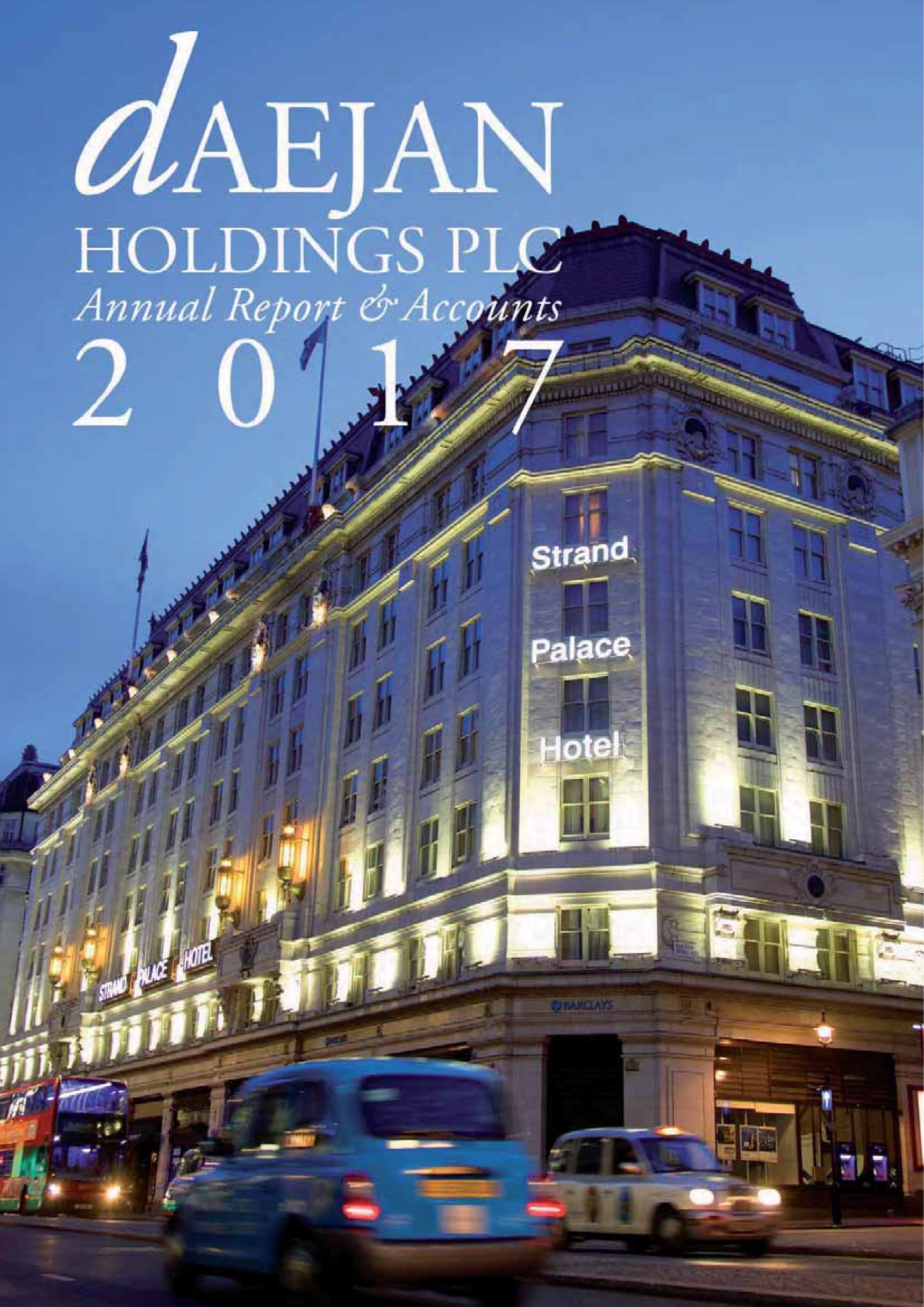
dAEJAN HOLDINGS PLC

Annual Report & Accounts

2017




STRAND
PALACE
HOTEL


dAEJAN
HOLDINGS PLC
Annual Report & Accounts
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Strand
Palace
Hotel

Contents

Chairman's Introduction

It gives me great pleasure to report on another successful year for your Group during which shareholders' funds increased by 11.9% to £1,656 million.

In the previous year we had seen a slowdown in the rate of growth of property values in both the UK and USA and it was widely believed that this downward trend would continue. However, notwithstanding this general trend, I am pleased to report an overall net revaluation gain of £144.5 million (2016 – £117.9 million) equivalent to 7.2% (2016 – 6.4%). In the UK property values rose by an overall 7.2% (2016 – 5.3%) mainly due to residential increases. In the USA the overall increase was 6.2% in dollar terms (2016 – 9.8%).

Our overall rental income (before currency gains) was flat with a number of successful lease re-negotiations offset by losses of rent elsewhere in the portfolio.This year has seen service charge income reduce to a more normal level in line with the period prior to 2016. Last year's charge was inflated by the conjunction of a number of major projects into a single financial year.

Outlook

My last annual report was drafted immediately after the result of the Brexit referendum had become known and it was apparent that the immediate future in the UK would be dominated by political and economic uncertainty. So it has proved to be and the intervening year has provided no greater clarity. Indeed the recent start of Brexit negotiations together with the added political uncertainty following the general election have only served to compound the situation. In addition we face a period where the UK is likely to experience reduced economic growth and increasing inflation. This combination of factors will provide a challenging environment for our UK business.

In the USA the economic outlook is more encouraging and should provide a positive environment to grow our business. During this year we have seen a 13% decline in the sterling/dollar exchange rate and this has resulted in an increase in the sterling value of our USA net assets of £29.1 million (2016 – £5.6 million).

We will continue to focus on situations within our portfolio where, with well judged projects of development and enhancement, we can generate significant improvements in rental and capital values.A number of our projects are mentioned in the Strategic Review which follows.

Our philosophy of pursuing a long term, low risk strategy to the generation of growth in net asset value continues to be particularly appropriate to the uncertain times ahead.

It is more than usually difficult for me to offer you a view of the coming year. However I am sure that by following our well established entrepreneurial, but risk averse, approach to the enhancement of net asset values your group will continue to make progress.

Dividend

Against the background of another successful year the Board is pleased to propose an increase in the total dividend of 5p to 98p (2016 – 93p).

As ever, thanks must go to our people throughout the Group whose efforts have delivered these results.

B S E Freshwater
Chairman

Front cover, contents page, above and right:
Strand Palace Hotel, Strand, London WC2.

FINANCIAL HIGHLIGHTS

NET VALUATION GAIN

£144.5 million

(2016: £117.9 million)

PROFIT BEFORE TAX

£198.4 million

(2016: £173.2 million)

EARNINGS PER SHARE

£9.93

(2016: £8.77)

SHAREHOLDERS' FUNDS

£1,655.7 million

(2016: £1,480.0 million)

SHAREHOLDERS' FUNDS PER SHARE

*£101.61**

(2016: £90.82)*

GEARING

*14.6%**

(2016: 14.9%)*

PROPOSED TOTAL DIVIDEND PER SHARE

98p

(2016: 93p)

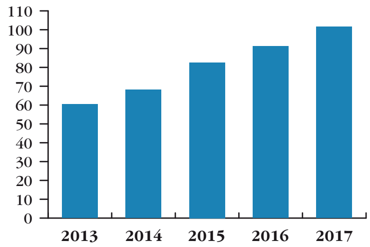
*Definitions of these alternative performance measures are included on page 20.

STRATEGIC REPORT

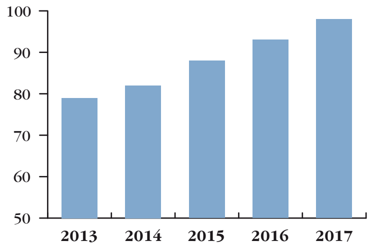
Objectives

For many years we have focussed on the pursuit of the Group's objective of achieving long term, low risk growth in net asset value and rental income, and in prudently growing our dividends.

Net asset value per share (£)



Dividends per share (p)



Strategy

The strategy for achieving our objectives has three principal elements:

- Management of our property portfolio to maximise net rental income and thereby enhance capital values
- Identification and completion of value enhancing development opportunities within our portfolio
- Identification and completion of new property acquisitions which have the potential, through development or otherwise, for long term enhancement to net asset value

In pursuing this strategy we take the view that property is a long term business which does not always fit conveniently into the annual reporting cycle. Development opportunities, in particular, can take many years from first idea to first letting and will often involve substantial investment over a period of years before any gain is achieved. We carefully monitor our exposure to ensure that the impact on our resources remains manageable.

Business model

The main activity of the Group, as carried on through its subsidiary companies, is investment in commercial, industrial and residential property in the UK and also on the eastern seaboard of the USA. The Group generally holds its properties for the long term in order to generate rental income and capital appreciation although in the right circumstances any property could be available for sale.

The Group operates a substantially outsourced business model. Day-to-day management of the Group's properties in the UK is carried out by Highdorn Co. Limited and Freshwater Property Management Limited. These companies also provide the staff who carry out all of the UK functions of the Group. Further details of the relationship with these companies are set out in Note 17 to the financial statements.

Similar arrangements with local managing agents operate in the USA.

Managing risk

Whilst retaining an entrepreneurial culture, the Group has a low appetite for risk. This underpins our approach to all aspects of the business and is appropriate to our strategic objective of delivering long term, low risk growth in net asset value per share.

The Board has undertaken a robust assessment of the principal risks facing the Group, by reviewing detailed risk reports at each Board Meeting, including those threatening its business model, future performance, solvency and liquidity.

Above and right:
Strand Palace Hotel,
Strand, London WC2.

In relation to financial instrument risk, the Group operates a cautious financial policy 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


STRAND PALACE HOTEL

STRATEGIC REPORT *continued*

the maintenance of its many long standing relationships with leading banks and other financial institutions. The Group seeks to minimise the risk of sudden or 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. As explained in Note 1(g) to the financial statements, the Group does not hedge account. Note 16 to the financial statements details the Group's exposure to the various financial instrument risks.

Managing risk has been central to the success of the Group over many years and in particular gearing has been kept at a relatively low level for the property industry; currently gearing is 14.6%.

The Board recognises that, in common with all companies, it can only have limited control over many of the external risks which it faces. The largest of such "uncontrollable" factors is the economic cycle which has a major impact on the demand for and price of property and the ability of the Group to achieve its strategic objectives.

The principal risks facing the Group are described in the following paragraphs together with the steps which are taken to mitigate and manage them.

External risks

Economic outlook

The UK is facing a period of slowing economic growth, increasing inflation and unprecedented political uncertainty. Special mention must also be made of the additional level of uncertainty for business driven by the ongoing Brexit negotiation process. Until some clarity emerges as to the nature of the UK's on-going relationship with the EU it will be difficult for businesses to plan for the future. Such circumstances increase the risk of downward pressure on rental and capital values and an increase in vacancy rates and bad debts.

The USA continues to experience economic growth and sustained demand for commercial space and residential accommodation.

This is the background which provides the risks and opportunities for our residential tenants and for the businesses of our commercial tenants and their demand for space.

We seek to mitigate and manage such risk by:

- Continuous monitoring of the economic outlook
- Continued maintenance of low gearing
- Rigorous tenant covenant checks including independent assessments for major lets. In the case of smaller properties we undertake such checking as is appropriate
- Enhanced rent collection effort to minimise the possibility of bad debts

Availability of finance on acceptable terms

In order to undertake significant acquisitions or projects of development and value enhancement within our portfolio the Group relies in part on funding from the UK and USA property finance market. At present our experience shows that suitable finance can be obtained on acceptable terms.

Nevertheless any reduction in the availability of finance for property at an acceptable cost and for an appropriate period would adversely affect the Group's ability to undertake acquisitions and major schemes of redevelopment and refurbishment.

We seek to mitigate and manage this risk by:

- Monitoring funding trends and the development of banking regulations
- Sustaining relationships with our principal financing partners, both banks and other lending institutions
- Securing term finance facilities to meet our foreseeable requirements
- Ensuring that the maturities of major loan arrangements are spread over a period of years

Above and opposite page: *Seaplane House, Medway City Estate, Rochester, Kent.*


Delga
Welcome
Delga


Delga

STRATEGIC REPORT *continued*

Movements in currency rates of exchange

With over 26% by value of the Group's property portfolio located in the USA, any significant movement in the sterling/dollar rate of exchange will impact our reported results.

The period since the decision to leave the EU has seen a significant fall in the sterling/dollar exchange rate; the reduction in the financial year was 13%. This has had the effect of increasing the reported value of our USA net assets and profits.

We mitigate and manage this risk by:

- Funding US assets by US dollar borrowings and local retained earnings. This means that the impact of movements in the exchange rate is limited to accounting adjustments in the Group's consolidated accounts. An accounting gain of £29.1 million arises in reserves mainly on the re-translation of the opening net book value of assets in the USA
- Incurring all costs used to generate US dollar rental income in US dollars

Regulation

Regulations aimed at the control of residential rental levels or shorthold tenancy arrangements could have an adverse impact on the Group. Similarly, increased regulation on building standards environmental, health and safety or planning matters could impose additional costs.

We seek to mitigate and manage this risk by:

- Careful monitoring of developments in legislation with the help of our professional advisers

Catastrophic events

The operations of the Group could be adversely affected by a significant catastrophe such as extreme weather, fire, cyber-attack, civil disturbance or terrorism which could result in the loss of any of our principal buildings or offices and the records stored in them.

We seek to mitigate and manage this risk by:

- Insuring buildings with third parties
- Physical building security
- Fireproof storage of leases and other documents of title
- Dispersal of business critical IT systems and enhanced data security measures

Tenant default

Tenant default constitutes a risk to income and, ultimately, to capital value. The multi-tenanted nature of the portfolio, with rental income derived from numerous properties, provides a natural measure of protection against the risk of individual default.

In addition, we seek to mitigate and manage this risk by:

- Seeking tenants with strong covenants
- Credit checks on new tenants including independent assessments for major lets
- Careful monitoring of tenants showing signs of financial stress
- Actively using recovery mechanisms for overdue debts

Internal risks

Regional concentration in UK portfolio

Within the UK the majority of our properties are situated in and around the London area. In recent years the increase in value of our UK portfolio has been almost entirely derived from the London area which has enjoyed a period of well publicised growth. A slowdown in the London market such as has occurred over the last year will significantly reduce the net annual revaluation uplifts in the UK portfolio. Changes in aggregate property value have a direct impact on the net worth of the Group.

Opposite page top and below: *Cadogan Square, Glasgow.*



We seek to mitigate and manage this risk by:

- Continuing to invest in the USA
- Regular monitoring of the property market for opportunities, not just in London but throughout the UK
- Regular professional revaluations by our independent surveyors in the UK and USA

Acquisitions

The Group seeks well priced acquisitions which will meet the strategic objective of adding long term, low risk growth in net asset value. The Group's oft stated aversion to undue risk means that in a period of economic and political uncertainty, opportunities for acquisition will be approached with extreme caution. There is nevertheless a risk that an inappropriate or ill-judged acquisition could destroy value.

