DAEJAN

HOLDINGS LTD

Annual Report & Accounts

2020


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HOLDINGS LTD
(formerly Daejan Holdings PLC)
Annual Report & Accounts
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Contents

CHAIRMAN'S INTRODUCTION

Before discussing the results for the year I must mention a major event in the life of the Company.

In February 2020 a cash offer was made by the Freshwater Group for all Daejan shares not already controlled. The offer was effected by way of a Scheme of Arrangement which was approved by holders of over 99% of the relevant shares on 27th April; the shares were delisted on 11th May. The administrative burden of maintaining our listing had grown progressively in recent years and given that there were no intentions to use the listing to raise finance it became clear that delisting was in the best interests of the Company. So ended a successful period of 61 years as a listed property company and I must thank shareholders for their loyal support over this time.

Following our transition to a private company two of our non-executive directors, Mr S B Benaim and Mr S Srulowitz, expressed a desire to retire from the Board. I would like to thank them for their wise counsel during their periods of office and wish them well for the future.

Daejan will continue to operate as before in pursuit of long term, low risk growth in net asset value and rental income albeit in future as a wholly owned company within the Freshwater Group.

This has been a year of challenges with continuing uncertainty throughout from Brexit and latterly from the impact of the Covid-19 pandemic. There have also been material adverse changes to rent regulation in New York. In the circumstances the reduction in shareholders' funds of 2.3% to £1,896 million (2019 – 7% increase to £1,940 million) was not a surprise.

In the UK, the overall value of our portfolio has remained flat with some downward adjustments in retail and office property offset by gains from a number of improved leases and from the completion and letting of new developments.

In July 2019 new and punitive rent regulation laws were introduced in New York which have had the effect of reducing the value of the affected buildings by approximately one third; elsewhere in the USA our properties have shown modest gains. The total deficit arising on the revaluation of the USA portfolio is £93.5 million, equivalent to 11.9% (2019 – £32.1 million gain, equivalent to 5.1%).

Our overall gross rental income has increased by 6.5% (2019 – 8.5%). In the UK this has derived from the letting of new developments and a significant improvement in our Care Home portfolio. Similarly in the USA new property acquisitions in the second half of last year have now contributed a full year's rent.

Outlook

I have for some years reported my concern at the uncertainty arising from the Brexit issue. This remains as we near the end of the transitional period with, as yet, no clear idea of the arrangements for trade which will apply from 1st January 2021. However the immediate future will be dominated by the fallout from the actions taken to stop the spread of the Covid-19 pandemic. Whilst constraints on the economy are being progressively removed the speed with which activity will return towards normal is by no means clear. Indeed doubt remains whether patterns of behaviour adopted during the "lockdown" such as working from home, avoiding public transport, shops, restaurants and other leisure facilities will persist in the longer term. A deepening of the UK recession is widely predicted for when the temporary measures taken to sustain the economy are discontinued later this year; opinions differ as to its likely depth and duration.

In the USA the Covid-19 pandemic still appears to be spreading and is likely to result in an overall fall in GDP in 2020. A trade war continues to develop with China and we are entering a period of political uncertainty ahead of the Presidential election in November.

These issues constitute the environment within which we will have to operate for the coming year. I firmly believe that our tried and tested approach of prudence and risk minimisation together with the careful conservation of financial resources that has served us well in good times and bad will see us safely through.

My thanks as ever must go to those whose loyal efforts sustain the Company.

B S E Freshwater
Chairman

***Cover:** Central Park, Brighton, East Sussex.* ***Inside cover:** Clare Court, London WC1.* ***Above and opposite page:** recently completed Starlite Lodge, Greenford, Middx.* ***Contents page:** interior of 164 Shaftesbury Avenue, London WC2.*

Financial Highlights

NET VALUATION LOSS

£90.5 million

(2019: gain of £83.9 million)

LOSS BEFORE TAX

£33.2 million

(2019: profit of £137.8 million)

LOSS PER SHARE

£2.92

(2019: Earnings of £7.36)

SHAREHOLDERS' FUNDS

£1,896.0 million

(2019: £1,940.4 million)

SHAREHOLDERS' FUNDS PER SHARE

£116.35*

(2019: £119.07)*

GEARING

17.8%*

(2019: 15.6%)*

*Definitions of these alternative performance measures are included on pages 90 and 91.

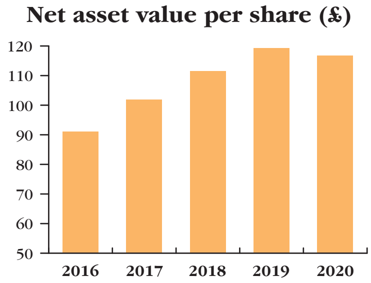

Starlite Lodge

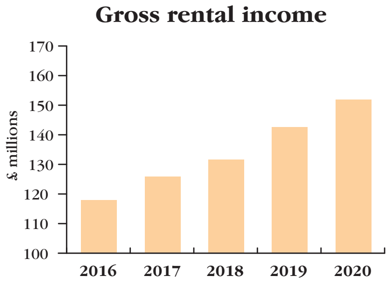

Starlite Lodge

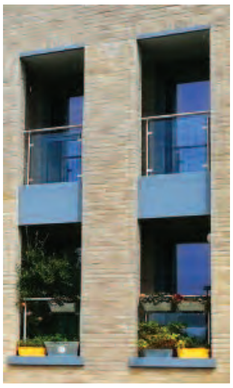
STRATEGIC REPORT

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.







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 18 to the financial statements.

Similar arrangements with local managing agents operate in the USA.

Managing risk

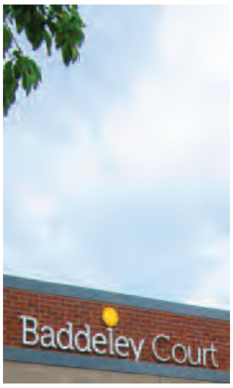
Whilst retaining an entrepreneurial culture, the Group has a low appetite for risk. This underpins our approach to all aspects of the business and is appropriate to our strategic objective of delivering long term, low risk growth in net asset value per share.

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

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 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

Opposite page and above: *the recently completed Starlite Lodge, Greenford, Middx.*

STRATEGIC REPORT *continued*



to short term interest rates. As explained in Note 1(g) to the financial statements, the Group does not hedge account. Note 17 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 17.8% (2019 – 15.6%).

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 economic outlook is dominated by two major issues: the Covid-19 pandemic and Brexit. Both issues have the capacity to have a meaningful impact on the business.

The Covid-19 pandemic is currently underway in the UK and the possibility exists for a "second wave" of infection this coming winter.

The Government actions to prevent the spread of the disease have resulted in a dramatic slowdown in economic activity. Although restrictions are now being progressively released a deep recession is widely predicted with uncertainty as to the speed of recovery. Within the general downturn there have been particularly sharp impacts on retail, leisure and travel sectors. It remains to be seen whether the current reluctance of people to visit shops and leisure premises is a temporary or a longer term trend. Many organisations have successfully introduced systems of home working with little or no loss of efficiency. If "working from home" becomes an established feature of business life, demand for office accommodation may reduce.

