance *(continued)*

Directors' Remuneration

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

Internal Controls

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

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

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

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

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

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

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

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

Investor Relations

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

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

Financial Reporting

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

Corporate Governance *(continued)*

Compliance Statement

The Board consider the Company has complied throughout the year ended 31 March 2003 with the provisions of the Code with the exception of the following paragraphs:-

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

Going Concern

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

Financial Reporting Standard 13

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

The fair values as at 31 March 2003 as set out in note 15 on page 35 exceeded the book values of the Group's borrowings and receivables by £15.5 million reflecting a reduction in long term interest rates since the rates were originally fixed. The adjustment to fair value would reduce reported net assets per share by 95p and would increase balance sheet gearing. After taking account of tax relief, the adjustment to net assets would be 67p per share.

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

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

Directors' Responsibilities

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

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and of the Group and to prevent and detect fraud and other irregularities.

Independent Auditors' Report

Independent auditors' report to the members of Daejan Holdings PLC

We have audited the financial statements on pages 20 to 42. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors & auditors

The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 17, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the statement on page 16 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 March 2003 and of the profit of the group for the year then ended; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

Chartered Accountants

Registered Auditor

London

7 August 2003

Consolidated Profit & Loss Account

<i>for the year ended 31 March 2003</i>	<i>Notes</i>	2003 £000	2002 £000
Turnover	2	84,132	85,823
Net Rental Income	2	37,723	40,972
Surplus on Sale of Trading Properties	2	6,587	5,591
Other Income	2	159	143
Gross Profit		44,469	46,706
Administrative and Other Expenses		(6,472)	(7,063)
Operating Profit		37,997	39,643
Surplus on Sale of Investment Properties	2	1,378	307
Profit on Ordinary Activities before Interest		39,375	39,950
Net Interest Payable and Other Similar Items	3	(8,683)	(9,869)
Profit on Ordinary Activities before Taxation	4	30,692	30,081
Tax on Profit on Ordinary Activities	5	(10,057)	(9,262)
Profit on Ordinary Activities after Taxation	6	20,635	20,819
Minority Interests - Equity		(51)	(53)
Profit for the Financial Year		20,584	20,766
Dividends: Interim		(3,585)	(3,585)
Final (proposed)		(5,377)	(4,889)
		(8,962)	(8,474)
Retained Profit for the Year	18	11,622	12,292
Earnings per Share	7	126.3p	127.4p
Dividends per Share		55.0p	52.0p

All activities are continuing.

The notes on pages 26 to 40 form part of these Financial Statements.

Consolidated Balance Sheet

<i>as at 31 March 2003</i>	<i>Notes</i>	2003	2002
		£000	£000
Fixed Assets			
Tangible Assets	8	548,651	533,581
Investments	9	617	617
		549,268	534,198
Current Assets			
Properties held for Trading	10	65,920	57,288
Debtors: Due within one year	11	30,206	28,251
Due after one year	11	1,699	2,042
		31,905	30,293
Investments	12	128	142
Cash at Bank		57,204	47,679
		155,157	135,402
Creditors: Amounts falling due within one year	13	(93,494)	(91,218)
Net Current Assets		61,663	44,184
Total Assets Less Current Liabilities		610,931	578,382
Creditors: Amounts falling due after more than one year	14	(132,557)	(127,271)
Provisions for liabilities and charges	16	(8,695)	(8,168)
Net Assets		469,679	442,943
Capital and Reserves			
Called up Share Capital	17	4,074	4,074
Share Premium Account	18	555	555
Revaluation Reserve	18	246,095	230,919
Other Reserves	18	6,784	6,784
Profit and Loss Account	18	211,998	200,443
Equity Shareholders' Funds		469,506	442,775
Minority Interests - Equity		173	168
		469,679	442,943
Equity Shareholders' Funds per Share	7	£28.81	£27.17

The Financial Statements on pages 20 to 40 were approved by the Board of Directors on 7 August 2003 and were signed on its behalf by:-

B S E Freshwater Director

D Davis Director

The notes on pages 26 to 40 form part of these Financial Statements.