We seek to mitigate and manage this risk by:

- Rigorous pre-acquisition screening of all buying opportunities and appropriate due diligence

Development

The Group continues to seek development opportunities, principally from within the portfolio but also elsewhere. Development provides an opportunity to enhance income and net asset values but carries risk as to planning, construction timing, costs and letting.

We seek to mitigate and manage these risks by:

- Rigorous screening of all development opportunities including external professional advice and, where appropriate, market research
- Focusing on a limited number of developments at any one time
- Close monitoring, together with our external advisers, of active developments

People

The Group relies heavily on the involvement of key executive directors in both strategic and day-to-day affairs. Loss of this involvement would be disruptive to business.

We have sought to mitigate and manage this risk by:

- The appointment of new directors from the next generation of the Freshwater family
- The appointment of independent non-executive directors
- The establishment of a strong Group management team to support the executive directors

Investment properties

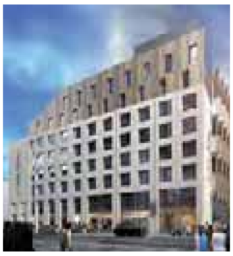
A professional valuation of all of the Group's properties was carried out at 31 March 2017. The UK properties were valued by Colliers International Property Advisers UK LLP, Chartered Surveyors. In the USA, properties were valued by Joseph J. Blake and Associates, Inc. and Metropolitan Valuation Services, Inc. both of which are Certified General Real Estate Appraisers.

The table below shows a summary of the valuation of our investment property at 31 March 2017:

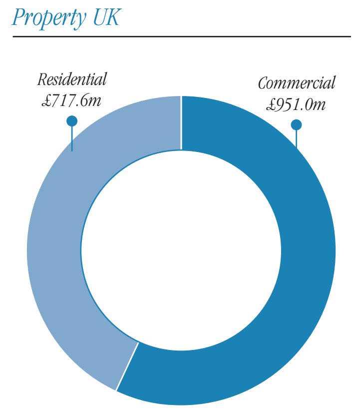
	Valuation March 2017 £m	Percentage change in year
Commercial property		
UK	**951.0**	**+5.2%**
USA	**84.6**	**+38.3%**
Residential property		
UK	**717.6**	**+14.1%**
USA	**517.9**	**+21.4%**
Total	**2,271.1**	**+12.4%**

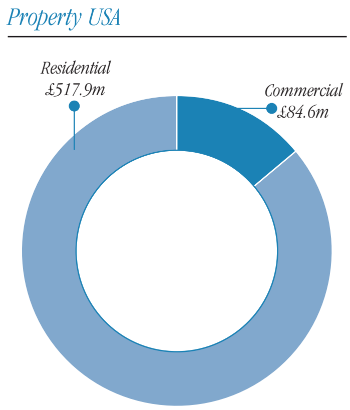
Above and opposite page: *Wyfold Road, Fulham, London SW6.*

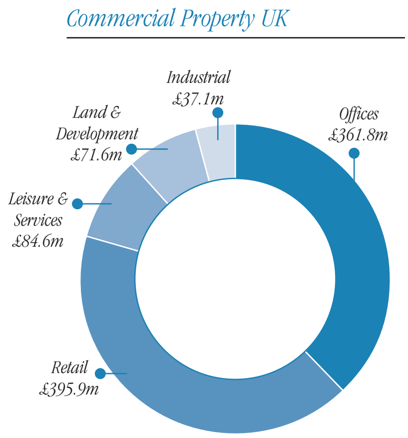
STRATEGIC REPORT *continued*

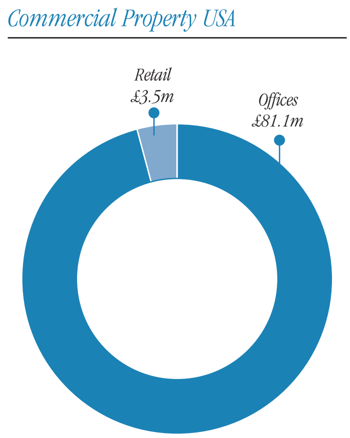


Analysis by property type

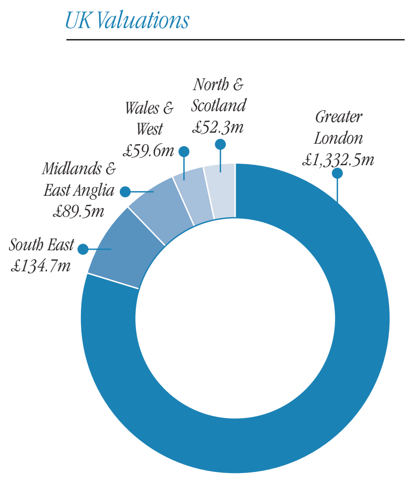


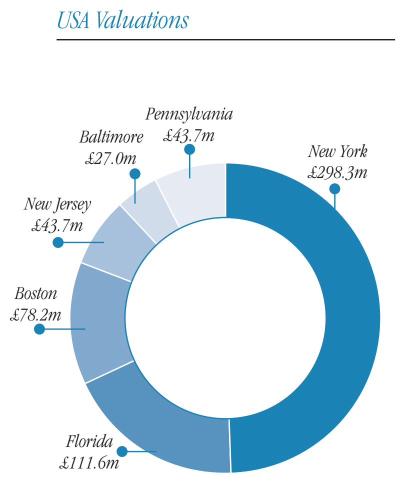






Analysis by location





Whilst the percentage changes shown on page 11, in the main, are attributable to net surpluses arising on revaluation, they also include movements resulting from purchases, capital expenditure, disposals and changes in currency rates of exchange. This is shown in the analysis below:

	2017	2016
	£m	£m
Opening valuation	**2,009.4**	1,855.2
New acquisitions	**0.5**	10.4
Additions to existing properties	**29.7**	16.6
Disposals	**(1.2)**	(3.7)
	2,038.4	1,878.5
Revaluation gain	**144.5**	117.9
Foreign exchange gain	**73.9**	13.0
Closing valuation*	**2,256.8**	2,009.4

*In this table and in the financial statements, the total valuation of £2,271.1 million (2016 – £2,020.7 million) has been reduced by an amount of £14.3 million (2016 – £11.3 million) relating to lease incentives, as required by accounting standards – see Note 9 to the consolidated financial statements.

***Left and opposite page:** progress on the Travelodge Hotel, Middlesex Street, Aldgate, London E1, **inset:** artist's impression of the finished project.*

Notwithstanding the view of our professional valuation advisers that property values in the last year had essentially remained flat, in the UK we saw an overall net valuation surplus of 7.2%* (2016 – 5.3%*) and in the USA a surplus of 6.2%* in dollar terms (2016 – 9.8%*). This has arisen mainly because our portfolio is well represented in those segments of the market which continue to show growth. So, for example, in Central London the highest value residential properties (£2 million plus) have fallen back in value but values of flats in the range of £0.5 million to £1 million (where we have many properties) have continued to advance. In the UK, our residential property values rose 2.8% as our professional advisers decreased the discount for condition following review of historical costs incurred.

The residential market in New York City has shown a similar trend with values in Manhattan and Brooklyn remaining flat while the more affordable areas of Bronx and Queens continue to show growth.

** Percentages calculated as net valuation gains on investment properties divided by prior year investment property value (Note 2) which for the USA is adjusted by the foreign exchange movement (Note 9).*

STRATEGIC REPORT *continued*

In general we have seen a fall in the values of UK offices due to yield softening but this has been offset in a number of cases by new lets at improved rents. In the UK we have seen a significant increase in the value of the development site adjacent to the hotel which we have under construction for Travelodge in Aldgate on the eastern fringe of the City of London.

Acquisitions and Developments

In the UK our development efforts have been concentrated in three main areas:

Hotel Development

The project to develop a 395 bedroom hotel for Travelodge on our site in Aldgate on the eastern fringe of the City of London is well under way. The total project cost is estimated to be £31 million of which £9 million was spent in the year. The development is due to be completed in the spring of 2018.

Temple Street, Birmingham

In March 2017 we completed the refurbishment of our property at Temple Street which, as shown on pages 16 and 17, created 35,000 sq feet of high quality office space in Central Birmingham. Since the year end 10,000 sq feet have been successfully re-let.

Flat development program

As mentioned last year, a plan has been drawn up for the development in the UK of some 250 new flats

spread over a number of our existing sites. Southgate Lodge, Croydon was completed in January 2016 and 17 flats in Abbey Foregate, Shrewsbury were completed in the financial year. Construction work is currently underway on a total of 98 units, of which 84 are located at Prestamex House in Brighton, Sussex. Since the year end our conversion of Wyfold Road, Fulham, into 9 flats has been completed.

In the USA our major investment has been in enhancement work on both residential and commercial properties aimed at raising rental values and generally improving the quality of the portfolio.

In the UK we have continued to consolidate our interests in a potential development site at the eastern end of Oxford Street, close to the new Crossrail station at Tottenham Court Road which is due to open next year. We are still at the early stages of what will be a significant project spanning several financial years.

There have been no significant new property acquisitions in the year.

Results for the year

The profit before taxation for the year ended 31 March 2017 amounts to £198.4 million (2016 – £173.2 million). The result includes a net valuation gain of £144.5 million arising on investment properties (2016 – £117.9 million).

Boongate Retail Park, Peterborough, Cambridgeshire. ***Opposite page:*** *Frankie & Benny's,* ***this page:*** *Range, Smyths and B&M.*


10 TEMPLE STREET
TO LET

Strategic Report *continued*

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

	2017 £m	2016 £m
Total rental and related income from investment property	**140.7**	138.2
Property operating expenses	**(75.9)**	(70.0)
Net rental and related income from investment property	**64.8**	68.2
Profit on disposals of investment property	**14.6**	11.7
Administrative expenses	**(12.6)**	(13.0)
Net operating profit before net valuation gains	**66.8**	66.9
Net valuation gains on investment property	**144.5**	117.9
Net financing expense	**(12.9)**	(11.6)
Profit before taxation	**198.4**	173.2

Overall total rental income has been flat this year. In the UK there have been a number of successful rent reviews but their positive effect has very largely been offset by reductions elsewhere in the portfolio. We have experienced greater rental increases in the USA but even here by far the largest component of the overall increase in rental income derives from the reduction in the dollar/sterling rate of exchange during the year.

This year has seen service charge income reduce to a more normal level consistent with the period prior to 2016. Last year's charge was inflated by the conjunction of a number of major works projects into a single financial year.

The increase in Property Operating Expenses is principally again due to the reduction in the dollar/sterling rate of exchange during the year.



Opposite page, left and above:
10 Temple Street, Birmingham.




BEAUFORD SQUARE

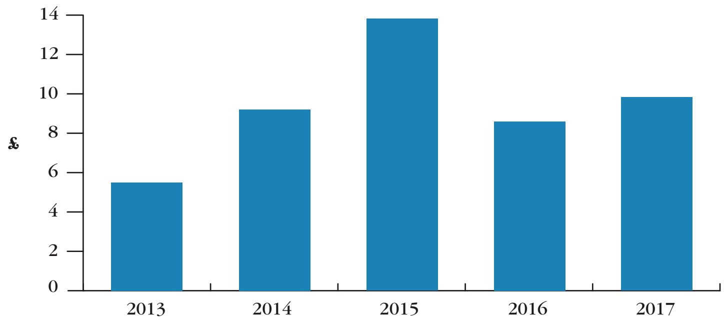
As has been the case for several years our profits on disposals derive overwhelmingly from leasehold extensions in the UK. These arise on long leaseholds where the properties have been previously derecognised, and the Group has no control on when or if these extensions will occur.

The increase in net finance costs is entirely due to the change in the dollar/sterling rate of exchange. In constant currency terms the cost of USA borrowing has actually decreased slightly reflecting the refinancing at lower rates which took place last year.

The Group's overall effective tax rate was 18.3% (2016 – 17.5%). In the UK the effective rate was 11.3% (2016 – 8.0%); 2016 benefited from a reduction in the rate of future deferred tax from 20% to 18%. A further, but smaller, reduction of the future deferred tax rate from 18% to 17% took place in 2017. In the USA the effective rate has remained consistent and in line with the statutory rate at 40.6% (2016 – 39.5%).

Earnings per share

This year earnings per share stands at £9.93 (2016: £8.77) an increase of 13.2%.



This increase in earnings per share is consistent with our increase in profit for the year.

Underlying profit

The profit reported in the financial statements has for some years included property revaluation movements and fair value adjustments to financial instruments. In addition to this measure of

Opposite page:
1-31 Barton Street, Bath, Somerset,
above and left:
Thorncliffe Court, Clapham, South West London.

STRATEGIC REPORT *continued*

performance we also focus on "underlying profits" which do not include these valuation items. Underlying profits for the last two years are set out below:

	2017 £m	2016 £m
Profit before tax per the income statement	**198.4**	173.2
Property valuation surplus	**(144.5)**	(117.9)
Financial instruments fair value adjustments	**(0.1)**	(0.8)
Adjustment to measurement of disposal profits *(Note 9)*	**1.0**	1.3
Underlying profit before tax	**54.8**	55.8

This year's underlying profit of £54.8 million represents a decrease of 1.8% on the previous year and reflects the broadly flat rental income and reduced service charge income in the period.

Underlying profit represents that element of our reported results which has actually been realised and is not dependent on valuation judgements. It represents the performance of our core rental business together with disposal profits which tend to fluctuate from year to year.

It is our underlying profit which generates the cash we use to re-invest in the business and to pay dividends and taxes.

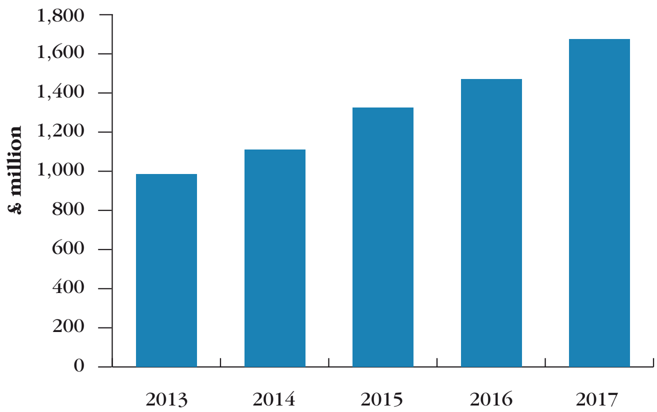
Gearing

Gearing, the ratio between our loans and borrowings and the value of our total assets, is 14.6% (2016 – 14.9%) for the Group as a whole. In the UK the ratio is 6.5% (2016 – 7.2%) whilst in the USA, where each property is financed separately on a ring-fenced basis, it is 35.8% (2016 – 38.3%).

As the majority of our loans and borrowings are secured on our investment property assets, our gearing ratio is useful as it indicates our capacity to borrow further to invest in our business and also shows the level of headroom we have in case of adverse property valuation movements.