The uncertainty surrounding the impact of the end of the transition period as the UK fully detaches its self from the European Economic Union (EEU) has to an extent been masked by the impact of Covid-19. Negotiations have yet to produce an agreement to govern the future relationship between the UK and the EEU thus creating a further layer of uncertainty for UK business.

The Covid-19 pandemic in the USA is not yet under control and its longer term economic impact is not yet clear. The trade war with China and the US Presidential election which will be held later in the year add further uncertainty.

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 and the conservation of cash and bank facilities
- Rigorous tenant covenant checks including independent assessments for major lettings; 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

Above and opposite page: *Baddeley Court, Newport, Shropshire.*

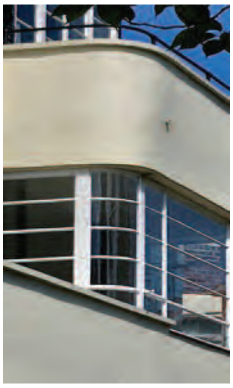

PEACOCKS
savers
TO LET

Baddeley Court
Specsavers

PEACOCKS

Baddeley Court
PEACOCKS
Specsavers

Strategic Report *continued*



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

Movements in currency rates of exchange

With 28% by value of the Group's property portfolio located in the USA, any significant movement in the US dollar/sterling rate of exchange will impact our reported results.

The period since the decision to leave the EEU has seen significant movement in the US dollar/sterling rate of exchange. The fall in the value of sterling relative to the US dollar in the financial year was 5% (2019 – 7% fall). This has had the effect of increasing the reported value of our USA net assets. The average exchange rate for the year fell by 3% and its impact on the reported USA results is not material.

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 £20.6 million (2019 – gain of £24.4 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

As commented in previous years, regulations aimed at the control of residential rental levels or shorthold tenancy arrangements could have an adverse impact on the Group. Following the significant tightening in 2019 of rent controls by the Mayor of New York, our properties in the city have suffered significant reductions in value.

Above and right: *Clissold Court, London N4.* ***Opposite page:*** *Wyfold Road, London SW6.*

Similarly, increased regulation on building or environmental standards, 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 have been affected by the impact of the Covid-19 pandemic and could in future be adversely affected by the impact of 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:

- Developing a system of home working to ensure that the Group can continue to function despite the need for office closures
- 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. Notwithstanding well publicised reports in the media of tenants defaulting on rental arrangements or unilaterally seeking material rent reductions, we continue to receive the substantial majority of rentals due under contractual arrangements.

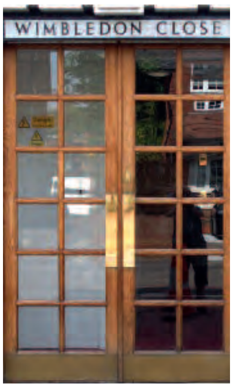
The multi-tenanted nature of the portfolio, with rental income derived from numerous properties, provides a natural measure of protection against the risk of individual default.

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 lettings

Above, left and opposite page:
30 Kensington Church Street, London W8.

STRATEGIC REPORT *continued*



- Careful monitoring of tenants showing signs of financial stress
- Actively using recovery mechanisms for overdue debts

Retail Sector

In recent times we have seen the contraction or collapse of several high profile retail chains. The change in shopping patterns and in particular the move to on-line shopping which has accelerated during the Covid-19 pandemic means that the downward pressure on UK high street rental and capital values will continue. Parades of local shops, an important part of our portfolio, have not suffered in the same way. Our portfolio is not significantly exposed to the risk of any single retail tenant.

We seek to mitigate and manage this risk by:

- Close monitoring of developments in the retail sector
- Careful monitoring of tenants showing signs of financial stress
- Avoiding concentration on any one tenant or retail sector

Internal risks

Regional concentration in UK and US portfolios

Within the UK, the majority of our properties are situated in and around the London area. In past 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 more recently will significantly reduce the net annual revaluation uplifts in the UK portfolio. In the USA, a substantial part of our portfolio is situated in New York which has in the past produced significant growth in capital values; this year the impact of additional rent controls and restrictions has reversed this pattern.

Changes in aggregate property value have a direct impact on the net worth of the Group.

We seek to mitigate and manage this risk by:

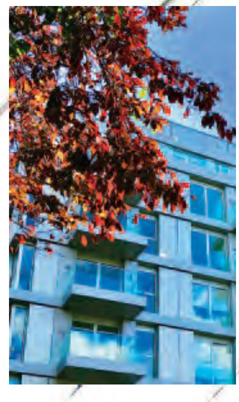
- Continuing to invest in the USA, principally in Florida and other locations outside New York
- Regular monitoring of the property market for opportunities, not just in London but throughout the UK
- Regular professional revaluations by our independent surveyors in the UK and USA

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, such as we presently face, opportunities for acquisition will be

Below left: *the recently developed Eden Parade, Beckenham, Kent.* ***Below right:*** *the recently developed Carlton Close, Esher, Surrey.* ***Above and opposite page bottom:*** *Wimbledon Close, Wimbledon, London SW20.* ***Opposite page top:*** *Trinity Place, Eastbourne, East Sussex.*

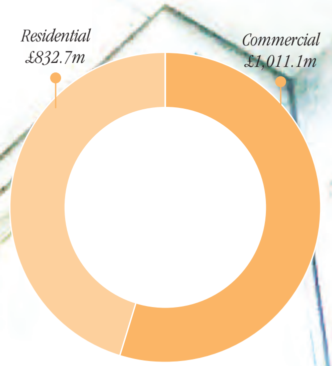
STRATEGIC REPORT *continued*



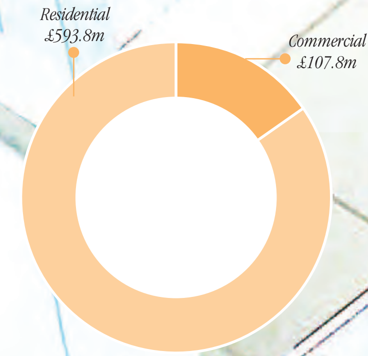
***This page:** Central Park, Brighton, East Sussex.*