Company Balance Sheet

<i>as at 31 March 2003</i>	<i>Notes</i>	2003	2002
		£000	£000
Fixed Assets			
Investment in subsidiary undertakings	19	557,663	536,725
Current Assets			
Debtors: Due within one year	11	—	2
Cash at Bank		7,336	4,665
		7,336	4,667
Creditors: Amounts falling due within one year	13	(55,743)	(57,867)
Net Current Liabilities		(48,407)	(53,200)
Total Assets Less Current Liabilities		509,256	483,525
Creditors: Amounts falling due after more than one year	14	(39,750)	(40,750)
Net Assets		469,506	442,775
Capital and Reserves			
Called up Share Capital	17	4,074	4,074
Share Premium Account	18	555	555
Revaluation Reserve	18	268,026	252,828
Other Reserves	18	893	893
Profit and Loss Account	18	195,958	184,425
		469,506	442,775

The Financial Statements on pages 20 to 40 were approved by the Board of Directors on 7 August 2003 and were signed on its behalf by:

B S E Freshwater Director
D Davis Director

The notes on pages 26 to 40 form part of these Financial Statements.

Consolidated Cash Flow Statement

<i>for the year ended 31 March 2003</i>		2003		2002
	£000	£000	£000	£000
Operating activities				
Net cash inflow from operating activities (note 20(i))		27,393		42,307
Returns on investments and servicing of finance				
Interest received	1,510		1,865	
Interest paid	(11,174)		(11,499)	
Minority interests	(31)		23	
Net cash outflow from returns on investments and servicing of finance		(9,695)		(9,611)
Taxation				
UK Corporation tax paid	(9,728)		(9,639)	
Overseas tax paid	(480)		(889)	
		(10,208)		(10,528)
Capital expenditure				
Purchase of investment properties	—		(59)	
Sale of investment properties	2,334		1,385	
Net cash inflow for capital expenditure		2,334		1,326
Equity Dividends paid		(8,474)		(8,474)
Cash inflow before financing		1,350		15,020
Financing				
Repayment of secured loans	(5,064)		(10,554)	
Repayment of mortgage advances	(407)		(6,677)	
New mortgage advances	14,663		24,133	
Net cash inflow from financing (note 20(iii))		9,192		6,902
Increase in cash in the year (note 20(ii&iii))		10,542		21,922

The notes on pages 26 to 40 form part of these Financial Statements.

Consolidated Statement of Total Recognised Gains & Losses

<i>for the year ended 31 March 2003</i>	2003	2002
	£000	£000
Profit for the financial year	20,584	20,766
Unrealised surplus on revaluation of investment properties	18,557	48,130
Tax on realisation of revalued properties	(167)	(148)
Translation differences on foreign currency net investments	(3,281)	(350)
Total net recognised gains and losses relating to the year	35,693	68,398

Note of Consolidated Historical Cost Profits & Losses

<i>for the year ended 31 March 2003</i>	2003	2002
	£000	£000
Reported profit on ordinary activities before taxation	30,692	30,081
Realisation of investment property revaluation gains of previous years	879	977
Historical cost profit on ordinary activities before taxation	31,571	31,058
Historical cost profit for the year retained after tax, minority interests and dividends	12,334	13,121

The notes on pages 26 to 40 form part of these Financial Statements.

Reconciliation of Movements in Consolidated Shareholders' Funds

<i>for the year ended 31 March 2003</i>	2003	2002
	£000	£000
Profit for the financial year	20,584	20,766
Dividends: Interim	(3,585)	(3,585)
Final (proposed)	(5,377)	(4,889)
Retained profit for the year	11,622	12,292
Other net recognised gains and losses relating to the year	15,109	47,632
Net increase in shareholders' funds	26,731	59,924
Equity Shareholders' Funds brought forward, as previously reported	442,775	389,126
Prior year adjustment	—	(6,275)
Equity Shareholders' Funds brought forward	442,775	382,851
Equity Shareholders' Funds carried forward	469,506	442,775

The notes on pages 26 to 40 form part of these Financial Statements.

Notes to the Financial Statements

1. Principal Accounting Policies

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

(a) Basis of Accounting

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

(b) Consolidation and Presentation of Financial Information

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

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

(c) Income Available for Distribution

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

(d) Depreciation

In accordance with Statement of Standard Accounting Practice No. 19 investment properties are revalued annually. Surpluses or deficits arising are taken to the revaluation reserve. Any permanent diminution is taken to the profit and loss account for the year. No depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years to run.