Shareholders' funds

At 31 March 2017 shareholders' funds amounted £1,655.7 million, an increase of 11.9% on last year's figure of £1,480.0 million. Shareholders' funds have grown in recent years as follows:



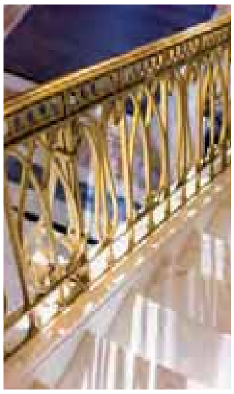
Shareholders' funds per share is calculated by dividing total equity attributable to equity holders of the parent by the weighted average shares in issue during the year. We believe this is a useful measure of fair value per share as it reflects the fair value of the investment property we hold. For this reason it is a common measure used in the property industry.

Above and opposite page: *Simpson House, Croydon, South London.*

Dividend

The proposed total dividend for the year of 98p per share represents an increase of 5.4% (2016 – 93p).


AFRICA HOUSE



Outlook

In his introduction on page 2, the Chairman has set out the general political and economic issues which provide the background against which the business will be conducted in the coming year. Within the business our focus will continue to be the enhancement of our overall rent roll in order to increase both income and capital growth.

The uncertainty in the UK economy means that we will approach the coming year with more than usual caution and with a bias towards the conservation of our cash resources.

Notwithstanding the immediate economic and political uncertainty, we continue actively to consider a number of significant schemes of redevelopment which we hope to bring to fruition over the coming years.

In the UK, current market sentiment is that we are at, or about at, the peak of this property cycle. Although it is possible that modest valuation gains may continue, significant uplifts will be dependent upon the completion of successful developments, rent reviews and lettings. In particular the block of properties which we have assembled at the eastern end of Oxford Street, WC1 offers the opportunity for significant value enhancement through redevelopment over the coming years. This project is at a very early stage.

In the USA we continue to seek suitable acquisition opportunities and, whenever possible, to refinance existing properties at more advantageous rates. It is a very competitive market with many buyers seeking similar opportunities, but we are rigorous in our approach and prepared to take time to select the right transactions where we can identify opportunities to enhance rental income and capital value.

Employees

As mentioned above, day-to-day activities are outsourced to management companies which are responsible for the provision of the services of the staff on which we rely to run the business. As part of the arrangements with the management companies in the UK, those individuals engaged on the Group's affairs hold joint employment contracts but the management companies retain sole responsibility for setting recruitment, employment, training, health and safety, diversity and human rights policies for their staff. Whilst the Group supports and encourages good practice in all of these areas, detailed responsibility for the establishment and execution of such policies lies with the management companies. As a result, this report does not contain the kind of information mentioned in the Companies Act 2006 s414C (7)(b)(ii) and (iii).

Opposite page, above and left:
Africa House, Kingsway, London WC2.

STRATEGIC REPORT *continued*

So far as health and safety is concerned, the Board recognises the importance of ensuring that our properties provide a safe and healthy environment for all users. With this in mind the Board has requested that the management companies ensure that:

- All its employees receive appropriate training in the identification and management of health and safety risks. Every employee is required to be familiar with health and safety policies and has responsibility for ensuring that they are followed in their area of work
- Regular cyclical risk assessments are undertaken by external consultants on all properties for which the Group has responsibility. A dedicated team is tasked with resolving issues raised by such assessments and with monitoring policy compliance

An annual presentation is made to ensure that awareness of the importance of this issue continues at the highest level within the Group.

All Directors of the Company are male and no new recruitment to the Board is planned which would cause this to change in the near future.

Properties in Kingston-Upon-Thames, Surrey. ***Opposite page:*** *100 London Road,* ***this page:*** *Eagle House, Ram Passage.*

Community

The Group has long recognised the importance of supporting the communities in which we operate. Many companies encourage and facilitate their employees to donate their time and efforts to community projects; because our staffing is outsourced this route is not available to us. Our support therefore takes the following forms:

- Donations, largely to educational charities; this year the donations amounted to £151,000 (2016 – £150,000)

- Dividends on donated shares; following the donation some years ago to charities of shares representing 6.3% of the capital of the Company, dividend payments in the year of £960,659 (2016 – £909,010) have passed to charitable companies

Environment

As mentioned above, all the staff engaged in the business and who control our buildings are provided by management companies. We do not have responsibility for the greenhouse gas emissions related to the employment of those people. The greenhouse gas emissions arising from our let properties are the responsibility of our tenants.

In consequence, we have no disclosures to make in relation to greenhouse gas emissions and therefore this report does not contain information of the kind mentioned in Part 7 of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

However, when we undertake new developments or major schemes of refurbishment we strive to achieve the highest environmental standards consistent with the nature of the building and the scheme being undertaken. So, for example, the hotel which we are developing for Travelodge has been designed to achieve a BREEAM excellent rating. The environmental features include combined heat and power for energy efficiency, management of surface water run-off, energy efficient lighting, and the use of recycled aggregates and sustainably sourced construction materials.

The scope for enhancing the environmental standards across the majority of our properties is limited. In the main they were constructed before the advent of modern standards and it would be neither practically nor economically feasible to undertake a complete upgrade to meet modern requirements. However, we do take the opportunities which arise each year as part of programmes of repair and refurbishment to improve the energy efficiency of our buildings and the plant therein.

Strategic Report *continued*

Viability statement

In accordance with provision C.2.2 of the 2014 Revision of the UK Corporate Governance Code, the Directors appointed a team led by senior management to assist the Board in undertaking a viability assessment. A thorough review has been undertaken of the Group's current financial, strategic and operational position, the Board's future plans for the business and the principal risks faced by the Group, described on pages 6 – 11 of the Strategic Report.

The Directors consider that five years remains an appropriate time horizon for assessing the longer-term viability of the business and this is consistent with the period which has been used for strategic planning.

- The Group has a low risk, balanced portfolio of properties, with many commercial properties occupied by tenants with long leases. Based on current trends, the Directors continue to believe that the Group will be able to grant short term leases on residential properties and new leases on commercial properties at comparable rents for at least five more years.
- The Group utilises external funding and has available and committed facilities which are spread over a period of years. Most bank finance is available for an initial term of five years and 77.5% of the Group's current facilities mature between March 2021 and March 2022. Discussions regarding the renewal or replacement of facilities will occur in advance of their maturity.

Assessment of the Group's viability over the next five years included stress testing key business metrics with what is considered the plausible worst-case potential impact of the principal risks. Whilst carrying out this assessment, the strength and effectiveness of the controls in place to mitigate risks were considered.

In determining what should be regarded as the plausible worst-case impact, the Board and senior management team have considered in detail and sought advice on the potential impact to UK property prices, demand for UK property and the associated impact on rents and yields, and the willingness of financial institutions to lend to UK property companies. Particular attention was given to the potential impact of an unfavourable Brexit agreement and the possible consequences of the current political climate within the UK and the USA. Headroom on loan covenants have been stress-tested, the maturities of loan agreements reviewed and a five-year cash flow forecast produced.

The Directors confirm that, based on the analysis, they have a reasonable expectation that the Group can continue to operate and meet its liabilities as they fall due over the five-year period of their assessment.

By order of the Board
M R M Jenner
Company Secretary
24 July 2017

Above & right:
The Promenade,
Cheltenham,
Gloucestershire,
opposite page:
The Orchards
Shopping Centre,
Dartford, Kent.


shopping
ORCHARDS


ORCHARDS
SHOPPING
world


NEW

Directors' Report

Strategic Report

The Company's Strategic Report for the year ended 31 March 2017 is set out on pages 4 to 26 and contains the following information:

- The principal activities of the Group
- The business review of the Group
- An indication of the future developments of the Group
- The principal risks and uncertainties facing the business, including those relating to financial instruments
- Employee and environmental disclosures including those related to greenhouse gas emissions

Results and Dividend

The profit for the year amounted to £162.1 million (2016 – £143.0 million). An interim dividend of 35p per share was paid on 10 March 2017 and the Directors now recommend the payment of a final dividend of 63p per share, making a total for the year of 98p per share (2016 – 93p per share).

The dividend, if approved, will be paid on 10 November 2017 to shareholders on the register on 13 October 2017.

Directors

The Directors who served throughout the year, unless as indicated below, and who are still in office, are:
Mr B S E Freshwater
Mr D Davis
Mr S I Freshwater
Mr R E Freshwater
Mr A M Freshwater (USA)
Mr S B Benaim (Appointed 24 January 2017)
Mr S Srulowitz (USA) (Appointed 4 July 2017)
Mr C B Freshwater (Appointed 4 July 2017)

Brief biographies of the Directors are as follows:

Mr B S E Freshwater. Aged 69 – 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 82 – 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 66 – 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 47 – He is currently pursuing an academic career and lectures to graduate students. He is an actual and a potential beneficiary of trusts and a trustee of certain other trusts with substantial holdings of the Company's equity. He was appointed to the Board in 2010.

Opposite page:
49 & 50 Gt. Marlborough Street, London W1.

Directors' Report *continued*

Mr A M Freshwater. Aged 46 – 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. He was appointed to the Board in 2010.

Mr S B Benaim. Aged 61 – Was appointed to the Board as a Non Executive Director on 24 January 2017. He was formerly Global Head of Real Estate at accountancy firm BDO.

Mr S Srulowitz. Aged 65 – Was appointed to the Board as a Non Executive Director on 4 July 2017. He is currently the Managing Partner of Sonnenschein, Sherman & Deutsch in New York, a member of the American Bar Association and the New York State Bar Association.

Mr C B Freshwater. Aged 45 – Was appointed to the Board as a Non Executive Director on 4 July 2017. He currently lectures at a London college.

The rules governing the election and re-election of Directors are set out in the Corporate Governance Report on page 38. The powers of Directors of the Company are as set out in the Company's articles of association. During the year, the Company did not purchase any shares.

Directors' Interests in Transactions

Day-to-day management of the Group's properties and its operations in the UK 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 17 to the financial statements.

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 13 to the financial statements.

Directors' interests in the share capital of the Company are as follows:

		Daejan Holdings PLC Ordinary Shares	
		31 March 2017	31 March 2016
S B Benaim		**–**	–
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 (2016 – 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 S I Freshwater 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 2017 a total of 7,876,431 shares (2016 – 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 above are the following holdings at 31 March 2017, 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 issued share capital at 31 March 2017:

	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 2017 up to the date of signing this report.

Relationship agreement with controlling shareholders

Any person who exercises or controls on their own or together with any person with whom they are acting in concert, 30% or more of the votes able to be cast on all or substantially all matters at general meetings of a company are known as 'controlling shareholders'. The Financial Conduct Authority's Listing Rules require companies with controlling shareholders to enter into a written and legally binding agreement which is intended to ensure that the controlling shareholder complies with certain independence provisions. The agreement must contain undertakings that:

(a) transactions and arrangements with the controlling shareholders (and/or any of their associates) will be conducted at arm's length and on normal commercial terms;

(b) neither the controlling shareholders nor any of their associates will take any action that would have the effect of preventing the listed company from complying with its obligations under the Listing Rules; and

(c) neither the controlling shareholders nor any of their associates will propose or procure the proposal of a shareholder resolution which is intended to circumvent proper application of the Listing Rules.

DIRECTORS' REPORT *continued*

The Board confirms that in accordance with the Listing Rules, on 14 November 2014, the Company entered into such an agreement with:

Centremanor Limited
Linnet Limited
Highdorn Co. Limited
B S E Freshwater
S I Freshwater
D Davis
R E Freshwater
A M Freshwater

who together with their related companies and trusts comprise controlling shareholders of the Company with a combined total holding of approximately 79.5% of the Company's voting rights.

The Board confirms that, since the entry into the Relationship Agreement on 14 November 2014 until 24 July 2017, being the latest practicable date prior to the publication of the annual report and accounts:

(1) the Company has complied with the independence provisions included in the Relationship Agreement;

(2) so far as the Company is aware, the independence provisions included in the Relationship Agreement have been complied with by all of the other parties to the Relationship Agreement and their associates and;

(3) so far as the Company is aware, the other parties to the Relationship Agreement have procured compliance with the independence provisions in the Relationship Agreement by their related companies and their associates.

Corporate Governance

This report combines by reference the Corporate Governance Report on pages 38 to 41, which includes a statement on going concern, and the Directors' Remuneration Report on pages 34 to 37.

Change of Control

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 seven bank loan and mortgage facilities which contain change-of-control clauses. Five 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 2017, these facilities represented £113.9 million (2016 – £116.1 million) of the loans and borrowings in the financial statements and all of the undrawn facilities £48.4 million (2016 – £48.4 million).

Auditor

The Company's auditor, KPMG LLP, has expressed its willingness to continue in office. In accordance with Section 489 of the Companies Act, a resolution for the appointment of KPMG LLP as auditor of the Company, and to authorise the Directors to determine its remuneration, is to be proposed at the forthcoming Annual General Meeting.

Statement of Disclosure of Information to the Auditor

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 auditor is 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 auditor is aware of that information.

By order of the Board

M R M Jenner
Secretary

24 July 2017

Directors' Remuneration Report

Directors' Remuneration Policy

Set out below is our remuneration strategy and policy together with other relevant information about the terms and conditions applicable to executive Directors of the Group:

1. Overview

Our remuneration strategy is designed to be simple and transparent. In setting levels of remuneration it is important to:

- Reflect the interests and expectations of shareholders and other stakeholders
- Take account of pay and employment conditions of employees in the Group
- Reward the sustained growth and profitability of the business
- Encourage management to adopt a level of risk which is in line with the risk profile of the business as approved by the board
- Ensure there is no reward for failure by having no entitlement to compensation for loss of office

2. Executive Directors' potential remuneration

Executive Directors receive basic pay only. There are no bonus or incentive schemes in operation or any form of share option scheme or long term incentive plan. The executive Directors are incentivised by their substantial interests in family shareholdings which more directly align their interests with shareholders generally.

3. Strategy

Purpose
The salary is set to be competitive, relative to other companies operating in the same sector.

Annual review
A review of executive Directors' salaries is carried out each year once the results for the year are known and with reference to a comprehensive peer group of similar companies.

The annual review takes into consideration:

- Individual responsibilities, experience and performance
- Salary levels for similar positions in comparable businesses
- The level of pay increases awarded to staff whose services are provided by management companies
- Economic and market conditions
- Overall performance of the business

There is no overall limit to maximum increases save as to comply with the strategy outlined above.

Shareholder views

The Company welcomes the views of its significant shareholders on remuneration and if received these would be taken into consideration when next reviewing salaries.

4. Benefits

There are no additional benefits granted to any Director over and above basic pay.

5. Pension

The Group does not operate a pension scheme for the Directors and therefore they do not receive either pension contributions or entitlement to pension benefits as part of their remuneration by the Group.

6. Recruitment and executive Directors

No new appointments of executive Directors have been made for a number of years but if an appointment was made, salary would take into account market data for the relevant role, the individual's experience and the responsibilities expected of them.

7. Service contracts

No Director has a service contract. Company policy is to employ executive Directors at will, with no contractual entitlement to compensation for loss of office. Mr B S E Freshwater has served as a Director since 1971 and Mr S I Freshwater has served as a Director since 1986.