Analysis by property type

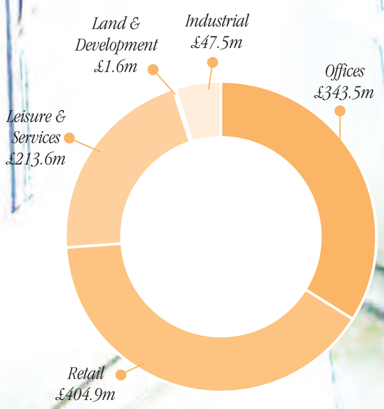
Property UK



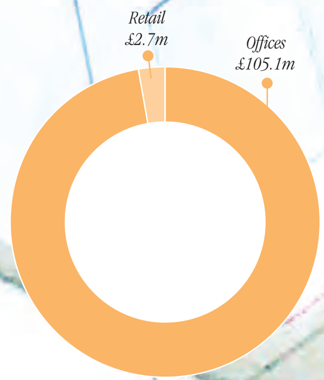
Property USA



Commercial Property UK

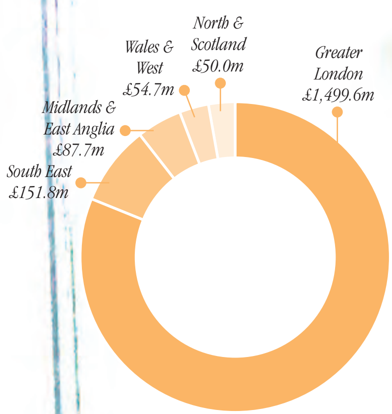


Commercial Property USA

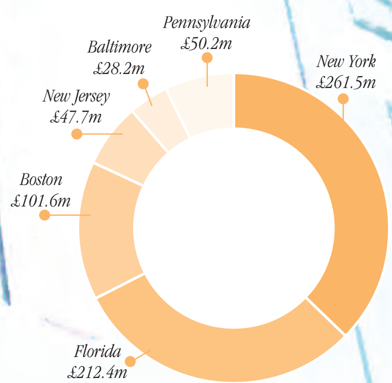


Analysis by location

UK Valuations



USA Valuations



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
- Seeking fixed price contracts with building contractors
- 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 establishment of a strong Group management team to support the executive directors
- The appointment of new directors from the next generation of the Freshwater family

Investment properties

A professional valuation of all of the Group's properties was carried out at 31 March 2020. The UK properties were valued by Colliers International Property Advisers UK LLP, Chartered Surveyors. In the USA, all properties were valued by Metropolitan Valuation Services, Inc., Certified General Real Estate Appraisers.

Above and left:
Southgate Lodge,
South Croydon,
Greater London.

STRATEGIC REPORT *continued*

The table below shows a summary of the valuation of our investment property at 31 March 2020:

	Valuation March 2020 £m	Valuation March 2019 £m
Commercial property		
UK	**1,011.1**	986.4
USA	**107.8**	103.0
Residential property		
UK	**832.7**	817.8
USA	**593.9**	647.4
Less lease incentives	**(21.2)**	(22.1)
Total	**2,524.3**	2,532.5

A more detailed analysis of the investment property portfolio is set out in Note 9 to the consolidated financial statements.

The changes shown above are attributable to the net loss arising on revaluation and movements resulting from purchases, capital expenditure, disposals and changes in currency rates of exchange. This is shown in the analysis below:

	2020 £m	2019 £m
Opening valuation	**2,532.5**	2,373.2
Gross up of head lease liability	**8.4**	–
Opening valuation (restated)	**2,540.9**	2,373.2
New acquisitions	**29.8**	77.5
Additions to existing properties	**18.1**	28.0
Disposals	**(4.7)**	(4.3)
	2,584.1	2,474.4
Revaluation (loss)/gain	**(90.5)**	83.9
Foreign exchange gain	**39.1**	45.2
Transfer to properties held for sale	**(8.5)**	(71.0)
Closing valuation	**2,524.3**	2,532.5

The overall valuation of our UK portfolio has remained flat with losses arising on retail and office property offset by a small number of special situation uplifts. Residential property values have not

Above, right and opposite page:
10 Temple Street Birmingham.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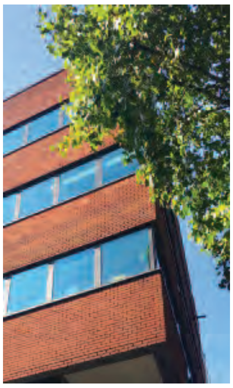


shown any significant movement. Following the change of operators of our care home properties in the previous year we have seen an improvement in performance and this has been reflected in a valuation uplift. We continue to obtain significant uplifts in value upon the completion of successful developments and rent reviews.

In the USA we have seen significant falls in the value of our regulated properties in New York partially offset by modest gains in Florida and elsewhere. The new regulation introduced in 2019 has had the effect of removing property developers from the market and returning the average capitalisation rate on buildings to a more normal 5.2% from a low position of 3.4%. This downward movement comes after a 10 year period of growth.

Acquisitions and Developments

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

Starlite Lodge (formerly part of Odeon Parade), Greenford, Middlesex

Work was completed on this project to create 39 flats on the site of an existing property. This includes 14 "affordable" units which are in course of being sold to a housing association. The remaining 25 flats have all been let on assured shorthold tenancies.

Piano Apartments (formerly 7-11 St John's Hill), London SW11

During the year we completed the bulk of the work on the conversion of this former office building into 35 flats .

Salusbury Road, London NW6

This mixed use building with office, retail and leisure space was acquired during the year at a cost of £17.3 million. Following refurbishment approximately 25% of the office space will be retained for company use and the remainder let to third parties. This acquisition will enable the combination of three area offices in a Covid-19 compliant manner under a new management structure.

Oxford Street, London W1

Preparatory work has continued throughout the year on the planning of our Oxford Street site. A revised plan which has been enlarged by the acquisition of an adjacent property in Wardour Street has been approved by the local authority.

USA

In the USA there were no new acquisitions, with efforts concentrated on refurbishment work on properties in the Bronx and the continued modernisation of properties acquired in recent years.

Above, left and opposite page: *164 Shaftesbury Avenue, London WC2.*

Strategic Report *continued*

Results for the year

The Group recorded a loss before taxation for the year ended 31 March 2020 of £33.2 million (2019 – profit of £137.8 million). The result includes a net valuation loss of £90.5 million arising on investment properties (2019 – gain of £83.9 million).

The table below shows the performance of the Group before and after valuation movements:

	2020 **£m**	2019 £m
Total rental and related income from investment property	**166.1**	156.2
Property operating expenses	**(91.1)**	(79.6)
Net rental and related income from investment property	**75.0**	76.6
Profit on disposals of investment property	**15.8**	12.2
Administrative expenses	**(14.3)**	(13.9)
Net operating profit before net valuation movements	**76.5**	74.9
Net valuation (losses)/gains on investment property	**(90.5)**	83.9
Net financing expense	**(19.2)**	(21.0)
(Loss)/profit before taxation	**(33.2)**	137.8

Overall we have seen an increase of £9.2 million in rental income, equivalent to 6.5% (2019 – 8.4%). The increase in the UK has been derived from the completion and letting of new developments, rent renewal negotiations and a significant improvement in our Care Home portfolio. Similarly in the USA new property acquisitions in the second half of last year have now contributed a full year's rent.

Service charge income increased slightly during the year to £14.5 million from £13.8 million in 2019 due principally to the timing of major works programmes.

Property operating expenses increased by 14.4% (2019 – 4.2%) with the Group incurring local authority charges on properties newly vacated to permit development or refurbishment, increased legal fees in collecting arrears and an increase in repair costs as the Group continued its programme of property refurbishment.

The profit on disposal is largely derived from the sale of the southern portion of our Middlesex Street site in Aldgate for the development of student accommodation. Profit also arises from the sale of lease extensions in the UK. On certain buildings where we own the freehold, long leaseholds on some flats were previously sold. When the long leaseholders extend the length of their lease a premium is paid; the Group has no control over when these extensions may occur.

Financing costs in 2019 included £6.4 million accrued interest in respect of the settlement of prior year tax liabilities which has not recurred in 2020. In the current year interest payable on mortgages and bank loans has increased by £3.9 million due to extra borrowings drawn in the current and second half of the prior year, mainly to fund property acquisitions.