This treatment, as regards certain of the Group's investment properties, may be a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the Directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the financial statements to give a true and fair view. Depreciation or amortisation is only one of the many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

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

(e) Acquisitions and Disposals of Properties

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

(f) Deferred Taxation

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

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

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

(g) Properties

(i) Investment Properties

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

(ii) Trading Properties

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

(h) Foreign Currencies

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

(i) Sales of Investment Properties

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

Notes to the Financial Statements (continued)

(j) **Repairs**

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

(k) **Investments in Subsidiary Undertakings**

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

(l) **Turnover**

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

2. Property Income

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

	<i>Property Income</i> £000	<i>Costs</i> £000	<i>2003 Profit Arising</i> £000	<i>Property Income</i> £000	<i>Costs</i> £000	<i>2002 Profit Arising</i> £000
Rents and service charges receivable (see (i) below)	77,164	(39,441)	37,723	79,157	(38,185)	40,972
Trading property sales	6,968	(381)	6,587	6,666	(1,075)	5,591
	84,132	(39,822)	44,310	85,823	(39,260)	46,563
Investment property sales	2,398	(1,020)	1,378	1,422	(1,115)	307
Other income	159	—	159	143	—	143
	86,689	(40,842)	45,847	87,388	(40,375)	47,013

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

	<i>UK</i> £000	<i>USA</i> £000	<i>2003 Total</i> £000	<i>UK</i> £000	<i>USA</i> £000	<i>2002 Total</i> £000
Property income	72,721	13,968	86,689	73,240	14,148	87,388
Profit before financing charges	34,296	5,079	39,375	34,529	5,421	39,950
Financing charges	(6,462)	(2,221)	(8,683)	(7,855)	(2,014)	(9,869)
Profit on ordinary activities before taxation	27,834	2,858	30,692	26,674	3,407	30,081
Net assets	429,292	40,387	469,679	403,252	39,691	442,943

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

	<i>2003</i> £000	<i>2002</i> £000
Wages and salaries	1,014	982
Social security costs	81	76
	1,095	1,058

These figures relate only to porterage staff of whom an average number of 84 (2002 - 78) were employed during the year.

3. Net Interest Payable

	<i>2003</i> £000	<i>2002</i> £000
Interest payable on loans	11,051	12,085
Interest payable on overdrafts	14	31
	11,065	12,116
Interest receivable	(2,382)	(2,247)
Net interest payable	8,683	9,869

Notes to the Financial Statements *(continued)*

4. Profit on Ordinary Activities before Taxation

	2003 £000	2002 £000
Profit on ordinary activities before taxation is stated after charging the following:		
Auditors' remuneration – Audit services (including irrecoverable VAT) – Group	367	359
– Company	20	20
No other fees were paid to KPMG Audit Plc during the year (2002: Nil)		

The Group jointly employed an average of 148 persons during the year (2002: 143). The aggregate payroll costs were £4,570,000 (2002: £4,497,000). Details of the Directors' remuneration are contained in the Directors' Remuneration Report on page 11.

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

5. Tax on Profit on Ordinary Activities

	2003 £000	2002 £000
Taxation based on the profit for the year		
UK corporation tax at 30% (2002 – 30%)	9,155	8,080
Overseas taxation	381	339
	9,536	8,419
Adjustments to prior years' charges	(65)	117
Total current tax	9,471	8,536
Deferred tax on origination and reversal of timing differences (Note 16)	586	726
	10,057	9,262
Factors affecting the tax charge for the year		
Profit on ordinary activities before taxation	30,692	30,081
Corporation tax at the standard rate of 30% (2002 – 30%)	9,208	9,024
Expenses disallowed	95	129
Adjustments in respect of previous periods	(65)	117
Reduced tax on overseas profits not subject to UK corporation tax	(248)	(629)
Capital allowances	(48)	(53)
Differences arising from taxation of chargeable gains	71	(33)
Non-taxable income and other differences	(200)	(19)
Tax on release of provisions	658	—
	9,471	8,536

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

6. Profit on Ordinary Activities After Taxation

Profit after taxation of £21,355,000 arises in the holding company, £12,386,000 being dividends paid by subsidiary companies (2002 – £13,087,000; Dividends – £4,000,000).

7. *Earnings per Share/Equity Shareholders' Funds per Share*

Earnings per share is calculated on earnings, after taxation and minority interests, of £20,584,000 (2002 - £20,766,000) and the weighted average number of shares in issue during the year of 16,295,357 (2002 - 16,295,357).