The non-executive Directors are not appointed for a fixed term but are subject to periodic reviews. Mr D Davis was appointed in 1971, Mr R E Freshwater and Mr A M Freshwater were appointed in 2010. Mr S B Benaim, Mr S Srulowitz and Mr C B Freshwater were all appointed in 2017.They are all remunerated by a fixed Director's fee.

Annual Report on Remuneration

This section describes all payments to Directors in connection with the year under review and how the Remuneration Policy will be applied over the next three years. KPMG LLP have audited this section of the report to the extent required by legislation.

Total remuneration

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

2017	Salary £	Benefits £	Performance pay £	Long term performance pay £	Pension contributions £	Total £
Mr B S E Freshwater	1,150,000	–	–	–	–	1,150,000
Mr S B Benaim	3,769	–	–	–	–	3,769
Mr D Davis	20,000	–	–	–	–	20,000
Mr S I Freshwater	1,150,000	–	–	–	–	1,150,000
Mr R E Freshwater	20,000	–	–	–	–	20,000
Mr A M Freshwater	20,000	–	–	–	–	20,000
	2,363,769	–	–	–	–	2,363,769

DIRECTORS' REMUNERATION REPORT *continued*

Comparative table

2016	Salary £	Benefits £	Performance pay £	Long term performance pay £	Pension contributions £	Total £
Mr B S E Freshwater	1,100,000	–	–	–	–	1,100,000
Mr A E Bude	6,538	–	–	–	–	6,538
Mr D Davis	20,000	–	–	–	–	20,000
Mr S I Freshwater	1,100,000	–	–	–	–	1,100,000
Mr R E Freshwater	20,000	–	–	–	–	20,000
Mr A M Freshwater	20,000	–	–	–	–	20,000
	2,266,538	–	–	–	–	2,266,538

Changes in the year

Mr D Davis is the senior non-executive Director with responsibility for recommending executive Directors' remuneration, which is subsequently approved by the full Board.

Mr B S E Freshwater and Mr S I Freshwater received an increase in basic salary of £50,000 per annum during the year (2016 – £100,000), equivalent to 4.5% (2016 – 10%). Both of these increases were agreed at a meeting of the full Board, but at which the executive Directors did not participate in the discussion or decisions taken.

The total staff costs borne by the Group under its arrangements with its management companies in the UK decreased by 0.4% due to a reduction in the number of employees (2016 increased 3.3%). Since such staff are employed under these arrangements, no consultations regarding Directors' remuneration policy or implementation have been held.

It is intended that the current practice of annual reviews and the method in which they are carried out will continue unchanged during the current and following years.

Non-executive Directors' remuneration

The non-executive Directors receive fees of £20,000 per annum which are reviewed periodically, pro rated for their period of service in any one year. This entitlement has not changed in recent years.

Relative importance of spend on pay

The table below demonstrates the relative amounts expended by the Group on staff costs, Directors' remuneration and dividends to shareholders. The Company did not buy back any shares during the year.

	Staff costs		Directors' remuneration		Dividends to shareholders	
	£000	% of total	£000	% of total	£000	% of total
2017	6,798	28.0	2,364	9.7	15,155	62.3
2016	6,827	29.1	2,267	9.7	14,340	61.2

Statement of Directors shareholdings and share interests

There is no minimum shareholding requirement for executive or non-executive Directors. The Directors' share interests are complex and are set out in detail in the Directors' Report on pages 30 and 31.

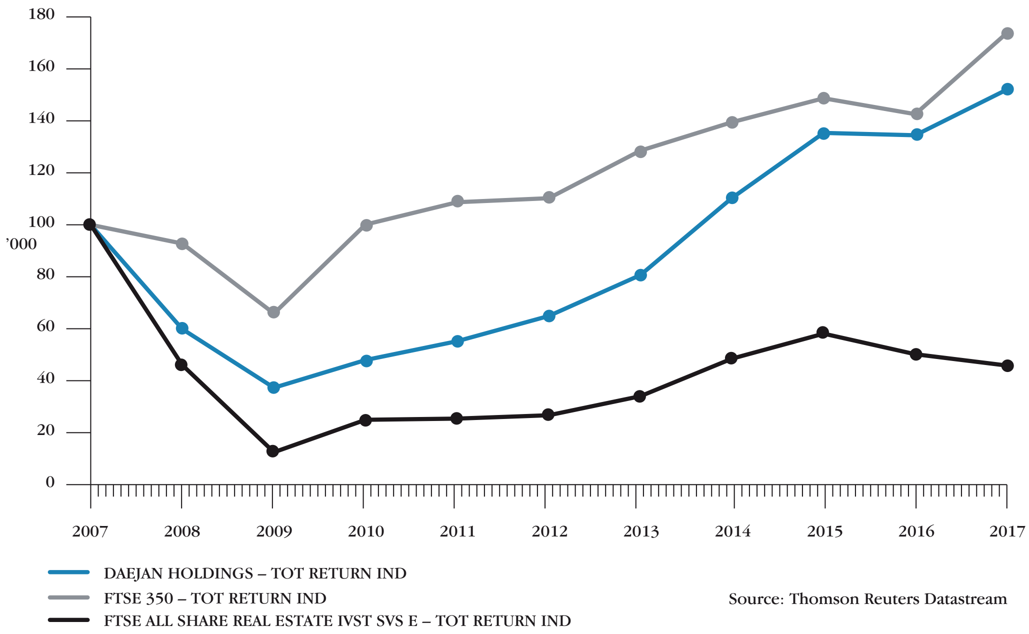
Approval of Directors' Remuneration Report

At the last Annual General Meeting of the Company, votes cast by shareholders on the resolution to approve the Directors' Remuneration Report were as follows:

For	13,206,048	94.1%
Against	827,866	5.9%

Total shareholder return

The following graph shows the total shareholder returns for the Company (rebased as at 1 April 2007) for each of the last ten 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 relative performance.



The basic pay of the Chairman and Managing Director during the same period as the graph above is shown as a single figure in the table below:

Mr B S E Freshwater	**£**
2008	670,000
2009	700,000
2010	720,000
2011	740,000
2012	770,000
2013	820,000
2014	870,000
2015	1,000,000
2016	1,100,000
2017	1,150,000

By order of the Board

D Davis

24 July 2017

Corporate Governance Report

Overview

The Board is required to report on the extent of its application of the principles and of its compliance with the provisions contained in the 2014 UK Corporate Governance Code ("the Code").

Your Board reviews each year the extent to which it is compliant with the Code and considers any changes which might be necessary in the light of developments in the principles and provisions of the Code and in the context of the needs of the Group's business.

During the year we did not comply with the provisions of the Code in connection with non-executive representation on the Board. We consider the principle 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 Code recommends should be reserved for audit, nomination and remuneration committees are dealt with by the entire Board. However changes to regulations relating to audit committees mean for 2018 we will be required to alter this structure. Given the extensive experience and knowledge of the Group possessed by the current Chairman it is not considered necessary to split the roles of Chairman and Chief Executive.The appointment of two new independent directors will provide some checks on this joint arrangement. 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.

The Board

The Group is controlled through the Company's 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 Group's business is supplied to the Board in a timely manner and in a form and quality which enables 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. The performance of the Board is kept under constant review by the Chairman and therefore it is not considered necessary to undertake a more formal process of evaluation, either internally or externally. All Directors have access to the Company Secretary who is responsible for ensuring compliance with the Board procedures. 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 auditor and is charged with ensuring that its objectivity and independence is safeguarded.

The entire Board is responsible for the selection and approval of candidates for appointment to the Board. The Board recognises the growing emphasis placed on criteria such as diversity and gender but continues to believe that appointees should be selected primarily on the basis of a full, balanced range of criteria considered to be key to the management of the Group, without any forced emphasis.

All Directors retire and submit themselves for re-election to shareholders at the Annual General Meeting each year.

During the year there were two full, formal board meetings attended by all Directors.

Directors and Directors' Independence

The Board currently comprises the Chairman, who acts in an executive capacity, one further executive Director and six non-executive Directors. The names of the Directors together with their biographical details are set out on pages 29 and 30. Mr R E Freshwater, Mr C B 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, Mr D Davis is technically not independent.

Financial Reporting

The Board is responsible for all aspects of the Group's financial reporting obligations. The key aspects of these obligations are as follows:

Accounting and significant areas of judgement
It is essential to the standard of the Group's financial reporting that appropriate accounting policies are adopted and applied on a consistent basis. The Board discusses the impact of new and emerging accounting standards with the external auditor and keeps under careful review those areas of its accounting policies requiring subjective or complex judgements or estimates. These areas, particularly in relation to fair value measurements of investment property and the assessment of tax liabilities, are set out in Note 1(u) to the financial statements. In order to conclude on these matters, the Board reviews the valuation reports and discusses these with its valuers and reviews and discusses the tax position of the Group with its advisers.

External auditor
KPMG LLP, and its predecessor entities, has been the Group's statutory auditor since the Group in its current form was created by reverse takeover in 1959. The Board keeps under careful review the independence of the auditor and the quality of its services to the Group and is satisfied that KPMG LLP provides a high quality, objective and cost effective service, from the sound base of its understanding of the Group's business. Although the Code would now recommend the company re-tender the audit, under the recent EU Audit Directive and EU Regulation the Company will be required to appoint a different external auditor by 2020 provided these regulations still apply at that time. It is therefore not the current intention of the Board to put the external audit contract out to tender before then, but the position will be kept under regular review. The Board has a policy of using KPMG LLP to provide non-audit services to the Group only in relation to matters closely associated with the audit and maintains close scrutiny of its non-audit services and fees in order to safeguard objectivity and independence.

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 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 the internal control systems, and that this process has been in place for the year under review and up to the date of approval of the Annual Report & Accounts. This process is reviewed by the Board at regular intervals.

CORPORATE GOVERNANCE REPORT *continued*

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
These are as follows:

Control 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, are subject to a robust annual assessment 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 or fraud. Measures include physical controls, segregation of duties, use of external experts and advisers where beneficial, reviews by management and reviews by the Company's external auditors 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 process includes a detailed annual review of the significant business risks and formal consideration of 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. The Board is satisfied with the scope and effectiveness of the internal controls.

Investor Relations

The Board values communication with private and institutional shareholders and with analysts. The Annual General Meeting is used as the primary opportunity for the Board as a whole to meet private shareholders. Other opportunities are taken as they arise 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 Annual Report & Accounts will be sent to shareholders at least twenty working days before the meeting.

Compliance Statement

The Board considers the Company has complied throughout the year ended 31 March 2017 with the provisions of the Code with the exception of the following paragraphs:

Paragraph	Subject
A.2.1; A.3.1	Division of Chairman and CEO responsibilities
A.4.1-2; B.1.2	Non-executive directors and composition of the Board
B.2.1; 2.2; 2.4; B.3.1-2	Nomination committee and its responsibilities
B.4.1	Development of the Board
B.6.1-3	Evaluation of the Board
C.3.1-8	Audit committee and its responsibilities
D.1.1; D.2.1-2	Remuneration committee and its responsibilities

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 Strategic Report on pages 4 to 26, which also refers to the financial position of the Group, its cash flows, liquidity position and borrowing facilities. In addition, Note 16 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 £19.0 million during the year (2016 – £48.5 million). Gearing, on the basis of gross debt to total assets, was 14.6% (2016 – 14.9%). Net debt (total loans and borrowings less cash and cash equivalents) has increased to £268.3 million (2016 – £237.1 million), due principally to the reduction in the dollar/sterling rate of exchange during the period. The Group has undrawn committed facilities of £48.4 million at the balance sheet date (2016 – £48.4 million). The Group has considerable financial resources and very low gearing and therefore, the Directors consider that the Group is well placed to manage its business risks successfully in the current and foreseeable economic conditions. Consequently, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least twelve months from the date of approving this Annual Report & Accounts. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Directors' Responsibilities Statement

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 including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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, subject to any material departures disclosed and explained in the group financial statements;
- 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 Strategic Report, 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.

Responsibility statement

Each of the Directors, whose names are listed on page 29, confirm that, to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;

- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- this Annual Report & Accounts document, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

By order of the Board

B S E Freshwater
Chairman

24 July 2017

INDEPENDENT AUDITOR'S REPORT

to the members of Daejan Holdings Plc only

Opinions and conclusions arising from our audit

1. Our opinion on the Group financial statements is unmodified

We have audited the financial statements of Daejan Holdings Plc for the year ended 31 March 2017, set out on pages 49 to 82.

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 2017 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- 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.

Overview

Materiality: Group financial statements as a whole		£21.6m (2016: £19.7m) 0.9% (2016: 0.9%) of Gross Assets
Lower materiality applied to certain items		£2.4m (2016: £2.5m)
Coverage		100% (2016: 100%) of Gross Assets
Risk of material misstatement vs 2016		
Recurring risks	Valuation of investment property	◄ ►
	Current tax liability	◄ ►

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risk of material misstatement, in decreasing order of audit significances that had the greatest effect on our audit, was as follows (unchanged from 2016):

The risk

Valuation of investment property

Investment property £2,256.8 million; 2016: £2,009.4 million

Refer to page 11 (Strategic Report), page 39 (Accounting and significant areas of judgement), page 57 (Significant accounting policies) and page 62 (Notes to the consolidated financial statements).

KPMG

Subjective valuation

Investment properties represent 93.7% (2016: 93%) of gross assets of the Group.

The property portfolios are externally valued by qualified independent valuers and held at fair value at the balance sheet date.

Determination of the fair value of the investment properties is considered a significant audit risk due to the magnitude of the balance and the subjective nature of the valuations which depend on the individual nature of each property, its location and expected future net rental values, market yields and comparable market transactions.

Our response

Our procedures included:

Assessing valuers' credentials: we assessed the valuers' objectivity, professional qualifications and capabilities through discussions with the valuers, reading their valuation reports, and reviewing their terms of engagement with the Group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work.

Methodology choice: we held discussions with the Group's external property valuers to determine the valuation methodology used. We used our own property valuation specialists to assist us in critically assessing that the valuations were in accordance with the RICS Valuation Professional Standards 'the Red Book' for the valuers of the UK portfolio, and the Standards of Professional Appraisal Practice of the Appraisal Institute for the valuers of the US portfolio, and that the methodologies adopted were appropriate by reference to acceptable valuation practice.

Our sector experience: with the assistance of our own property valuation specialists we held discussions with the Group's directors and external property valuers to understand movements in property values. With the Group's CFO and external property valuers we discussed and challenged the performance of the portfolios and significant judgements and assumptions applied including forecast rents, yields, discount rates, vacant periods and irrecoverable expenditure by making a comparison to our own understanding of the market and to industry benchmarks.

Test of detail: for a sample of properties we compared key inputs used in the valuations, such as rental income and occupancy to underlying property records.

Assessing transparency: we considered the adequacy of the Group's disclosures on the valuation techniques and significant unobservable inputs employed in the valuation.