This year's fair value movement on financial instruments was a loss of £1.4 million (2019 – £172,000 loss).

Above and opposite page bottom: *Queen's Mansions, Muswell Hill, London N10.* ***Opposite page top:*** *Upper Wimpole Street, London W1.*

As shown in Note 6 to the Financial Statements, the Group tax charge of £13.4 million (2019 – £17.9 million) has been impacted by the cancellation of the planned reduction in the UK corporation tax rate from 19% to 17% and by increases in certain USA state tax rates. The combined effect of these changes on our deferred tax balances has been an increase of £27.6 million. Adjusting for these items, the settlement of historic tax liabilities and prior year tax credits the effective tax rate in the UK was 15% and in the USA was 26% which is consistent with the statutory rates in each country.

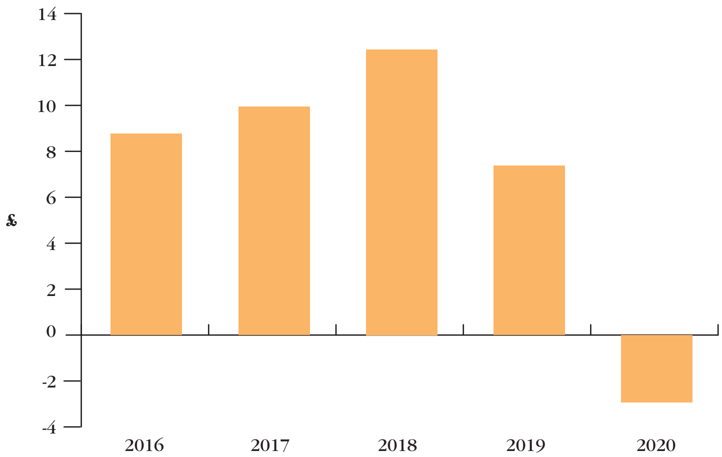

WESTMINSTER CITY COUNCIL
SIR
ARTHUR
CONAN DOYLE
AUTHOR
1859–1930
WORKED
AND WROTE HERE
IN 1891
ARTHUR CONAN DOYLE SOCIETY


ELSA

Strategic Report *continued*

Loss per share

The Group recorded a loss per share of £2.92 (2019 – earnings of £7.36) a decrease of £10.28 (2019 – £5.09 decrease).



The loss per share in the current year principally arose due to the revaluation losses on the Group's properties in New York which reduced earnings by £5.74 per share.

Underlying profit before tax

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 performance we also focus on "underlying profit before tax" which does not include these valuation items. Underlying profit before tax for the last two years is set out below:

	2020	2019
	£m	£m
(Loss)/profit before tax per the income statement	**(33.2)**	137.8
Property valuation deficit/(surplus)	**90.5**	(83.9)
Financial instruments fair value adjustments	**1.4**	0.2
Adjustment to measurement of disposal profits	**59.9**	–
Underlying profit before tax	**118.6**	54.1

This year's underlying profit before tax of £118.6 million is an increase of £64.5 million or 119% on the previous year (2019 – £54.1 million, representing a 1.4% decrease). This strong increase is largely attributable to the realised gain arising on the sale of the southern part of the Middlesex Street site.

Underlying profit before tax 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 before tax 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 17.8% (2019 – 15.6%) for the Group as a whole. In the UK the ratio is 7.8% (2019 – 6.4%) whilst in the USA, where each property is financed separately on a ring-fenced basis, it is 42.0% (2019 – 37.0%). The increase in the USA mainly arose due to the reduction in value of our investment properties in New York.

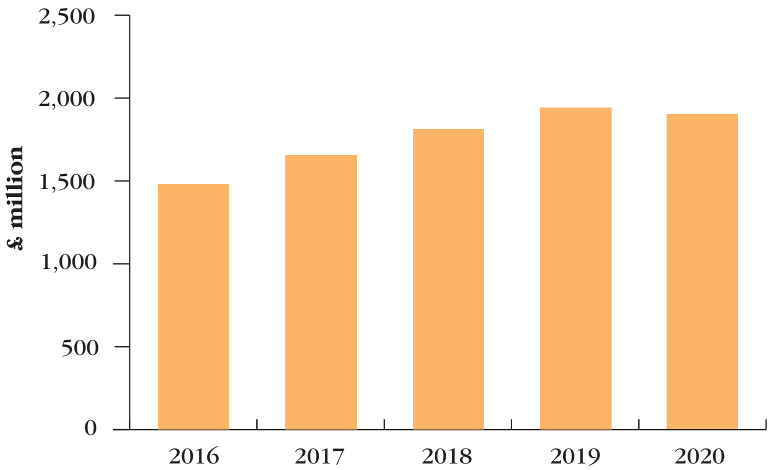
Above and opposite page: *Newton Aycliffe Town Centre, County Durham.*


FRIENDS + FAMILY + FUN

Strategic Report *continued*

Shareholders' funds

At 31 March 2020 shareholders' funds amounted to £1,896.0 million, a decrease of 2.3% on last year's figure of £1,940.4 million (2019 increase of 7.0%). Shareholders' funds in recent years have been as follows:



Outlook

The Chairman's Introduction on page 2 describes the economic and political factors which will affect the Group in the coming year.

In the UK we are facing a deepening economic recession in the coming months as the steps taken by Government to mitigate the impact of the Covid-19 pandemic are unwound. It is by no means clear that the behaviour of the public, so far as concerns the use of retail, leisure and office premises, will fully return to previous patterns.This may impact on the future demand for and valuation of such properties.

Until these issues have become clearer we will carefully conserve our financial resources so that we are well placed to take advantage of opportunities as they arise.

The Covid-19 pandemic seems to be at an earlier stage of development in the USA with increased numbers of infections reported daily. US GDP is forecast to contract over the course of 2020 and it is not clear as to the extent that this trend will continue into 2021.

It is the nature of programmes of development and enhancement that they tend to span more than one accounting period and may take some time to bring to fruition; we are comfortable taking a long term, low risk approach to growing net asset value. We will continue to explore development opportunities within our existing portfolio; the timing and speed with which these are pursued will be influenced by general economic and market conditions.

In the USA we continue to seek acquisition opportunities in favourable locations mainly outside New York and, whenever possible, to refinance existing properties at more advantageous rates. There is strong competition for worthwhile opportunities but we stick to our rigorous selection criteria and are prepared to wait for the right transaction.

Above and opposite page: *Park West, London W2.*

In the immediate future we are unlikely to experience the rate of growth in net asset value that we have enjoyed in recent years although a return to growth is anticipated in the longer term.


PARK WEST


54


ALDI


ALDI


Sainsbury's


Sainsbury's
Sainsbury's

STRATEGIC REPORT *continued*

Employees

The 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).

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 their 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
- Covid-19 secure workplaces and practices are established for all employees. This has involved enabling working from home where appropriate as well as deep cleaning of offices and the provision of sanitising materials. Working practices have been modified to maintain social distancing wherever possible.
- 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

To ensure that an awareness of the importance of this issue continues at the highest level within the Group, health and safety reviews are periodically presented at Board level.