Equity Shareholders' Funds per Share are calculated on Equity Shareholders' Funds of £469,506,000 (2002 - £442,775,000) and the number of shares in issue at the year end of 16,295,357 (2002 - 16,295,357).

8. *Tangible Assets – Investment Properties*

	<i>Freehold</i> £000	<i>Long Leasehold</i> £000	<i>Short Leasehold</i> £000	Total 2003 £000
At Valuation 1 April 2002	426,604	90,319	16,658	533,581
Disposals	(984)	(1)	—	(985)
Transfer	—	270	(270)	—
Revaluation	13,846	4,776	(65)	18,557
Foreign Exchange movements	(2,502)	—	—	(2,502)
At Valuation 31 March 2003	436,964	95,364	16,323	548,651

The historical cost of investment properties is £301m.

A professional valuation of all the Group's United Kingdom investment properties was carried out at 31 March 2003 by Cardales, Chartered Surveyors. The revalued figures are based on open market values in accordance with the Practice Statements in the RICS Appraisal and Valuation Manual. (See report on page 41.)

The Group's two US properties held for investment were also professionally valued at 31 March 2003 by KTR Newmark and Meredith & Grew US General Certified Appraisers. The revalued figures are based on open market values.

9. *Investments held as Fixed Assets*

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

Notes to the Financial Statements (continued)

10. Properties held for Trading

	UK £000	USA £000	2003 Total £000	UK £000	USA £000	2002 Total £000
At the lower of cost and net realisable value	21,423	44,497	65,920	21,082	57,194	78,276
Transfer	—	—	—	—	(20,988)	(20,988)
	21,423	44,497	65,920	21,082	36,206	57,288

£7,365,000 (2002 - £7,394,000) of the properties held for trading in the USA are held through shares in co-operative corporations.

The trading properties were professionally valued at 31 March 2002. This resulted in a surplus over book value of £148.5m in respect of the UK properties and £26.2m for the US properties which have not been incorporated into the financial statements.

	<i>The Group</i>		<i>The Company</i>	
	2003 £000	2002 £000	2003 £000	2002 £000
11. Debtors				
Rents and service charges	20,101	17,242	—	—
Other debtors and prepayments	9,756	10,488	—	2
Taxation	—	138	—	—
Mortgages granted repayable within one year	349	383	—	—
Due within one year	30,206	28,251	—	2
Mortgages granted repayable after one year	1,699	2,042	—	—
Due after one year	1,699	2,042	—	—
	31,905	30,293	—	2

12. Investments held as current assets

Investments held as current assets include listed securities of £111,000 (2002 - £127,000) held at the lower of cost and net realisable value. The market value of these securities at 31 March 2003 was £130,000 (2002 - £182,000).

	<i>The Group</i>		<i>The Company</i>	
	2003 £000	2002 £000	2003 £000	2002 £000
13. Creditors: amounts falling due within one year				
Bank loans and overdrafts (see note below)	52,882	55,377	50,233	51,104
Unsecured loan stock	1,792	—	—	—
Mortgage instalment	944	740	—	—
Rents and service charges charged in advance	15,818	11,984	—	—
Other creditors and accruals	11,680	12,741	883	1,067
Taxation	5,001	5,487	(750)	807
Dividends payable	5,377	4,889	5,377	4,889
	93,494	91,218	55,743	57,867

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

14. Creditors: amounts falling due after more than one year	<i>The Group</i>		<i>The Company</i>	
	2003	<i>2002</i>	2003	<i>2002</i>
	£000	£000	£000	£000
Unsecured loan stocks	—	1,792	—	—
Mortgage advances	51,117	40,730	—	—
Secured bank loans	81,440	84,749	39,750	40,750
	132,557	127,271	39,750	40,750