The risk

Current tax liability

£47.2 million (2016: £44.8 million)

Refer to page 39 (Accounting and significant areas of judgement), page 57 (Significant accounting policies) and page 61 (Notes to the consolidated financial statements).

Inquiry outcome

Accruals for tax contingencies require the directors to make judgements and estimates in relation to tax issues and exposures. This is a key audit risk due to the time taken for tax matters to be agreed with the tax authorities and complexity of tax legislation.

Independent Auditor's Report *continued*

The Group has a number of open periods with HM Revenue & Customs (HMRC) as a result of on-going enquiries into the interpretation of tax legislation regarding transactions undertaken by the Group.

Our response

Our procedures included:

Our tax expertise: we used our own internal tax specialists to assist us in assessing the Group's open tax positions.

With the assistance of our internal tax specialists we inspected the latest correspondence between the Group and HMRC regarding open matters. In addition, we read legal advice or opinions obtained in the period in relation to uncertain tax positions, in order to consider whether the level of accruals recognised at year end is based on up to date legal advice in response to HMRC's challenges.

We analysed and challenged the assumptions used to determine tax accruals based on our knowledge and experiences of the application of local legislation by the relevant authorities and courts.

Assessing transparency: we assessed the adequacy of the Group's disclosures in respect of tax and uncertain tax positions by reference to relevant accounting standards.

3. Our application of materiality and an overview of the scope of our audit

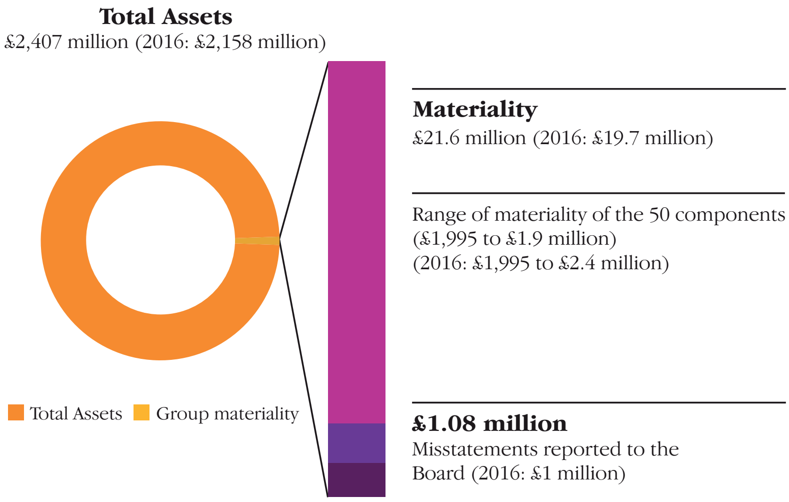
Materiality for the Group financial statements as a whole was set at £21.6 million (2016: £19.7 million), determined with reference to a benchmark of total assets, of which it represents 0.9% (2016: 0.9%). In addition, we applied materiality of £2.4 million (2016: £2.5 million) determined with regard to a normalised profit before tax to rental income, property operating expenses, administrative expenses and financial expenses, for which we believe misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the company's members' assessment of the financial performance of the Group.

We report to the Board any corrected or uncorrected identified misstatements exceeding £1,080,000 (2016: £985,000) (and £118,000 (2016: £125,000) for rental income, property operating expenses, administrative expenses and financial expenses), in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group has 50 (2016: 50) group reporting components, one of which is a sub-group in the UK which was audited by component auditors, subject to a full-scope audit performed to materiality of £0.8 million (2016: component materiality of £1 million). A second sub-group in the US was subject to a full-scope audit by the Group engagement team to component materiality of £1 million (2016: audited by component auditor to component materiality of £0.3 million). The remaining 48 (2016: 48) components were audited by the Group engagement team and were subject to full-scope audits performed to component materialities ranging from £1,995 to £1.9 million (2016: £1,995 to £2.4 million). The Group team approved the component materialities having regard to the mix of size and risk profile of the Group across the components.

The Group audit team instructed the component auditor as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The 50 components within the scope of our work accounted for 100% of each of total Group revenue, Group profit before taxation and total Group assets.

The Group audit team visited the component audited by the component auditor to assess the audit risk and strategy. At this visit, the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group audit team was then performed by the component auditor.



4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports, have been prepared in accordance with the Companies Act 2006.

5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the directors' statement of viability statement on page 26, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the Group's continuing in operation over the 5 year period of their assessment; or
- the disclosures on page 41 of the Corporate Governance Report concerning the use of the going concern basis of accounting.

INDEPENDENT AUDITOR'S REPORT *continued*

6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy; or
- the Corporate Governance Report does not appropriately address matters communicated by us to the audit committee.

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.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 41 and 26, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Report on pages 38 to 41 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on pages 42 and 43, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Richard Kelly (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL

24 July 2017

CONSOLIDATED INCOME STATEMENT

for the year ended 31 March 2017	*Notes*	**Year ended 31 March 2017 £000**	Year ended 31 March 2016 £000
Gross rental income		**125,522**	117,733
Service charge income		**15,216**	20,464
Total rental and related income from investment property	*2*	**140,738**	138,197
Property operating expenses	*3*	**(75,938)**	(70,008)
Net rental and related income from investment property		**64,800**	68,189
Profit on disposal of investment property		**14,594**	11,725
Net valuation gains on investment property	*9*	**144,508**	117,947
Administrative expenses	*4*	**(12,559)**	(13,041)
Net operating profit before net financing costs		**211,343**	184,820
Fair value gains on derivative financial instruments		**86**	788
Fair value losses on current investments		**–**	(10)
Other financial income	*5*	**499**	336
Financial expenses	*5*	**(13,532)**	(12,692)
Net financing expense		**(12,947)**	(11,578)
Profit before taxation		**198,396**	173,242
Income tax	*6*	**(36,266)**	(30,237)
Profit for the year		**162,130**	143,005
Attributable to:			
Equity holders of the parent		**161,779**	142,900
Non-controlling interest		**351**	105
Profit for the year		**162,130**	143,005
Basic and diluted earnings per share	7	**£9.93**	£8.77

The accompanying notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2017	**Year ended 31 March 2017 £000**	Year ended 31 March 2016 £000
Profit for the year	**162,130**	143,005
Foreign exchange translation differences	**29,076**	5,649
Total comprehensive income for the year	**191,206**	148,654
Attributable to:		
Equity holders of the parent	**190,845**	148,547
Non-controlling interest	**361**	107
Total comprehensive income for the year	**191,206**	148,654

All comprehensive income may be reclassified as profit and loss when realised in the future.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year to 31 March 2017	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 2015	4,074	555	26,404	1,314,785	1,345,818	56	1,345,874
Profit for the year	–	–	–	142,900	142,900	105	143,005
Foreign exchange translation differences	–	–	5,647	–	5,647	2	5,649
Distributions to minority interest	–	–	–	–	–	(94)	(94)
Dividends to equity shareholders	–	–	–	(14,340)	(14,340)	–	(14,340)
Balance at 31 March 2016	4,074	555	32,051	1,443,345	1,480,025	69	1,480,094
Profit for the year	–	–	–	161,779	161,779	351	162,130
Foreign exchange translation differences	–	–	29,066	–	29,066	10	29,076
Distributions to minority interest	–	–	–	–	–	(190)	(190)
Dividends to equity shareholders	–	–	–	(15,155)	(15,155)	–	(15,155)
Balance at 31 March 2017	**4,074**	**555**	**61,117**	**1,589,969**	**1,655,715**	**240**	**1,655,955**

The accompanying notes form an integral part of the financial statements.

Consolidated Balance Sheet

as at 31 March 2017	*Notes*	**31 March 2017 £000**	31 March 2016 £000
Assets			
Investment property	*9*	**2,256,800**	2,009,361
Deferred tax assets	*10*	**524**	571
Total non-current assets		**2,257,324**	2,009,932
Trade and other receivables	*11*	**65,062**	63,119
Current investments		**162**	159
Cash and cash equivalents	*12*	**84,283**	84,863
Total current assets		**149,507**	148,141
Total assets		**2,406,831**	2,158,073
Equity			
Share capital	*13*	**4,074**	4,074
Share premium		**555**	555
Translation reserve		**61,117**	32,051
Retained earnings		**1,589,969**	1,443,345
Total equity attributable to equity holders of the parent		**1,655,715**	1,480,025
Non-controlling interest		**240**	69
Total equity		**1,655,955**	1,480,094
Liabilities			
Loans and borrowings	*15*	**303,242**	306,412
Deferred tax liabilities	*10*	**299,756**	255,296
Total non-current liabilities		**602,998**	561,708
Loans and borrowings	*15*	**49,297**	15,516
Trade and other payables	*14*	**51,360**	55,987
Current taxation		**47,221**	44,768
Total current liabilities		**147,878**	116,271
Total liabilities		**750,876**	677,979
Total equity and liabilities		**2,406,831**	2,158,073

The financial statements on pages 49 to 77 were approved by the Board of Directors on 24 July 2017 and were signed on its behalf by:

B S E Freshwater Director

D Davis Director

The accompanying notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 March 2017	£000	**Year ended 31 March 2017** £000	£000	Year ended 31 March 2016 £000
Cash flows from operating activities				
Cash receipts from rent and service charges	**135,926**		141,487	
Cash paid to suppliers and employees	**(96,776)**		(79,958)	
Cash generated from operations	**39,150**		61,529	
Interest received	**500**		336	
Interest paid	**(13,529)**		(12,598)	
Tax paid	**(7,132)**		(772)	
Net cash from operating activities		**18,989**		48,495
Cash flows from investing activities				
Acquisition and development of investment property	**(27,726)**		(26,939)	
Proceeds from sale of investment property	**18,242**		12,807	
Net cash absorbed by investing activities		**(9,484)**		(14,132)
Cash flows from financing activities				
Repayment of bank loans	**(1,871)**		(1,302)	
New bank loans	**–**		–	
Repayment of mortgages	**(6,899)**		(21,341)	
New mortgages	**8,057**		34,379	
Dividends paid to equity holders of the parent	**(15,155)**		(14,340)	
Payments to non-controlling interest	**(190)**		(94)	
Net cash absorbed by financing activities		**(16,058)**		(2,698)
Net (decrease)/increase in cash and cash equivalents		**(6,553)**		31,665
Cash and cash equivalents brought forward		**84,863**		52,293
Effect of exchange rate fluctuations on cash held		**5,973**		905
Cash and cash equivalents *(Note 12)*		**84,283**		84,863

The accompanying notes form an integral part of the financial statements.

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 2017 comprise the Company and its subsidiaries (together referred to as the "Group").

The consolidated financial statements were authorised for issuance on 24 July 2017.

(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 Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and these are presented on pages 78 to 82.

(b) Basis of preparation

The consolidated financial statements are presented in sterling, the Company's functional currency and the Group's presentational 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 and current asset investments.

The financial statements have been prepared on a going concern basis as explained in the Corporate Governance Report on page 41.

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.

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, except as described below.

Accounting standard changes

The only standards, amendments to standards or interpretations that became effective for the year ended 31 March 2017 was IAS 27 *Separate Financial Statements (amendment)*. The following standards, amendments to standards and interpretations relevant to the Group have been issued but are not yet effective. None of these has been early-adopted by the Group.

- IFRS 7 *Financial Instruments: Disclosures (amendment)*
- IFRS 9 *Financial Instruments*
- IFRS 10 *Consolidated Financial Statements (amendment)*
- IFRS 12 *Disclosure of Interests in Other Entities (amendment)*
- IFRS 15 *Revenue from contracts with customers*
- IFRS 16 *Leases*
- IAS 1 *Presentation of Financial Statements (amendment)*
- IAS 7 *Statement of Cash Flows (amendment)*
- IAS 12 *Income Taxes (amendment)*
- IAS 16 *Property, Plant and Equipment (amendment)*
- IAS 19 *Employee Benefits (amendment)*
- IAS 21 *The Effects of Changes in Foreign Exchange Rates (amendment)*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

- IAS 23 *Borrowing Costs (amendment)*
- IAS 28 *Investments in Associates and Joint Ventures (amendment)*
- IAS 32 *Financial Instruments: Presentation (amendment)*
- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets (amendment)*
- IAS 38 *Intangible Assets (amendment)*
- IAS 40 *Investment Property (amendment)*

The Group is in the process of assessing the impact of these new standards on its financial reporting. On IFRS 9 & IFRS 15 the Group's initial assessment is that these standards will not have a material impact on financial reporting.

(c) Subsidiaries

Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to direct relevant activities of an entity and an exposure to variable returns so as to obtain 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*	
	2017	*2016*	***2017***	*2016*
US Dollar	**1.25**	1.44	**1.31**	1.51

(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 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 operating income from the properties using a market yield/capitalisation rate which reflects the risks inherent in the net cash flow which is then applied to the net annual operating income, 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 continues to be treated as an investment property, and is measured based on the fair value model. Interest is capitalised on such developments to the extent that such interest is directly attributable to the cost of redevelopment.

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 aggregate present value of the minimum future lease payments under such leases is recognised as a liability.

Acquisitions and disposals are recognised on the date that the significant risks and rewards of ownership have been transferred. 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 and other investments 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 the effect 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 are therefore 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 initially stated at fair value and subsequently carried at 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 leases is recognised in the income statement on a straight-line basis over the certain term of the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

lease. Lease incentives granted are recognised as an integral part of the total rental income. If a rent review is due but not yet agreed with the tenant any expected rent increase is only recognised when receipt is highly probable. 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 was incurred. 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 (which, in the case of investment property, is assumed to be through sale), 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 engage 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 Group 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 cash flows 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 and fixed rate loans and borrowings are initially recognised at fair value and are subsequently recorded at amortised cost. 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. When mortgages are refinanced, any redemption costs are immediately recognised in the income statement.