Opposite page top: *54 Marsh Wall, Isle of Dogs, London;* ***middle:*** *Aldi Supermarket, Diss, Norfolk;* ***bottom:*** *Sainsbury's Supermarket, Watford, Herts.* ***Above and left:*** *Penhaligon House, Truro, Cornwall.*


CLARE

All Directors of the Company are male and no new recruitment to the Board is presently planned which would cause this to change. When the need for recruitment does arise equal consideration will be given to all candidates, regardless of gender, religion or ethnicity.

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, which this year amounted to £115,500 (2019 – £158,000)
- Dividends on donated shares following the donation some years ago to charities of shares representing 6.3% of the capital of the Company with dividend payments in the year of £1,083,131 (2019 – £1,052,477) being 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.

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.

When we undertake new developments or major schemes of refurbishment we strive to achieve the highest environmental and sustainability standards consistent with the nature of the building and the

Above, below and opposite page: *Clare Court, Bloomsbury, London WC1.*

STRATEGIC REPORT *continued*

scheme being undertaken. A programme was started during the year of installing solar panels on suitable buildings.

Section 172(1) statement

The Directors have acted in the way that they considered, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole and in doing so had regard to the matters set out in Section 172 (1) (a) to (f) of the Companies Act 2006.

The Board considers the Group's key stakeholders to be the Group's: lenders, shareholders, staff provided by management companies, suppliers and tenants. The Board impress the need for an open, fair, honest and respectful workplace culture on senior management who ensure that all who work for the Group are aligned to these values. This enables the Group to forge strong and mutually beneficial long term relationships with its key stakeholders, which is critical to the success of the business and its stated objective of the pursuit of long term, low risk growth in net asset value and rental income as explained on page 5. The executive directors personally meet with many of the Group's key stakeholders during the year and it is an important part of the role of senior management to meet with and foster business relationships with lenders, suppliers, tenants and other stakeholders. High standards of business conduct are demanded from all those who represent the Group whether they are members of the Board, staff provided by management companies or third party advisers, agents or other representatives.

Viability statement

In accordance with Provision 31 of the 2018 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 to 15 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 all of the Group's current facilities mature during or beyond March 2024. Discussions regarding the renewal or replacement of facilities 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 or no Brexit agreement and the possible economic and social consequences of the current Covid-19 pandemic. Testing included assuming quarterly rent cash collection for the following four quarters is the same as has been collected from June 2020 to August 2020 with administration and operating costs remaining the same in real terms. Headroom on loan covenants has 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
3 September 2020

Left and opposite page: *Windsor Court, Bayswater, London W2.*

DIRECTORS' REPORT

Change of company name

The Company changed its name from Daejan Holdings plc to Daejan Holdings Limited on 28 May 2020, following the scheme of arrangement and the subsequent delisting of its shares from the London Stock Exchange on 11 May 2020 and approved modifications to constitutional documents changing the company from a public limited company to a private limited company.

Strategic Report

The Company's Strategic Report for the year ended 31 March 2020 is set out on pages 5 to 31 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 loss for the year amounted to £46.6 million (2019 – profit of £120.0 million). An interim dividend of 35p per share was paid on 6 March 2020.

Directors

The Directors who served throughout the year and up to the date of this report, except as noted were:
Mr B S E Freshwater
Mr S I Freshwater
Mr S B Benaim (resigned 31 May 2020)
Mr D Davis
Mr A M Freshwater
Mr C B Freshwater
Mr R E Freshwater
Mr S Srulowitz (resigned 30 June 2020)

Brief biographies of the Directors are as follows:

Mr B S E Freshwater. Aged 72 – 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 S I Freshwater. Aged 70 – 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 D Davis. Aged 85 – 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 A M Freshwater. Aged 49 – 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 as a non-executive director in July 2010.

Mr C B Freshwater. Aged 48 – Was appointed to the Board as a non-executive Director in July 2017. He currently lectures at a London college. 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.

Mr R E Freshwater. Aged 50 – 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 as a non-executive director in July 2010.

Two other directors served throughout the year:

Mr S B Benaim. Aged 64 – Was appointed to the Board in January 2017 and resigned in May 2020. He was an independent non-executive director. He was formerly Global Head of Real Estate at accountancy firm BDO.

Mr S Srulowitz. Aged 68 – Was appointed to the Board in July 2017 and resigned in June 2020. He was an independent non-executive director. 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.

The rules governing the election and re-election of Directors are set out in the Corporate Governance Report on page 37. 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 direct 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 C B Freshwater and Mr R E Freshwater have a beneficial interest in a trust holding interests in shares in Highdorn Co. Limited.

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

Directors' Report *continued*

Share Capital and Substantial Directors' and other Shareholdings

The structure of the Company's share capital, including the rights and obligations attaching to the shares, is given in Note 14 to the financial statements.

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

		Daejan Holdings PLC Ordinary Shares	
		31 March 2020	31 March 2019
B S E Freshwater	(Notes 1, 2, 3 & 4)	340,033	340,033
S I Freshwater	(Notes 2, 3 & 4)	89,270	89,270
S B Benaim		–	–
D Davis	(Notes 2 & 3)	763	763
A M Freshwater	(Notes 2 & 3)	–	–
C B Freshwater	(Notes 2 & 3)	–	–
R E Freshwater	(Notes 2 & 3)	–	–
S Srulowitz		–	–

Notes:

1. All the holdings shown in the table above 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 (2019 – 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 C B Freshwater and Mr R E Freshwater have 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 2020 a total of 7,876,431 shares (2019 – 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 C B Freshwater and Mr R E Freshwater have 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 2020, 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 2020:

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

On 7 May 2020, the Scheme of Arrangement became effective and Dock Newco Limited, a wholly owned subsidiary of Centremanor Limited which is controlled by the Freshwater family, acquired 3,346,964 shares in the Company. Dock Newco Limited subsequently acquired a further 400 shares, taking its total holding to 3,347,364 (20.5% of the issued share capital). The Company is not aware of any other changes to any of the above interests from 31 March 2020 up to the date of signing this report.

Corporate Governance

This report combines by reference the Corporate Governance Report on pages 37 to 40.

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 six bank loan and mortgage facilities which contain change-of-control clauses. Five of these facilities in certain circumstances 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 facility would similarly constitute an event of default but no provision is made for the prior written consent of the lender. At 31 March 2020, these facilities represented £110.2 million (2019 – £111.3 million) of the loans and borrowings in the financial statements and undrawn facilities of £30.0 million (2019 – £45.0 million).

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 5 to 31, which also refers to the financial position of the Group, its cash flows, liquidity position and borrowing facilities. In addition, Note 17 to the financial statements includes the Group's objectives, policies and processes for managing its financial risks, together with details of its financial instruments, hedging activities and exposures to credit, liquidity and market risks.

The Group generated cash from operating activities of £58.4 million during the year (2019 – £61.5 million). Gearing, on the basis of gross debt to total assets, was 17.8% (2019 – 15.6%) and net debt (total loans and borrowings less cash and cash equivalents) increased slightly to £344.7 million (2019 – £334.9 million). The Group had undrawn committed facilities of £55.5 million at the balance sheet date (2019 – £85.0 million). Subsequent to the year end and following the Scheme of Arrangement, the Group borrowed an additional £225 million.