Analysis of creditors falling due after more than one year

	<i>Interest rate</i>	<i>The Group</i>		<i>The Company</i>	
		2003	<i>2002</i>	2003	<i>2002</i>
		£000	£000	£000	£000
Amounts repayable after 1 April 2008					
Unsecured loan stock 2007	8.25%	—	1,792	—	—
Mortgages	5.89%-7.89%	34,062	27,452	—	—
Secured bank loans	4.64%-8.55%	71,181	74,024	35,750	36,750
		105,243	103,268	35,750	36,750
Amounts repayable between 1 April 2005 and 31 March 2008					
Mortgages	5.75%-8.4%	16,756	13,278	—	—
Secured bank loans	4.64%-8.55%	7,903	7,416	3,000	3,000
		24,659	20,694	3,000	3,000
Amounts repayable between 1 April 2004 and 31 March 2005					
Mortgages	5.89%	300	—	—	—
Secured bank loans	4.64%-8.55%	2,355	3,309	1,000	1,000
		2,655	3,309	1,000	1,000
Total amount of Long Term Loans		132,557	127,271	39,750	40,750
Amount of Long Term Loans secured on certain of the Group's properties		132,557	125,479	39,750	40,750

15. Financial instruments

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

The Group has taken advantage of the exemption under FRS 13, that short term debtors and creditors be excluded from the following disclosures.

Notes to the Financial Statements (continued)

Financial assets

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

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

	2003 £000	2002 £000
Cash - Sterling denominated	44,797	29,541
Cash - US dollar denominated	12,407	18,138
Total	57,204	47,679

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

The Group has mortgages receivable of £2,048,000 which are denominated in US dollars. £1,011,000 of these mortgages are at variable rates with £1,037,000 at fixed interest rates. For the variable rate mortgages interest is charged with reference to US Prime rates. The mortgages mature between November 2002 and December 2011.

The weighted average interest rate of the fixed rate receivables is 8.02% (2002 - 7.72%) and the weighted average period for which the receivable is fixed is 9.5 years (2002 - 7.2 years).

Current asset investments are denominated in Sterling.

Financial liabilities

Liquidity risk - profile

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

	2003 £000	2002 £000
Within one year or less or on demand	55,618	56,117
Between one and two years	2,655	3,309
Between two and five years	24,659	20,694
After five years	105,243	103,268
	188,175	183,388

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

Interest rate risk - profile

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

	2003 £000	2002 £000
Floating rate liabilities — Sterling denominated	80,090	80,750
Floating rate liabilities — US dollar denominated	8,983	9,854
Fixed rate liabilities — Sterling denominated	56,891	51,314
Fixed rate liabilities — US dollar denominated	42,211	41,470
	188,175	183,388

The floating rate financial liabilities comprise:

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

Hedge profile - type and maturity of protection

The weighted average interest rate on the fixed rate debt was 7.7% (2002 - 7.8%) and the weighted average period for which the borrowing is fixed at 31 March 2003 was 11 years (2002 - 13 years).

All of the £47,041,000 of fixed rate swaps mature after five years. In addition to the existing swaps there are contracted hedge positions of £18,750,000 which start in November 2003.

Fair value of financial assets and liabilities

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

	<i>Book value</i> £000	<i>Notional Principal</i> £000	2003 Fair value adjustment £000	<i>Fair value</i> £000	2002 Fair value adjustment £000
Financial instruments held or issued to finance the Group's operations					
<i>Assets:</i>					
Investments held as current assets	111	—	19	130	55
Mortgages receivable	1,037	—	230	1,267	(73)
<i>Liabilities:</i>					
Floating rate debt	(89,073)	—	—	(89,073)	—
Fixed rate debt	(99,102)	—	(14,189)	(113,291)	(6,626)
Interest rate swaps	—	(18,750)	(1,585)	(1,585)	(44)
Fair value adjustment			(15,525)		(6,688)

The fair values were calculated as at 31 March 2003 and reflect the replacement values of the financial instruments used to manage the Group's exposure to adverse interest rate movements. All gains and losses arising from hedging instruments which crystallised during the year have been recognised in the profit and loss account.

A recalculation of the fair value adjustment has been carried out at 22 July 2003 (the last practical date before the printing of these Financial Statements) which due to movements in interest rates since 31 March 2003 has resulted in a current fair value adjustment of £14,183,000 in place of the March figure of £15,525,000.

Currency profile

The Group had net monetary assets of £1,189,000 (2002: £1,284,000) denominated in US dollars held in entities using Sterling as the functional currency.

Notes to the Financial Statements (continued)

<i>16. Provisions for liabilities and charges</i>	<i>2003</i> £000
Deferred taxation:	
At 1 April 2002	8,168
Charge to profit and loss account	586
Foreign exchange movement	(59)
At 31 March 2003	8,695

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

In the event of a realisation of the Group's investment properties at an amount equal to the valuation recorded in the Financial Statements, a liability to corporation tax on chargeable gains would arise estimated at not more than £41.3m (2002 - £35.4m) and for which no provision has been made in these Financial Statements in accordance with FRS 19.