(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 net rental values, market yields and comparable market transactions (as set out in Note 9). 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 difficult market or economic conditions such as those that have arisen following the EU Referendum and UK general election. As noted in Note 1(h), 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 particular, the Group is discussing the treatment of historical financing arrangements with tax authorities (as set out in Note 6). In such cases, a best estimate of the relevant tax charge or credit is made, having regard to the extent of uncertainties associated with it. 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*

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.

for the year ended 31 March 2017	***UK*** **£000**	***USA*** **£000**	***Eliminations*** **£000**	***Total*** **£000**
Rental and related income	91,859	48,879	–	140,738
Property operating expenses	(48,334)	(27,604)	–	(75,938)
Profit on disposal of property	14,204	390	–	14,594
Net valuation movements on property	109,987	34,521	–	144,508
Administrative expenses	(11,782)	(777)	–	(12,559)
Profit before finance costs	155,934	55,409	–	211,343
Fair value gains	86	–	–	86
Other financial income	171	512	(184)	499
Financial expenses	(5,209)	(8,507)	184	(13,532)
Profit before taxation	150,982	47,414	–	198,396
Income tax charge	(17,028)	(19,238)	–	(36,266)
Profit for the year	133,954	28,176	–	162,130
Capital expenditure	23,322	6,856	–	30,178
Investment property	1,655,922	600,878	–	2,256,800
Other assets	82,730	79,205	(11,904)	150,031
Total segment assets	1,738,652	680,083	(11,904)	2,406,831
Total segment liabilities	(359,078)	(403,702)	11,904	(750,876)
Capital employed	1,379,574	276,381	–	1,655,955

for the year ended 31 March 2016	*UK* £000	*USA* £000	*Eliminations* £000	*Total* £000
Rental and related income	97,079	41,118	–	138,197
Property operating expenses	(46,390)	(23,618)	–	(70,008)
Profit on disposal of property	11,352	373	–	11,725
Net valuation movements on property	75,829	42,118	–	117,947
Administrative expenses	(12,341)	(700)	–	(13,041)
Profit before finance costs	125,529	59,291	–	184,820
Fair value gains	778	–	–	778
Other financial income	171	508	(343)	336
Financial expenses	(5,255)	(7,780)	343	(12,692)
Profit before taxation	121,223	52,019	–	173,242
Income tax charge	(9,688)	(20,549)	–	(30,237)
Profit for the year	111,535	31,470	–	143,005
Capital expenditure	11,065	15,874	–	26,939
Investment property	1,522,621	486,740	–	2,009,361
Other assets	98,125	60,761	(10,174)	148,712
Total segment assets	1,620,746	547,501	(10,174)	2,158,073
Total segment liabilities	(361,923)	(326,230)	10,174	(677,979)
Capital employed	1,258,823	221,271	–	1,480,094

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

3. Property Operating Expenses

	2017 £000	*2016* £000
Porterage, cleaning and repairs	**35,763**	33,642
Insurance	**5,055**	4,516
Building services	**21,537**	19,613
Other management costs	**13,583**	12,237
	75,938	70,008

Of the property operating expenses shown above, an amount of £2,076,000 (2016 – £3,232,000) related to properties which generated no income during the year.

Notes to the Consolidated Financial Statements *continued*

4. Administrative Expenses

	2017 £000	2016 £000
Staff costs	**6,798**	6,827
Directors' remuneration	**2,364**	2,267
Audit and accountancy	**824**	854
Legal and other administrative expenses	**2,573**	3,093
	12,559	13,041

Auditor's remuneration:

During the year the Group paid KPMG LLP £31,000 (2016 – £31,000) for the audit of the Company and £404,000 (2016 – £395,000) for the audit of the Group's subsidiaries, together with £Nil (2016 – £Nil) for audit related assurance services and £Nil (2016 – £75,000) for other services.

In the UK, the average number of staff provided by the property and administrative management companies who performed roles for the Group totalled 203 (2016 – 206). The average number of full time equivalents whose staff costs were borne by the Group during the year was 143 (2016 – 147). The aggregate staff cost of these persons is shown above and can be analysed as follows:

	2017 £000	2016 £000
Salaries	**5,492**	5,542
NI contributions	**593**	538
Pensions	**713**	747
	6,798	6,827

In addition the property and administrative management companies provide, under agency arrangements, staff to perform various caretaking roles. Those costs totalling £1,037,000 (2016 – £1,071,000) are included within property operating expenses (Note 3) under porterage, cleaning and repairs.

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

5. Financial Income and Expenses

	2017 £000	2016 £000
Financial income:		
Bank interest receivable	**44**	36
Other financial income	**455**	300
	499	336
Financial expenses:		
Interest payable on bank loans	**3,053**	2,904
Interest payable on mortgages	**10,466**	9,779
Other interest payable	**13**	9
	13,532	12,692

6. Taxation

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

	2017 £000	*2016* £000
UK corporation tax	**8,026**	9,139
UK prior year items	**751**	1,134
	8,777	10,273
Overseas taxation	**808**	(448)
Total current tax	**9,585**	9,825
Deferred tax	**33,830**	34,234
Deferred tax – reduction in future tax rate	**(7,149)**	(13,822)
Total deferred tax	**26,681**	20,412
Total tax charge	**36,266**	30,237
Reconciliation of tax expense		
Profit before taxation	**198,396**	173,242
Corporation tax at the standard UK rate of 20% (2016 – 20%)	**39,679**	34,648
Reduction in future tax rate	**(7,149)**	(13,822)
Prior year items	**751**	1,134
Impact of different tax rates	**6,582**	10,145
Indexation and non-taxable items	**(3,426)**	(1,143)
Other	**(171)**	(725)
Total tax charge	**36,266**	30,237

Reductions in the UK corporation tax rate from 20% to 19% (effective 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 18 November 2015. A further reduction in the UK corporation tax rate from 18% to 17% (effective 1 April 2020) was substantively enacted on 15 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax balances at 31 March 2017 have been calculated based on the rate of 17% substantively enacted at the balance sheet date.

The Group's effective tax rate for the current year was 18.3% (2016: 17.5%). The current year charge benefited from the reduction in the future UK tax rate to 17% enacted during the year, which reduced UK deferred tax liabilities while the prior year benefited from a reduction in the future tax rate from 20% to 18%. This reduction was largely offset by tax on profits arising in the USA, where tax rates are higher than in the UK. Also in the UK an element of our property revaluation gains are not taxable due to an indexation allowance. The rate of this allowance increased to 3.1% (2016: 1.6%).

Tax liabilities are recognised when it is considered probable that there will be a future outflow of funds to a tax authority. In assessing the amount of tax due the Group uses professional advisers in both the UK and the USA to assist in assessing tax due on open tax computations. The principal uncertain tax item relates to enquiries opened by HMRC relating to the interpretation of tax legislation regarding historical financing arrangements that had been entered into over several years in the ordinary course of business but have now ceased. At present the probable range of outcomes of the tax due is £0 to £49 million. The directors have made an accrual which is near the middle of

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

this range and which is in their view an adequate estimate of potential tax and interest that might arise. Due to the uncertainty associated with such items, it is possible that at a future date, on reaching a conclusion on these open tax matters, the final outcome may vary significantly.

7. *Earnings per Share*

Earnings per share is calculated on the earnings, after taxation and non-controlling interests, of £161,779,000 (2016 – £142,900,000) and the weighted average shares in issue during the year of 16,295,357 (2016 – 16,295,357).

8. *Dividends*

	2017	*2016*
	£000	£000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2015,		
paid 13 November 2015 @ 53p per share	**–**	8,637
Interim dividend for the year ended 31 March 2016,		
paid 4 March 2016 @ 35p per share	**–**	5,703
Final dividend for the year ended 31 March 2016,		
paid 11 November 2016 @ 58p per share	**9,452**	–
Interim dividend for the year ended 31 March 2017,		
paid 10 March 2017 @ 35p per share	**5,703**	–
	15,155	14,340

The Board has recommended a final dividend for the year ended 31 March 2017 of £10,266,000, representing 63p per share. This dividend has not been included as a liability in these financial statements.

9. *Investment Property*

	Freehold	*Long leasehold*	*Short leasehold*	***Total 2017***	*Total 2016*
	£000	£000	£000	**£000**	£000
Balance at 1 April	**1,638,584**	**345,546**	**25,231**	**2,009,361**	1,855,230
Disposals	**–**	**(1,192)**	**–**	**(1,192)**	(3,682)
New acquisitions	**472**	**–**	**–**	**472**	10,380
Additions to existing properties	**29,495**	**211**	**–**	**29,706**	16,559
Revaluation (recognised in profit)	**131,315**	**13,181**	**12**	**144,508**	117,947
Foreign exchange movements (recognised in other comprehensive income)	**62,753**	**11,192**	**–**	**73,945**	12,927
Balance at 31 March	**1,862,619**	**368,938**	**25,243**	**2,256,800**	2,009,361

External, independent professional valuations of all the Group's UK investment properties were carried out by Colliers International Property Advisers UK LLP, RICS Registered Valuers at 31 March 2017. The aggregate amount of £1,668.6 million is based on open market values, assessed in accordance with the RICS Valuation – Professional Standards (2014). The Group's USA investment properties were also independently professionally valued at 31 March 2017 by Joseph J. Blake and

Associates, Inc. and Metropolitan Valuation Services, Inc., both USA Certified General Real Estate Appraisers. The aggregate amount of £602.5 million is based on open market values, assessed in accordance with the Standards of Professional Appraisal Practice of the Appraisal Institute. All three valuers have recent experience in the location and category of the property being valued.

The aggregate professional valuations included in the above table have been reduced by an amount of £14.3 million (2016 – £11.3 million), relating to lease incentives included in Trade and other receivables.

As explained in Note 1(u)(i), property valuations are inherently subjective, depending on many factors, including the individual nature of each property, its location and expected future net rental values, market yields and comparable market transactions. These fair value measurements are unrealised and classified as Level 3 as defined by IFRS 13 *Fair Value Measurement*. There have been no transfers between the levels of fair value hierarchy during the year. During the year £1.0 million (2016 – £1.3 million) of unrealised property revaluation recognised in prior years was realised through the sale of properties.

Valuation techniques and key inputs

We set out the valuation techniques used below and the key inputs used in these valuation techniques are set out in the tables over the page.

UK commercial property was valued using the income capitalisation method, requiring the application of the appropriate market based yield to net operating income. Adjustments are made to allow for voids when less than five years are left under the current tenancy and to reflect market rent at the point of lease expiry or rent review. Estimated fair value is sensitive to and would increase if either net operating income increased or estimated yield decreased.

UK residential property was valued using a sales valuation approach, derived from recent comparable transactions in the market, adjusted by applying discounts to reflect status of occupation and condition. The largest discounts were applied to those properties subject to registered tenancies, reflecting the relative difference in security of tenure, whilst the smallest discounts were applied to those properties subject to assured shorthold tenancies. The base discount for condition was reduced from 15% in 2016 to 10% in 2017 reflecting current estimates of costs being incurred. Estimated fair value is sensitive to and would increase if the sales values increased.

USA commercial and residential properties (excluding co-operative apartments) have been valued using the application of a capitalisation rate, based on recent arm's length transactions, to an assessment of stabilised net income, and for residential properties the values are cross-checked to recent comparative sales evidence. USA commercial and residential estimated fair value is sensitive to and would increase if either capitalisation rates decreased or estimated rental values increased.

USA co-operative residential apartments have been valued using the application of a discount rate, based on recent arm's length transactions, to an assessment of net income over the period to full reversion, cross-checked to recent comparative sales evidence. USA unsold co-operative residential apartments estimated fair value is sensitive to and would increase if either discount rates decreased, estimated rental values increased or estimated sales values increased.

There are inter-relationships between the groups of inputs as they are determined by market conditions. Movements in more than one input having the effect of increasing fair value would give rise to a magnifying effect on the valuation. Conversely, movements of inputs having opposite effects on fair value would have a mitigating effect on the valuation.

Notes to the Consolidated Financial Statements *continued*

2017	*Fair Value £000*	*Rental Value £ per sq ft Low*	*Average*	*High*	*Equivalent Yield % Low*	*Average*	*High*
UK Commercial							
Office Units							
Greater London	297,544	3.8	31.6	75.0	4.4%	8.5%	13.7%
UK – South	50,077	4.2	12.4	47.2	4.1%	10.3%	32.5%
UK – North	14,188	3.2	7.5	14.0	6.9%	10.3%	12.7%
Retail Units							
Greater London	227,071	3.6	23.0	81.3	1.4%	8.8%	13.6%
UK – South	144,689	4.0	13.7	61.4	2.2%	8.8%	20.8%
UK – North	24,204	2.1	10.4	22.5	5.2%	9.9%	15.4%
Industrial Units							
All UK	37,114	1.5	5.0	20.1	5.8%	9.6%	25.9%
Leisure and Service Units							
All UK	84,578	4.4	15.6	37.6	6.8%	8.7%	12.5%
Land and Development							
All UK	71,600	–	–	–	–	–	–
Total UK Commercial	**951,065**						
UK Residential		*Sales value £ per sq ft*					
Greater London	659,160	328	932	1,851	–	–	–
UK – South	54,812	104	338	536	–	–	–
UK – North	3,593	117	167	234	–	–	–
Total UK Residential	**717,565**						
Total UK	**1,668,630**						
USA Commercial		*Rental value £ per sq ft*			*Capitalisation rate %*		
Massachusetts, Philadelphia and New Jersey	84,568	7.7	24.4	30.7	5.0%	5.3%	7.0%
Total USA Commercial	**84,568**						
USA Residential Apartments		*Rental value £ per sq ft*			*Capitalisation rate %*		
New York City	211,660	8.0	10.8	27.3	2.5%	3.5%	4.1%
Florida	111,636	6.6	9.3	10.4	6.0%	6.1%	6.3%
Other States	107,952	10.0	11.7	15.9	5.0%	5.5%	6.0%
					Discount rate %		
New York City – co-operative	86,650	3.7	13.4	66.4	6.0%	9.3%	12.0%
Total USA Residential	**517,898**						
Total USA	**602,466**						
Total Group	**2,271,096**						
Less lease incentives	(14,296)						
	2,256,800						

*2016 Restated**	*Fair Value £000*	*Rental Value £ per sq ft Low*	*Average*	*High*	*Equivalent Yield % Low*	*Average*	*High*
UK Commercial							
Office Units							
Greater London	294,126	3.8	29.5	70.5	4.7%	8.9%	13.8%
UK – South	46,983	4.2	13.0	35.3	4.4%	10.9%	29.3%
UK – North	11,319	4.0	6.9	13.0	6.7%	10.7%	13.0%
Retail Units							
Greater London	218,501	6.7	23.4	81.3	1.4%	9.3%	20.1%
UK – South	145,642	3.9	13.0	64.1	2.5%	8.9%	20.2%
UK – North	28,689	2.8	10.4	42.0	5.5%	9.7%	14.8%
Industrial Units							
All UK	35,319	1.5	5.0	22.6	6.5%	9.7%	23.9%
Leisure and Service Units							
All UK	83,996	5.5	12.3	37.6	6.6%	8.6%	12.1%
Land and Development							
All UK	39,425	–	–	–	–	–	–
Total UK Commercial	**904,000**						
UK Residential		*Sales value £ per sq ft*					
Greater London	577,796	322	891	1,805	–	–	–
UK – South	47,871	104	334	525	–	–	–
UK – North	3,148	119	169	228	–	–	–
Total UK Residential	**628,815**						
Total UK	**1,532,815**						
USA Commercial		*Rental value £ per sq ft*			*Capitalisation rate %*		
Massachusetts, Philadelphia and New Jersey	61,162	7.7	20.0	23.8	5.0%	5.3%	7.0%
Total USA Commercial	**61,162**						
USA Residential Apartments		*Rental value £ per sq ft*			*Capitalisation rate %*		
New York City	170,559	7.0	9.1	23.0	2.5%	3.7%	4.5%
Florida	90,284	6.6	8.1	8.5	6.0%	6.0%	6.0%
Other States	91,326	8.6	10.1	13.4	5.0%	5.6%	6.0%
New York City					*Discount rate %*		
– co-operative	74,541	2.7	12.1	41.5	6.0%	9.4%	12.0%
Total USA Residential	**426,710**						
Total USA	**487,872**						
Total Group	**2,020,687**						
Less lease incentives	(11,326)						
	2,009,361						

* Certain comparatives have been restated to ensure consistency of treatment with the current year and to reflect that additional more detailed analysis is now available.