The Group has undertaken a detailed and robust assessment of its projected future financial position including assessing what the Board considers a plausible worst-case downside scenario which incorporates the expected potential impact on the Group of the Covid-19 pandemic. The Board considered the potential impact to UK property prices, demand for UK property and the associated impact on rents and yields. Particular attention was given to the potential impact of an unfavourable

DIRECTORS' REPORT *continued*

or no Brexit agreement and the possible economic and social consequences of the current Covid-19 pandemic.

The plausible worst-case downside scenario included assuming quarterly rent cash collected for the following four quarters is the same as has been collected for the quarter ending 30 June 2020 with administration and operating costs remaining the same in real terms. Development costs and dividends were included at the current expected level, although as discretionary costs the Board have the scope to delay or cancel these if necessary.

The Board is satisfied that even in the plausible worst-case scenario, the Group will have sufficient resources to be able to continue to operate and there are no breaches of any of its loan covenants.

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.

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

3 September 2020

Corporate Governance Report

Overview

The 2018 UK Corporate Governance Code ("the 2018 Code") was applicable to the Group for the period from 1 April 2019 to 11 May 2020. The Board uses the Corporate Governance Report to report on the application of the Principles and of its compliance with the Provisions contained in the 2018 Code.

The Board has long recognised the benefits of strong corporate governance and its link to enhanced business performance. Each year, the Board reviews the extent to which it is compliant with the Code and considers any changes which might be necessary in light of developments in the Code and in the context of the needs of the Group's business. The Provisions of the 2018 Code that we do not comply with and the reasons for these are set out in our compliance statement on pages 39 to 40.

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 an 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, its committees and individual directors 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. All directors are briefed by the Chairman of the views, and any changes to them, of the major shareholders.

During the year and up until the 31 May 2020 the Audit, Nominations and Remuneration Committees formally reported to the Board on matters discussed at, decisions made at and any recommended actions arising from, meetings of these sub-committees. From 1 June 2020, the principle of a unitary Board was readopted and the whole Board took responsibility for matters that were previously the responsibility of these sub-committees.

During the year there were four full formal board meetings each attended by all directors except one which A M Freshwater was unable to attend.

Directors and Directors' Independence

During the year the Board comprised 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 32 and 33. Mr A M Freshwater, Mr C B Freshwater and Mr R E 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.

Corporate Governance Report *continued*

Financial Reporting

The Board has ultimate responsibility for all aspects of the Group's financial reporting obligations and was assisted during the year by the Audit Committee in discharging that responsibility. 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 was updated by the Chairman of the Audit Committee of the impact of new and emerging accounting standards 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 are set out in Note 1(u) to the financial statements. As part of their review of the accounts, the Board also considers the valuation reports and discusses these with its valuers.

External auditor

KPMG LLP and its predecessor entities have been the Group's statutory auditor since the Group in its current form was created by reverse takeover in 1959. The Board and previously the Audit Committee keep under careful review the independence of the auditor and the quality of its services to the Group and is satisfied that KPMG LLP and Richard Kelly who has been the Senior Statutory Auditor since 2015 provide a high quality, objective and cost effective service, from the sound base of their understanding of the Group's business.

As the Company is no longer listed, it is not bound by the 2018 Code and so is no longer required to appoint an alternative auditor for the year commencing 1 April 2021. Nevertheless, in line with good corporate governance, the Board are actively considering tender options and expects to make a decision by no later than mid-2021.

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 was considered by the Audit Committee in detail and reviewed by the Board at regular intervals.

The Audit Committee and 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 auditor to the extent necessary to arrive at their audit opinion.

Monitoring and corrective action: The Board and the Audit Committee met 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 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.

Compliance Statement

The 2018 UK Corporate Governance Code ("the 2018 Code") became applicable to the Group from 1 April 2019 replacing the 2016 Corporate Governance Code. The Board considers the Company has complied throughout the year ended 31 March 2020 with all the provisions of the 2018 Code except as set out below:

Mr B S E Freshwater performs the role of Chairman and Chief Executive. The Board recognises that this is not compliant with Provision 9 of the Code which requires these two roles not to be exercised by the same person, but given the nature, strategy and ownership structure of the Company the Board remains of the view that this is in the best interest of shareholders as a whole. Mr B S E Freshwater was not considered independent when he was appointed Chairman in 1980, as also required by Provision 9 of the 2018 Code and due to his length of service exceeding nine years the Company is not compliant with Provision 19.

The Board does not consider an external review of the Board every three years, as required by Provision 21 would be of much value and so has not commissioned a review. The Nominations Committee considered the composition of the Board during the year and concluded the make-up of the Board remained appropriate; the directors have substantial property experience and knowledge and are representative of the shareholder base. The Company further recognises that it is not

Corporate Governance Report *continued*

compliant with Provision 13 as the whole Board has responsibility for scrutinising the performance of management and executive directors.

The Company is not compliant with Provision 12 which requires Mr D Davis who is the senior independent director to be independent or with Provision 11 which requires at least half of the Board, excluding the Chairman, to be independent non-executive directors. Similarly, as Mr S Benaim and Mr S Srulowitz were the only two independent directors during the year and the subsequent period during which the 2018 Code applied to the Company, the Company was not compliant with Provision 24 which requires the three members of the Audit Committee to be independent or with Provision 32 which requires the three members of the Remuneration Committee to be independent. The Remuneration Committee does not monitor the remuneration of senior management which resulted in the Company not being compliant with Provision 33.

The Board is satisfied that non-compliance with the Provisions described above do not jeopardise the interests of the Company or its principal stakeholders and that the benefits of the current set-up enhance business performance and remain appropriate for the foreseeable future.

Audit Committee Report

Period of Operation

The Audit Committee operated throughout the year and up until 31 May 2020. Following the Scheme of Arrangement and the delisting of the Company's shares from the London Stock Exchange on 11 May 2020, the provisions of the 2018 UK Corporate Governance Code no longer applied to the Company and there is now no requirement to have an Audit Committee. Instead, from 1 June 2020, the responsibilities of the Audit Committee have reverted to the Board. In light of the new ownership structure of the Company, the Board considers it vital that the principle of a unitary Board of Directors is not undermined by reserving areas of decision-making solely for non-executive directors or sub-committees.

Primary role and key responsibilities

The Audit Committee operated within its written terms of reference which detail its duties and responsibilities. The primary role of the Committee was to assist the Board by reviewing and monitoring the integrity of the Group's financial reporting, the Group's internal controls and risk management framework, the arrangements for whistleblowing and the external audit process.