<i>17. Share Capital</i>	<i>Number</i>	2003 £000	<i>2002</i> £000
Authorised:			
Ordinary shares of 25 pence per share	18,722,596	4,681	4,681
Allotted, called up and fully paid:			
Ordinary shares of 25 pence per share	16,295,357	4,074	4,074

18. Reserves

	<i>The Group</i>		<i>The Company</i>	
	£000	£000	£000	£000
Share Premium Account:				
At 1 April 2002 and 31 March 2003		555		555
Revaluation Reserve:				
At 1 April 2002	230,919		252,828	
Foreign exchange movements	(2,502)		—	
Transfer to profit and loss account of revaluation surplus on investment properties now realised	(879)		—	
Fixed asset revaluation	18,557		15,198	
At 31 March 2003		246,095		268,026
Other Non-Distributable Reserves:				
At 1 April 2002 and 31 March 2003		6,784		893
Profit and Loss Account:				
At 1 April 2002	200,443		184,425	
Foreign exchange movements	(779)		(860)	
Revaluation reserve realised on disposal	879		—	
Tax on revaluation reserve realised	(167)		—	
Retained profit for the year	11,622		12,393	
At 31 March 2003		211,998		195,958

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

19. Investment in subsidiary undertakings

	<i>Shares at valuation</i>	<i>Loans</i>	<i>Total</i>
	£000	£000	£000
The Company			
At 1 April 2002	272,209	264,516	536,725
Additions	—	7,339	7,339
Revaluation	15,198	—	15,198
Effect of foreign exchange differences	(1,599)	—	(1,599)
At 31 March 2003	285,808	271,855	557,663

The historical cost of shares in subsidiary undertakings is £17,876,000 (2002 - £17,876,000).

Shares in subsidiary undertakings have been valued by the Directors at 31 March 2003 based on the net asset values of the subsidiary undertakings.

Notes to the Financial Statements (continued)

The results of certain subsidiary undertakings, acquired at a cost of £146,000 and valued by the Directors at £Nil (2002 - £Nil) have been excluded from the Consolidated Financial Statements. The combined profits since acquisition attributable to the Company as indicated by their financial statements amounted to £40,000 (2002 - £40,000) and their aggregate liabilities at 31 March 2003 were £54,000 (2002 - £54,000). The inclusion of these undertakings would not materially affect the Consolidated Financial Statements.

<i>20. Notes to the Consolidated Cash Flow Statement</i>	2003	2002		
	£000	£000		
(i) Reconciliation of operating profit to net cash inflow from operating activities.				
Operating profit	37,997	39,643		
(Increase)/Decrease in properties held for trading	(11,834)	1,315		
Increase in debtors	(1,488)	(1,806)		
Increase in creditors	3,102	3,150		
Decrease in investments held as current assets	16	5		
Release of provision against trading properties	(400)	—		
Net cash inflow from operating activities	27,393	42,307		
(ii) Reconciliation of net cash flow to movement in net debt				
	2003	2002		
	£000	£000		
Increase in cash	10,542	21,922		
New mortgage advances	(14,663)	(24,133)		
Repayment of financing	5,471	17,231		
Change in net debt resulting from cash flows	1,350	15,020		
Exchange movements	3,388	494		
Change in net debt	4,738	15,514		
Opening net debt	(135,709)	(151,223)		
Closing net debt	(130,971)	(135,709)		
(iii) Analysis of changes in net debt				
	<i>1 April</i>	<i>Cash</i>	<i>Exchange</i>	<i>31 March</i>
	<i>2002</i>	<i>flow</i>	<i>movements</i>	<i>2003</i>
	£000	£000	£000	£000
Cash at bank	47,679	10,881	(1,356)	57,204
Overdrafts	—	(339)	—	(339)
	47,679	10,542	(1,356)	56,865
Secured loans	(140,126)	5,064	1,079	(133,983)
Unsecured loan stock	(1,792)	—	—	(1,792)
Mortgage advances	(41,470)	(14,256)	3,665	(52,061)
	(135,709)	1,350	3,388	(130,971)

Cash at bank includes an amount of £799,000 (2002 - £710,000) which is held on behalf of tenants and cannot be utilised by the Group.