Notes to the Consolidated Financial Statements *continued*

The present value of future minimum lease payments in relation to the leasehold investment properties is £9.8 million at 31 March 2017 (2016 – £13.5 million).

Reconciliation between the total of future minimum lease payments and their present capital values

	2017			2016		
	Minimum Lease Payments £000	Interest on lease payments £000	Present value of lease liabilities £000	Minimum Lease Payments £000	Interest on lease payments £000	Present value of lease liabilities £000
Due within one year	**541**	**(537)**	**4**	567	(520)	47
Due within two to five years	**2,164**	**(2,154)**	**10**	2,268	(2,061)	207
Due after more than five years	**44,664**	**(34,852)**	**9,812**	47,984	(34,770)	13,214
	47,369	**(37,543)**	**9,826**	50,819	(37,351)	13,468

Capital commitments, arising from contractual obligations not yet invoiced or paid, for the purchase, construction, development or enhancement of investment properties, amounted to £42.2 million at 31 March 2017 (2016 – £28.8 million).

10. Deferred Tax Assets and Liabilities

	2017			2016		
	Assets £000	Liabilities £000	Net £000	Assets £000	Liabilities £000	Net £000
Investment property	**–**	**(270,661)**	**(270,661)**	–	(234,096)	(234,096)
Accelerated tax depreciation	**–**	**(29,095)**	**(29,095)**	–	(21,200)	(21,200)
Financial instruments	**524**	**–**	**524**	571	–	571
	524	**(299,756)**	**(299,232)**	571	(255,296)	(254,725)

The movement in deferred tax is as follows:

	Investment property £000	Accelerated tax depreci-ation £000	Financial instru-ments £000	Total 2017 £000	Total 2016 £000
Balance at 1 April	**(234,096)**	**(21,200)**	**571**	**(254,725)**	(231,418)
Recognised in income	**(21,364)**	**(5,270)**	**(47)**	**(26,681)**	(20,412)
Foreign exchange movements	**(15,201)**	**(2,625)**	**–**	**(17,826)**	(2,895)
Balance at 31 March	**(270,661)**	**(29,095)**	**524**	**(299,232)**	(254,725)

11. Trade and Other Receivables

	2017	2016
	£000	£000
Rent and service charges debtor	**27,354**	27,811
Rent and service charges accrued	**6,291**	7,895
Other debtors and prepayments	**30,904**	26,931
Mortgages granted repayable within one year	**513**	482
	65,062	63,119

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

		2017			2016	
		Impair-			Impair-	
	Gross	**ment**	**Net**	Gross	ment	Net
	£000	**£000**	**£000**	£000	£000	£000
Not past due	**23,168**	**–**	**23,168**	22,990	–	22,990
Past due by less than one month	**4,617**	**(354)**	**4,263**	7,776	(200)	7,576
Past due by one to three months	**1,481**	**(151)**	**1,330**	1,594	(172)	1,422
Past due by three to six months	**1,839**	**(333)**	**1,506**	2,547	(556)	1,991
Past due by more than six months	**12,418**	**(9,040)**	**3,378**	11,604	(9,877)	1,727
	43,523	**(9,878)**	**33,645**	46,511	(10,805)	35,706

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

	2017	2016
	£000	£000
Balance at 1 April	**10,805**	10,215
Amounts written off	**(598)**	(1,011)
Movement in allowance for impairment	**(329)**	1,601
Balance at 31 March	**9,878**	10,805

12. Cash and Cash Equivalents

	2017	2016
	£000	£000
Bank balances	**62,567**	49,647
Short term deposits	**21,716**	35,216
Cash and cash equivalents in the balance sheet and cash flow statement	**84,283**	84,863

Included within bank balances are tenants' deposits of £3,553,000 (2016 – £3,792,000) in the UK and £2,885,000 (2016 – £2,326,000) in the USA, which cannot be used in the ordinary course of business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

13. Share Capital

	Number	2017 £000	2016 £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.

14. Trade and Other Payables

	2017 £000	2016 £000
Rent and service charges charged in advance	**18,574**	18,749
Other creditors and accruals	**29,702**	34,068
Derivative financial instruments	**3,084**	3,170
	51,360	55,987

15. Loans and Borrowings

	2017 £000	2016 £000
Non-current liabilities		
Mortgages	**225,283**	225,688
Bank loans	**77,959**	80,724
	303,242	306,412

	2017 £000	2016 £000
Current liabilities		
Mortgages	**47,028**	14,141
Bank loans	**2,269**	1,375
	49,297	15,516
Total loans and borrowings		
Mortgages	**272,311**	239,829
Bank loans	**80,228**	82,099
	352,539	321,928

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:

	2017			2016
	Bank loans	**Mortgages**	**Total**	Total
	£000	**£000**	**£000**	£000
Due within one year	**2,269**	**47,028**	**49,297**	15,516
Due within one to two years	**26,712**	**30,514**	**57,226**	34,004
Due within two to five years	**51,247**	**47,891**	**99,138**	132,471
Due after more than five years	**–**	**146,878**	**146,878**	139,937
	80,228	**272,311**	**352,539**	321,928

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

	2017			2016		
	Fixed	**Floating**	**Total**	Fixed	Floating	Total
	£000	**£000**	**£000**	£000	£000	£000
Sterling	**58,190**	**55,228**	**113,418**	59,074	57,099	116,173
US Dollar	**239,121**	**–**	**239,121**	205,755	–	205,755
	297,311	**55,228**	**352,539**	264,829	57,099	321,928

Floating rate bank loans bear rates based on LIBOR. The Group's interest rate swaps are set out in Note 16. The interest rate profile of the Group's fixed rate mortgages was as follows:

	2017	2016
	£000	£000
Per cent.		
3.0-3.5	**109,899**	91,456
3.5-4.0	**84,293**	68,304
4.0-4.5	**10,904**	9,679
4.5-5.0	**6,526**	12,150
5.0-5.5	**14,129**	14,346
5.5-6.0	**31,312**	28,603
6.0-6.5	**15,248**	15,291
	272,311	239,829

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

	2017	2016	**2017**	2016
	Per cent.	Per cent.	**Years**	Years
Sterling	**5.97**	5.97	**9.2**	10.2
US Dollar	**3.84**	3.88	**6.7**	7.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

16. Financial Assets and Liabilities

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

	2017		2016	
	Carrying amount	***Financing income/ (expense)***	*Carrying amount*	*Financing (expense)/ income*
	£000	**£000**	£000	£000
Current asset investments	**162**	**–**	159	(10)
Current assets at fair value	**162**	**–**	159	(10)
Derivative financial instruments	**(3,084)**	**86**	(3,170)	788
Current liabilities at fair value	**(3,084)**	**86**	(3,170)	788
Trade and other receivables	**65,062**	**455**	63,119	300
Cash and cash equivalents	**84,283**	**44**	84,863	36
Current assets at amortised cost	**149,345**	**499**	147,982	336
Trade and other payables	**(48,276)**	**(13)**	(52,817)	(9)
Floating rate loans and borrowings	**(80,228)**	**(3,053)**	(82,099)	(3,690)
Fixed rate loans and borrowings	**(272,311)**	**(10,466)**	(239,829)	(8,993)
Current and non-current liabilities at amortised cost	**(400,815)**	**(13,532)**	(374,745)	(12,692)
Total financial instruments	**(254,392)**	**(12,947)**	(229,774)	(11,578)

The finance income of £86,000 (2016: £788,000) relating to derivative financial instruments is stated net of £35,000 income (2016: £84,000 expense) relating to credit risk movements.

Fair values of financial instruments

The Group's financial instruments are either recorded at fair value or their fair values are not materially different from their carrying amounts except for fixed rate loans and borrowings. These are stated at amortised cost as shown in the table above and as explained in Note 1(t). The fair value of fixed rate loans and borrowings was £287,351,000 (2016 – £260,057,000). At both the current and preceding year end there were no non-recurring fair value measurements.

The Group does not hedge account and all its interest rate swaps are initially recognised, and subsequently recorded, at fair value, with any movement being recorded in the consolidated income statement. The fair values of all interest rate swaps and fixed rate loans and borrowings are determined by reference to observable inputs that are classified as Level 2 in the fair value hierarchy set out in IFRS 13 *Fair Value Measurement*. Fair values have been determined by discounting expected future cash flows using market interest rates and yield curves over the remaining term of the instrument, as adjusted to reflect the credit risk attributable to the Group and, where relevant, its counterparty.

Financial instrument risk management

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, has 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 defaults as appropriate. The credit worthiness of each tenant is assessed prior to the agreement of the lease. Where appropriate collateral is 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, bank or other 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. The Group's interest rate swaps are currently 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

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 2017, gearing was 14.6 per cent. (2016 – 14.9 per cent.) on the basis of gross debt to gross assets. Cash and short-term deposits at 31 March 2017 were £84.3 million (2016 – £84.9 million) and £49.3 million of loans and borrowings were repayable within one year (2016 – £15.5 million). In addition, at the same date, the Group had undrawn committed facilities of £48.4 million (2016 – £48.4 million), which expire between 2018 and 2022.

The maturity analysis of the undiscounted cash flows arising from the Group's financial liabilities at 31 March 2017 was as follows:

			2017			
	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	**80,228**	**80,228**	**2,269**	**26,712**	**51,247**	**–**
Mortgages	**272,311**	**272,311**	**47,028**	**30,514**	**47,891**	**146,878**
Interest	**–**	**71,774**	**11,206**	**9,857**	**21,870**	**28,841**
Interest rate swaps	**3,084**	**5,822**	**1,320**	**971**	**1,135**	**2,396**
Trade and other payables	**48,276**	**48,276**	**48,276**	**–**	**–**	**–**
	403,899	**478,411**	**110,099**	**68,054**	**122,143**	**178,115**

			2016			
	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	82,099	82,099	1,375	1,375	79,349	–
Mortgages	239,829	239,829	14,141	32,629	53,122	139,937
Interest	–	74,696	10,910	9,762	21,927	32,097
Interest rate swaps	3,170	3,424	1,298	1,298	828	–
Trade and other payables	52,817	52,817	52,817	–	–	–
	377,915	452,865	80,541	45,064	155,226	172,034

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 dollar/sterling rate of exchange might have on the Group's recognition of its 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 15.

It is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before taxation by approximately £0.6 million per annum, on the basis of the floating rate debt outstanding at 31 March 2017, 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 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 interest rate swaps outstanding at 31 March 2017 of £3.1 million, together with a corresponding increase in the Group's profit before taxation.

Interest rate swaps

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

	Contracted rate		*Notional principal*		*Fair value*	
	2017	*2016*	***2017***	*2016*	***2017***	*2016*
	Per cent.	Per cent.	**£000**	£000	**£000**	£000
Maturing within one to two years	**5.6**	5.6	**25,000**	25,000	**2,084**	3,170
Maturing after five years	**1.6**	–	**30,000**	–	**1,000**	–
			55,000	25,000	**3,084**	3,170

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 depreciation of the US dollar against sterling would cause a decrease in the sterling value of the Group's USA net assets of £25.1 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 15 and cash and short term deposits as set out in Note 12. All loans and borrowings are secured against investment property and the bank loans are drawn against committed facilities.

17. Related Party Transactions

Day-to-day management of the Group's properties and its operations in the UK 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.

Notes to the Consolidated Financial Statements *continued*

In their capacity as property managing agents, Highdorn Co. Limited ("Highdorn") and Freshwater Property Management Limited ("FPM") collect rents and incur direct property expenses on behalf of the Group. At 31 March 2017, the aggregate net amounts due to the Group from Highdorn and FPM was £6.6 million (2016 – £7.7 million due to Highdorn and FPM). 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 and payable by the Group for the provision of property and other management services by Highdorn Co. Limited and Freshwater Property Management Limited, included above, were as follows:

	2017	*2016*
	£000	£000
Balance due to related party managing agents at 1 April	**2,891**	4,087
Charged during the year	**4,488**	3,975
Paid during the year	**(5,490)**	(5,171)
Balance due to related party managing agents at 31 March	**1,889**	2,891

Mr B S E Freshwater, Mr S I Freshwater and Mr D Davis are trustees of two charities that own 6.3% of the share capital of the Company. These charities have received dividend payments in the year of £960,659 (2016 – £909,010). The Directors' interests in the Company and the principal shareholders are described on pages 30 and 31. The Board considers that the Directors are the key management personnel of the Group and their remuneration is disclosed on page 35.

18. *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.

19. *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 (2016 – £Nil).

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

	2017	*2016*
	£000	£000
Due within one year	**76,536**	75,480
Due within one to two years	**49,043**	45,112
Due within two to five years	**105,796**	97,011
Due after more than five years	**273,792**	301,211
	505,167	518,814

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.

20. *Subsidiary Undertakings*

Except where indicated the following are indirect subsidiaries of the Company, where the Company's direct and indirect interest is in ordinary shares. All are wholly owned, unless as indicated below, are property investment companies and are included in the consolidated financial statements.