Membership, meetings and attendance

The members of the Audit Committee during the year and up to 31 May 2020, together with their attendance at meetings held during the year, were as follows:

Director name	**Directorship**	**Member since**	**Attendance**
Mr S B Benaim – Chairman	Non-executive	November 2017	4 of 4
Mr D Davis	Non-executive	November 2017	3 of 4
Mr S Srulowitz	Non-executive	November 2017	4 of 4

Mr Benaim is a Chartered Accountant and was formerly a partner in, and Global Head of Real Estate at, the accountancy firm BDO. Mr Davis is a Chartered Accountant and was formerly a partner in the accountancy firm Cohen Arnold. Mr Srulowitz is a practising lawyer in the USA, specialising in property matters. Pursuant to Provision 24 of the 2018 UK Corporate Governance Code ("the 2018 Code"), the Board considers Mr Benaim to have significant, recent and relevant financial experience and additionally that each member of the Audit Committee possesses relevant sectoral competence and appropriate levels of independence and experience. As noted on page 37, in view of his length of service, Mr Davis is not technically independent and therefore whilst the composition of the Audit Committee was consistent with the law which requires the majority of members to be independent, it was not strictly compliant with the 2018 Code which requires all members to be independent.

Main activities during the year

The main activities of the Committee during the year included the planning, monitoring, reviewing and approval of:

Financial reporting

The Committee undertook a detailed review of the draft 2019 full year and 2020 half year announcements and the 2019 Annual Report and Accounts which the Committee concluded when taken as a whole, presented a fair, balanced and understandable assessment of the Group's position and prospects at that time. This included a thorough review of a report on their audit from the external auditors.

The Committee considered the areas in which significant judgements or a high degree of estimation are applied by the Group's management, including in relation to property valuations and the current tax liability.

AUDIT COMMITTEE REPORT *continued*

The Committee reviewed the timing and impact of adoption of new accounting standards, in particular IFRS 16 (*Leases*).

Fraud reporting and whistleblowing

The Committee considered the current arrangements for individuals to raise concerns about potential wrongdoing in financial reporting or other matters and were satisfied that they remain appropriate.

Risk management and internal controls

The Group's register of risks (including emerging risks) and the specific controls in place designed to mitigate them, together with the broader internal control framework were reviewed in detail. As part of their robust assessment, the Committee undertook an extensive evaluation of the probable impact on the Group caused by the uncertainty surrounding the timing and nature of the UK's departure from the European Union. Management were also challenged by the Committee on the appropriateness and completeness of both the register and the internal controls framework.

Particular attention was paid to the value of investment properties and the corporate tax creditor and the risk that either of these amounts might be materially misstated. The Committee considered relevant professional advice received by the Group. The Committee were satisfied that the carrying values of both investment properties and the corporate tax creditor shown in the financial statements are appropriate.

Further details of the principal risks faced by the Group are included in the Strategic Report on pages 6 to 15. The key elements of the Group's internal control framework are included in the Corporate Governance report on page 39.

External auditor

The Committee reviewed the independence and effectiveness of the external auditor including by meeting with them, both with and without management present, by scrutinising their external audit plan and by considering observations from the Group's Finance team. The Audit Committee was satisfied with their review.

Further details of the Group's policies towards and relationship with the external auditor are included on page 38.

Nominations Committee Report

Period of Operation

The Nominations Committee operated throughout the year and up until 31 May 2020. Following the Scheme of Arrangement and the delisting of the Company's shares from the London Stock Exchange on 11 May 2020, the provisions of the 2018 UK Corporate Governance Code no longer applied to the Company and there is now no requirement to have a Nominations Committee. Instead, from 1 June 2020, the responsibilities of the Nominations Committee have reverted to the Board. In light of the new ownership structure of the Company, the Board considers it vital that the principle of a unitary Board of Directors is not undermined by reserving areas of decision-making solely for non-executive directors or sub-committees.

Primary role and key responsibilities

The Nominations Committee operated within its written terms of reference which detail its duties and responsibilities. The primary role of the Committee was to develop and maintain a formal procedure for making recommendations on Board appointments.

The Board believe that appointments to the Board should be made on the basis of broad and balanced criteria which are considered to be relevant to the good and proper management of the Group. The Board do not believe in setting targets or quotas for gender or other diversity measures but equally do not set any restrictions on appointments to the Board based on religion, ethnicity or any other grounds.

Membership, meetings and attendance

The members of the Nominations Committee during the year and up to 31 May 2020, together with their attendance at meetings held during the year were as follows:

Director name	Directorship	Member since	Attendance
Mr B S E Freshwater – Chairman	Executive	November 2017	1 of 1
Mr S B Benaim	Non-executive	November 2017	1 of 1
Mr S Srulowitz	Non-executive	November 2017	1 of 1

Main activities during the year

The Committee considered the composition of the Board and concluded that the directors have the requisite skills, knowledge and experience to deliver the Group's strategy and deal with changes in the business environment. The Committee concluded that the size of the Board, the balance between executive and non-executive directors and the balance between independent and non-independent directors remains appropriate. No new appointments were made to the Board during the year or during the subsequent period to the date of approval of this report.

REMUNERATION COMMITTEE REPORT

Period of Operation

The Remuneration Committee operated throughout the year and up until 31 May 2020. Following the Scheme of Arrangement and the delisting of the Company's shares from the London Stock Exchange on 11 May 2020, the provisions of the 2018 UK Corporate Governance Code no longer applied to the Company and there is now no requirement to have a Remuneration Committee. Instead, from 1 June 2020, the responsibilities of the Remuneration Committee have reverted to the Board with Mr D Davis, who was Chairman of the Committee, having responsibility for recommending executive directors' remuneration. In light of the new ownership structure of the Company, the Board considers it vital that the principle of a unitary Board of Directors is not undermined by reserving areas of decision-making solely for non-executive directors or sub-committees.

Primary role and key responsibilities

The primary role of the Remuneration Committee was to determine an appropriate remuneration package for executive directors.

Membership, meetings and attendance

The members of the Remuneration Committee during the year and up to 31 May 2020, together with their attendance at meetings held during the year, were as follows:

Director name	Directorship	Member since	Attendance
Mr D Davis – Chairman	Non-executive	November 2017	1 of 1
Mr S B Benaim	Non-executive	November 2017	1 of 1
Mr S Srulowitz	Non-executive	November 2017	1 of 1

Main activities during the year

The main activities of the Committee during the year included:

Appropriateness of remuneration policy	The Committee considered the Company's remuneration strategy and policy described below to ensure it remains appropriate. The Committee determined that no changes should be made to the remuneration policy.
Remuneration benchmarking	The Committee reviewed the remuneration paid by selected other companies of comparable size and complexity operating within the property sector to ensure that the recommended increases in remuneration are sufficient to ensure the total remuneration package remains competitive. Further details are provided below and on the following pages.

Directors' Remuneration Policy

Set out below and on pages 45 to 47 is the remuneration strategy and policy together with other relevant information about the terms and conditions applicable to executive Directors of the Group:

1. Overview

The 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 directly aligned their interests with other shareholders.

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.

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 of executive Directors

No new appointments of executive Directors have been made for a number of years but if an appointment were 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

Remuneration Committee Report *continued*

2010. Mr S B Benaim and Mr S Srulowitz were appointed in 2017 and resigned on 31 May 2020 and 30 June 2020 respectively. Mr C B Freshwater was also appointed in 2017. They are all remunerated by a fixed Director's fee. Mr S B Benaim received an additional fee as Chairman of the Audit Committee.