21. 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 and are also interested in the share capital of Highdorn Co. Limited.

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

The net amounts paid for the provision of various management services charged by the Group's managing agents Highdorn Co. Limited and Freshwater Property Management Limited were £3.5m (2002 - £3.3m).

At 31 March 2003 £1.2m was due from Highdorn Co. Limited and Freshwater Property Management Ltd. (2002 - £2.9m).

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

22. Contingent liabilities

The Company has guaranteed bank and mortgage indebtedness and unsecured loan stock of certain subsidiary undertakings which at 31 March 2003 amounted to £44.0m (2002 - £43.3m).

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

Notes to the Financial Statements (continued)

23. Principal Subsidiary Undertakings

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

Incorporated in the UK and registered in England

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

Report of the Valuers

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

Gentlemen,

As instructed we have valued for the purpose of your Company's accounts the investment properties owned by its subsidiaries in the United Kingdom as at 31 March 2003. The properties are listed in our separate detailed schedules.

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

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

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

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

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

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

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

Having regard to the foregoing we are of the opinion that the aggregate of the values of your Company's property interests in the United Kingdom as at 31 March 2003 is £518,623,000.

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

Yours faithfully,
Cardales
Chartered Surveyors
1 Lumley Street,
London W1Y 2ND
31 March 2003

Five-Year Record

	1999	2000	2001	2002	2003
	£000	£000	Restated £000	£000	£000
Turnover	66,337	74,649	80,066	85,823	84,132
Net Rental Income	33,229	34,831	38,006	40,972	37,723
Surplus on Sale of Trading Properties	6,099	9,086	4,622	5,591	6,587
Other Income	256	177	1,679	143	159
Gross profit	39,584	44,094	44,307	46,706	44,469
Group Profit before Taxation	28,554	31,189	29,765	30,081	30,692
Taxation	7,744	8,500	8,436	9,262	10,057
Minority Interests	304	581	429	53	51
Available Surplus	20,506	22,108	20,900	20,766	20,584
Earnings: p. per Share	125.8	135.7	128.3	127.4	126.3
Dividends: p. per Share	44.0	46.0	49.0	52.0	55.0
Gross Assets	535,325	565,669	602,045	669,600	704,425
Equity Shareholders' Funds	323,506	355,294	382,851	442,775	469,506
Equity Shareholders' Funds: £ per Share (based on balance sheet figures)	19.85	21.80	23.49	27.17	28.81
Represented by:					
Share Capital	4,074	4,074	4,074	4,074	4,074
Reserves and Retained Profit	319,432	351,220	378,777	438,701	465,432
Equity Shareholders' Funds	323,506	355,294	382,851	442,775	469,506

Directors & Advisers

Directors

B S E Freshwater
(Chairman and Managing Director)

D Davis (non executive)

S I Freshwater

Secretary

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

Registered & Head Office

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

Registrars

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

Auditors

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

Consulting Accountants

Cohen, Arnold & Co.,
New Burlington House,
1075 Finchley Road,
London NW11 0PJ

Principal Bankers

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

Stockbrokers

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

Notice of Meeting

Notice is hereby given that the Sixty-eighth 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 Wednesday 29 October 2003 at 12 noon, for the following purposes:-

1. To receive the Financial Statements for the year ended 31 March 2003 together with the Reports of the Directors and the Auditors. (Resolution 1.)
2. To approve the Remuneration Report. (Resolution 2.)
3. To declare a final dividend. (Resolution 3.)
4. To re-elect Mr D Davis as a Director. (Resolution 4.)
5. To re-appoint KPMG Audit Plc as Auditors, and to authorise the Directors to agree their remuneration. (Resolution 5.)

By Order of the Board,
M R M Jenner
Secretary

7 August 2003

A Member entitled to attend and vote may appoint one or more proxies to attend, and on a poll, to vote instead of him. A proxy need not be a Member of the Company. Only those Members registered in the Register of Members of the Company as at 6.00 pm on 19 September 2003 shall be entitled to attend or vote at the aforesaid Annual General Meeting in respect of the number of shares registered in their name at that time. To be valid, forms of proxy must be received by the Company's Registrars at least 48 hours before the time fixed for the Meeting.

The recommended final dividend will, if approved, be paid on 3 November 2003 to Shareholders registered at the close of business on 3 October 2003.

No Director has a service contract.