Incorporated in Great Britain and registered in England and Wales

Registered office: Freshwater House, 158 – 162 Shaftesbury Avenue, London WC2H 8HR

Agecroft Estates Limited
Alsam Limited
Astral Estates (London) Limited
Bagnight Limited*
Bampton (B&B) Limited
Bampton (Redbridge) Limited
Bampton Holdings Limited
Bampton Homes Limited
Bampton Management Limited
Bampton Property Group Limited (The)
Brickfield Properties Limited
Chilon Investment Co. Limited
City and Country (Londonderry House) Limited
City and Country Properties (Birmingham) Limited
City and Country Properties (Camberley) Limited
City and Country Properties (Estates) Limited
City and Country Properties (Gillingham) Limited
City and Country Properties (Leeds) Limited
City and Country Properties (Midlands) Limited
City and Country Properties Limited
Coindragon Limited*
Coineagle Limited*
Coinface Limited*
Coinmad Limited*
Coinmoat Limited*
Coinorbit Limited*
Coinpilot Limited*
Coinreach Limited*
Coinsmart Limited*
Coinspear Limited*
Coinsun Limited
Consbrix Developments Limited
Cromlech Property Co. Limited (The)
Crozera Limited
Daejan (Brentford) Limited*
Daejan (Brighton) Limited
Daejan (Cambridge) Limited
Daejan (Cardiff) Limited
Daejan (Care Homes) Limited*
Daejan (Dartford) Limited
Daejan (Design & Build) Limited*
Daejan (Durham) Limited*
Daejan (FH 1998) Limited
Daejan (FHNV 1998) Limited
Daejan (Hanger Hill) Limited*
Daejan (High Wycombe) Limited
Daejan (Kingston) Limited
Daejan (Lauderdale) Limited
Daejan (Norwich) Limited
Daejan (NUNV) Limited
Daejan (NUV) Limited
Daejan (PF) Limited
Daejan (Reading) Limited
Daejan (Taunton) Limited
Daejan (UK) Limited*
Daejan (US) Limited*
Daejan (Warwick) Limited
Daejan (Watford) Limited
Daejan (Wimbledon) Limited*
Daejan (Worcester) Limited
Daejan Commercial Properties Limited
Daejan Developments Limited
Daejan Enterprises Limited
Daejan Estates Limited
Daejan Investments (Grove Hall) Limited
Daejan Investments (Harrow) Limited
Daejan Investments (Park) Limited
Daejan Investments Limited
Daejan Metropolitan Investments Limited*
Daejan Properties Limited
Daejan Retail Properties Limited
Daejan Securities Limited*
Daejan Services Limited*
Daejan Traders Limited*
Daneryn Limited*
Derlingrange Limited*
Ealux Limited
Endell Developments Limited*
Endell Properties Limited*
Endell Real Estate Limited*
Esslock Limited
Fifth Charles Investments Limited*
First Charles Investments Limited*

* Directly owned

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

Foredale Limited*
Gertsbrix Developments Limited
Grapeseal Limited*
Halliard Property Co. Limited (The)
Hampstead Way Investments Limited
Inputstock Limited
Inputstripe Limited
Insworth Investments Limited*
Johnsbrix Developments Limited
Kingforge Limited*
Kintsilk Investments Limited
Lawnstamp Limited
Lesbrix Developments Limited
Limebridge Co. Limited
Lookstate Limited
Lyme & Farrar Limited
Marfred Limited
Mineral and General Investments Limited
Modboon Limited*
Mont Investments Limited
Offerworld Limited
Pegasus Investment Company Limited
Ronend Properties Limited*
Rosebel Holdings Limited
Seaglen Investments Limited
Semlark Limited*
Simlock Limited
St. Leonards Properties Limited
Strand Palace Hotel Limited*
Summerseas Investment Co. Limited
Wisebourne Limited*
Workvideo Limited*

Incorporated in Guernsey
Registered office: Bordage House, Le Bordage, St Peter Port, Guernsey GY1 1BU

Daejan Financing Limited
Three Dials Limited
Four Dials Limited
Eight Dials Limited
Nine Dials Limited
Ten Dials Limited

Incorporated in the Isle of Man
Registered office: 8 St George's Street Douglas IM1 1AH

Temple Investments Limited

Incorporated in Curaçao
Registered office: Schottegatweg Oost 44, Curaçao

Daejan Holdings N.V.

* Directly owned

Incorporated in the USA
Registered office, except as noted in (i) to (vii) below: 1651 Coney Island Avenue, Brooklyn, NY 11230

77NW LLC
200 Portland LLC
260 Realty Associates**
427 West 51st Street Owners Corp.
611 West 158th Street Corp.
670 River Realty Corp.
730 GC Realty Corp.
1750 GC LLC
3380 Nostrand LLC
Ace 2160 Wallace LLC
Ace 2180 Wallace LLC
Ace 2181 Barnes LLC
Ace 2181 Wallace LLC
CM Bucks Landing 120 LLC
Daejan 1010 Regency LLC(i)
Daejan 11 E Chase LLC(i)
Daejan 77, Inc.(vii)
Daejan 3120 Court LLC(i)
Daejan Astoria LLC
Daejan Baltimore Inc.
Daejan Chesterfield LLC(ii)
Daejan Crossroads LLC
Daejan Enterprises Inc.
Daejan Fisherman's Landing LLC(iii)
Daejan Greenwich Commons LLC(iv)
Daejan Hidden Palms LLC(iii)
Daejan Holdings (U.S.) Inc.*(vi)
Daejan Inverrary LLC
Daejan Lauderhill Inc.
Daejan Lycoming LLC, Inc.
Daejan N.Y. Ltd.
Daejan Oak Manor, Inc.(v)
Daejan Portland, Inc.
DJN Crossroad, Inc.
DJN Greenwich Inc.
DJN Raritan LLC
Ivory 1150 Concourse Corp.
Ivory 1166 G.C. Realty Corp.
Ivory 3045 Grand Concourse Corp.
Ivory 3591 Bainbridge Corp.
Ivory 3780 Bronx Blvd. Corp.
Ivory 3908 Bronx Realty Corp.
Ivory 780 Grand Corp.
Ivory 790 G.C. Corp.
New Franconia Associates***
Sevens G.C. Realty Corp.
Tampa Sunscape Inc.

Registered offices: (i) 6800 Liberty Road, Baltimore, MD 21207; (ii) 4200 Inverrary Blvd, Lauderhill, FL 33319; (iii) 14555 Bruce D. Downs Blvd, Tampa, FL 33613; (iv) 14608 43rd Street, Tampa, FL 33813; (v) 5105 Mission Hills Ave, Tampa, FL 33617; (vi) 1105 North Market Street, Wilmington, NY 19899; (vii) 65 Franklin Street, Suite 401; Boston, MA 02110.

* Directly owned
** 75% owned
*** 70% owned

COMPANY BALANCE SHEET

as at 31 March 2017

	Notes		***2017***		*2016*
		£000	**£000**	£000	£000
Fixed assets					
Investment in subsidiary undertakings	*4*		**1,330,488**		1,326,297
Deferred tax assets			**524**		571
			1,331,012		1,326,868
Current assets					
Debtors		**1,157**		860	
Cash at bank		**6,570**		16,043	
		7,727		16,903	
Creditors: amounts falling due within one year	*5*	**(300,635)**		(284,216)	
Net current liabilities			**(292,908)**		(267,313)
Total assets less current liabilities			**1,038,104**		1,059,555
Creditors: amounts falling due after more than one year	*6*		**(60,469)**		(63,535)
Net assets			**977,635**		996,020
Capital and reserves					
Called up share capital	*7*		**4,074**		4,074
Share premium account			**555**		555
Other reserves			**893**		893
Profit and loss account			**972,113**		990,498
Equity shareholders' funds			**977,635**		996,020

The financial statements of Daejan Holdings PLC (Company number 305105) on pages 78 to 82 were approved by the Board of Directors on 24 July 2017 and were signed on its behalf by:

B S E Freshwater Director

D Davis Director

Company Statement of Changes in Equity

for the year to 31 March 2017	*Issued share capital* £000	*Share premium account* £000	*Other reserves* £000	*Retained earnings* £000	*Equity shareholders' funds* £000
Balance at 1 April 2015	4,074	555	893	1,006,523	1,012,045
Loss for the year	–	–	–	(1,685)	(1,685)
Dividends to equity shareholders	–	–	–	(14,340)	(14,340)
Balance at 1 April 2016	4,074	555	893	990,498	996,020
Loss for the year	–	–	–	(3,230)	(3,230)
Dividends to equity shareholders	–	–	–	(15,155)	(15,155)
Balance at 31 March 2017	**4,074**	**555**	**893**	**972,113**	**977,635**

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 Company financial statements have been prepared in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). The Company has adopted the following disclosure exemptions permitted by FRS 102 1.12 (b), (c) and (e): The requirement to present a statement of cash flows; the requirement to disclose the terms and conditions of long term debt; and the requirement to disclose key management personnel compensation in total.

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 loss for the year after taxation was £3,230,000 (2016 – £1,685,000).

(b) Investments in subsidiary undertakings

Investments in subsidiary undertakings comprise shares in, and loans to, those undertakings and are stated at cost less any provision for impairment.

(c) Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all financial liabilities.

Basic financial instruments

(i) Trade and other creditors

Trade and other creditors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate for a similar debt instrument.

(ii) Loans and borrowings

Loans and borrowings are initially recognised at fair value and are subsequently recorded at amortised cost. 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.

Derivative financial instruments

The Company 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 Company 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.

(d) Deferred tax

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expenses are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

(e) 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 pages 35 and 36 of the Group accounts. The parent company audit fee is disclosed on page 60 of the Group accounts.

3. *Dividends*

	2017	*2016*
	£000	£000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2015,		
paid 13 November 2015 @ 53p per share	**–**	8,637
Interim dividend for the year ended 31 March 2016,		
paid 4 March 2016 @ 35p per share	**–**	5,703
Final dividend for the year ended 31 March 2016,		
paid 11 November 2016 @ 58p per share	**9,452**	–
Interim dividend for the year ended 31 March 2017,		
paid 10 March 2017 @ 35p per share	**5,703**	–
	15,155	14,340

The Board has recommended a final dividend for the year ended 31 March 2017 of £10,266,000, representing 63p per share. This dividend has not been included as a liability in these financial statements.

Notes to the Company Financial Statements *continued*

4. *Investments in Subsidiary Undertakings*

	Shares at cost	*Loans*	*Total*
	£000	£000	£000
At 1 April 2016	**991,933**	**334,364**	**1,326,297**
Loans	**–**	**4,191**	**4,191**
At 31 March 2017	**991,933**	**338,555**	**1,330,488**

5. *Creditors: Amounts falling due within one year*

	2017	*2016*
	£000	£000
Bank loans and overdrafts	**2,498**	1,592
Amounts owed to subsidiary undertakings	**294,282**	268,515
Other creditors and accruals	**771**	10,939
Derivative financial instruments	**3,084**	3,170
	300,635	284,216

6. *Creditors: Amounts falling due after more than one year*

	2017	*2016*
	£000	£000
Secured bank loans	**60,469**	63,535

7. *Share Capital*

		2017	*2016*
	Number	**£000**	£000
Allotted, called up and fully paid:			
Ordinary shares of 25 pence per share	**16,295,357**	**4,074**	4,074

8. *Profit and Loss Reserve*

Some years ago, the Company sold its shareholdings in certain subsidiary undertakings to intermediate holding companies. 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.

GROUP FIVE-YEAR RECORD

	2013 £000	*2014* £000	*2015* £000	*2016* £000	***2017*** **£000**
Total rental and related income	111,037	112,202	128,976	138,197	**140,738**
Property operating expenses	(67,017)	(68,789)	(70,041)	(70,008)	**(75,938)**
Net rental and related income	44,020	43,413	58,935	68,189	**64,800**
Profit on disposal of investment properties	6,612	11,320	12,036	11,725	**14,594**
Net valuation gains on investment properties	82,694	122,050	229,722	117,947	**144,508**
Administrative expenses	(10,936)	(10,550)	(11,821)	(13,041)	**(12,559)**
Net operating profit before financing costs	122,390	166,233	288,872	184,820	**211,343**
Net financing expense	(10,671)	(8,063)	(11,333)	(11,578)	**(12,947)**
Profit before taxation	111,719	158,170	277,539	173,242	**198,396**
Income tax	(21,792)	(12,231)	(49,979)	(30,237)	**(36,266)**
Profit for the year	89,927	145,939	227,560	143,005	**162,130**
Earnings per share	£5.51	£8.95	£13.95	£8.77	**£9.93**
Total assets	1,515,932	1,655,552	1,964,088	2,158,073	**2,406,831**
Equity shareholders' funds	996,893	1,117,533	1,345,874	1,480,094	**1,655,955**
Equity shareholders' funds per share	£61.18	£68.58	£82.59	£90.82	**£101.61**

Directors and Advisers

Directors

B S E Freshwater

(Chairman and Managing Director)

S B Benaim (non-executive)

D Davis (non-executive)

S I Freshwater

A M Freshwater (USA) (non-executive)

R E Freshwater (non-executive)

C B Freshwater (non-executive)

S Srulowitz (USA) (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

Co. No. 305105

Registrars

Equiniti

Aspect House,

Spencer Road,

Lancing,

West Sussex BN99 6DA

Auditor

KPMG LLP

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

N+1 Singer

1 Bartholomew Lane,

London EC2N 2AX

Notice of Meeting

Notice is hereby given that the Eighty Second Annual General Meeting of Daejan Holdings PLC will be held at The Grand Saloon, Theatre Royal, Drury Lane, Catherine Street, London WC2B 5JF, on Tuesday 12th September 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 2017 together with the Reports of the Directors and the Auditors. (Resolution 1)
2. To approve the Remuneration Policy. (Resolution 2)
3. To approve the Remuneration Report for the year ended 31 March 2017. (Resolution 3)
4. To declare a final dividend. (Resolution 4)
5. To elect S B Benaim as a Director. (Resolution 5)
6. To elect S Srulowitz as a Director. (Resolution 6)
7. To elect C B Freshwater as a Director. (Resolution 7)
8. To re-elect B S E Freshwater as a Director. (Resolution 8)
9. To re-elect S I Freshwater as a Director. (Resolution 9)
10. To re-elect D Davis as a Director. (Resolution 10)
11. To re-elect R E Freshwater as a Director. (Resolution 11)
12. To re-elect A M Freshwater as a Director. (Resolution 12)
13. To appoint KPMG LLP as Auditor, and to authorise the Directors to agree its remuneration. (Resolution 13)

By order of the Board

M R M Jenner
Secretary

24 July 2017

1. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting and at any adjournment of it. A member may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. If a proxy appointment is submitted without indicating how the proxy should vote on any resolution, the proxy will exercise his/her discretion as to whether and, if so, how he/she votes.
2. A proxy need not be a member of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact the Company's Registrar, Equiniti Limited, on 0371 384 2203 (international callers: +44 121 415 7047). Lines open 8.30 a.m. to 5.30 p.m., Monday to Friday. Members may also appoint a proxy through the CREST electronic proxy appointment service as described in note 13 below.
3. To be valid any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand to Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA no later than 2.00 p.m. on 10 September 2017, together with, if appropriate, the power of attorney or other authority (if any) under which it is signed or a duly certified copy of that power or authority.
4. The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in note 13(a) below) will not prevent a member attending the meeting and voting in person if he/she wishes to do so.
5. A vote withheld option is provided on the form of proxy to enable you to instruct your proxy not to vote on any particular resolution. However, it should be noted that a vote withheld in this way is not a 'vote' in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution.

NOTICE OF MEETING *continued*

6. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
7. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1, 2 and 3 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.
8. To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the votes they may cast), members must be registered in the register of members of the Company at 6.30 p.m. on 10 September 2017 (or, in the event of any adjournment, 6.30 p.m. on the date which is two days before the time of the adjourned meeting). Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
9. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
10. If a member submits more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
11. Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (i) to do so would interfere unduly with the preparation for the meeting or would involve the disclosure of confidential information or (ii) the answer has already been given on a website in the form of an answer to a question or (iii) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
12. As at the date of issue 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 as at the date of issue of this notice are 16,295,357.
13. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for this meeting by using the procedures described in the CREST Manual which can be viewed at www.euroclear.com. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. Please note the following:
    - (a) In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by the latest time(s) for receipt of proxy appointments specified in this notice. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
    - (b) CREST members and, where applicable, their CREST sponsors or voting service providers, should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
    - (c) The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
14. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided they do not do so in relation to the same shares.
15. A copy of this notice and other information required by Section 311A of the Companies Act 2006 can be found at www.daejanholdings.com.
16. You may not use any fax number, email address or other electronic address provided in this document or on the proxy form to communicate with the Company for any purpose other than expressly stated.

sterling 168679
Design, art direction and photography by Roger Watt.


Strand
Strand Palace Hotel
Strand


STRAND
PALACE
HOTEL