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

2020	**Salary £**	**Benefits £**	**Performance pay £**	**Long term performance pay £**	**Pension contributions £**	**Total £**
Mr B S E Freshwater	**1,300,000**	**–**	**–**	**–**	**–**	**1,300,000**
Mr S I Freshwater	**1,300,000**	**–**	**–**	**–**	**–**	**1,300,000**
Mr S B Benaim	**35,000**	**–**	**–**	**–**	**–**	**35,000**
Mr D Davis	**20,000**	**–**	**–**	**–**	**–**	**20,000**
Mr A M Freshwater	**20,000**	**–**	**–**	**–**	**–**	**20,000**
Mr C B Freshwater	**20,000**	**–**	**–**	**–**	**–**	**20,000**
Mr R E Freshwater	**20,000**	**–**	**–**	**–**	**–**	**20,000**
Mr S Srulowitz	**20,000**	**–**	**–**	**–**	**–**	**20,000**
	2,735,000	**–**	**–**	**–**	**–**	**2,735,000**

Comparative table

2019	**Salary £**	**Benefits £**	**Performance pay £**	**Long term performance pay £**	**Pension contributions £**	**Total £**
Mr B S E Freshwater	1,250,000	–	–	–	–	1,250,000
Mr S I Freshwater	1,250,000	–	–	–	–	1,250,000
Mr S B Benaim	25,000	–	–	–	–	25,000
Mr D Davis	20,000	–	–	–	–	20,000
Mr A M Freshwater	20,000	–	–	–	–	20,000
Mr C B Freshwater	20,000	–	–	–	–	20,000
Mr R E Freshwater	20,000	–	–	–	–	20,000
Mr S Srulowitz	20,000	–	–	–	–	20,000
	2,625,000	–	–	–	–	2,625,000

Changes in the year
Mr D Davis is the senior non-executive Director and has responsibility for recommending executive Directors' remuneration which is subsequently approved by the full Board.

Mr B S E Freshwater and Mr S I Freshwater each received an increase in basic salary of £50,000 per annum during the year (2019 – £50,000), equivalent to 4% (2019 – 4.2%). The increases in 2019 was agreed at a meeting of the Remuneration Committee and the current year increase was agreed by the Board following a recommendation from Mr D Davis.

The total staff costs borne by the Group under its arrangements with its management companies in the UK decreased by 0.3% (2019 – increase of 3.1%) with the cost of annual salary increases being more than offset by a reduction in average staff numbers and lower pension contributions. 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 each receive a base fee of £20,000 per annum which is reviewed periodically, pro-rated for his or her period of service in any one year. This entitlement has not changed in recent years.

The Chairman of the Audit Committee received an additional fee, pro-rated for his or her period of service in any one year. This additional fee was increased from £5,000 to £15,000, with effect from 1 April 2019.

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
2020	7,516	27.3	2,735	9.9	17,273	62.8
2019	7,538	28.0	2,625	9.7	16,784	62.3

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 page 34.

Approval of Directors' Remuneration Report

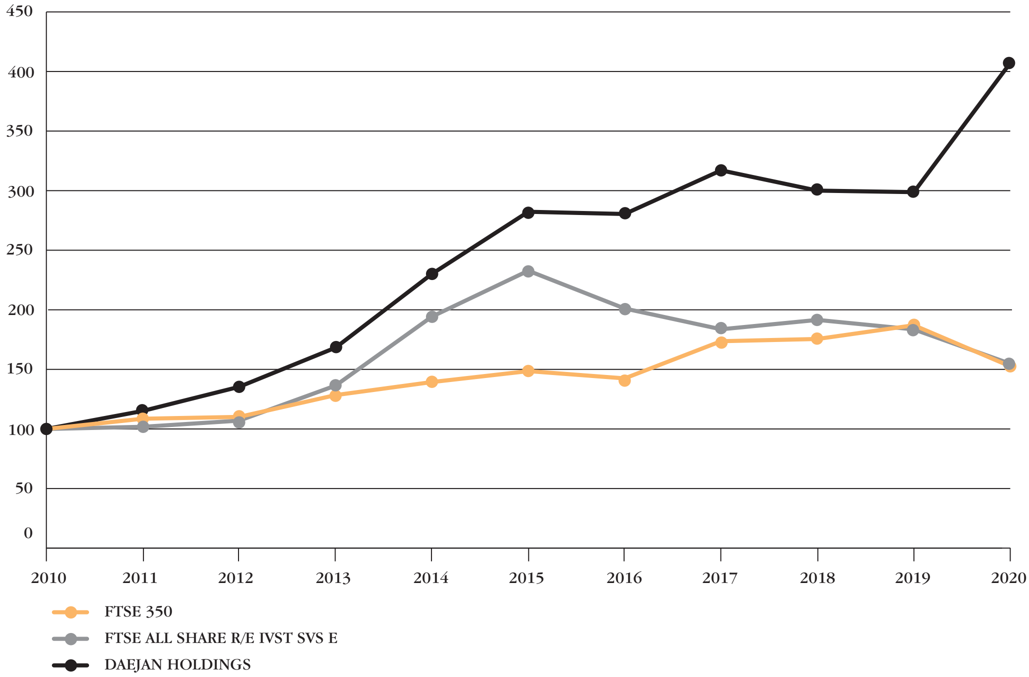
At the last Annual General Meeting of the Company, votes cast by shareholders on the resolution to approve the Directors' Remuneration Report were as follows:

For	13,254,988	93.7%
Against	895,621	6.3%

Remuneration Committee Report *continued*

Total shareholder return

The following graph shows the total shareholder returns for the Company (based on an investment of £100 at 1 April 2010) 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 was a constituent of both these indices until its delisting on 11 May 2020 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	**£**
2011	740,000
2012	770,000
2013	820,000
2014	870,000
2015	1,000,000
2016	1,100,000
2017	1,150,000
2018	1,200,000
2019	1,250,000
2020	1,300,000

By order of the Board

D Davis

3 September 2020

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 have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements in accordance with the 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, relevant, reliable and prudent;
- for the Group financial statements state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- 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;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

The directors have decided to prepare voluntarily a Corporate Governance Statement as if the company were required to comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, a Directors' Report and a Directors' Remuneration Report that complies 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.

DIRECTORS' RESPONSIBILITIES STATEMENT *continued*

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our 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; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, 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.

B S E Freshwater
Chairman

3 September 2020

Independent Auditor's Report

To the members of Daejan Holdings Plc

1. Our opinion is unmodified

We have audited the financial statements of Daejan Holdings Ltd ("the Company") for the year ended 31 March 2020, which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Cash Flows, and the related notes, including the accounting policies in note 1.

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 2020 and of the Group's loss 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 (IFRSs as adopted by the EU);
- 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

2. Emphasis of matter – uncertain valuation of UK investment property

We draw attention to note 9 to the financial statements which states that the independent external valuations of the UK investment properties at the reporting date are reported on the basis of 'material valuation uncertainty' due to the potential economic effect of the coronavirus pandemic. Consequently, more subjectivity is associated with the valuation of UK investment property than would normally be the case. Our opinion is not modified in respect of this matter.

We identified the valuation of investment property as a key audit matter (see section 3 of this report).

3. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

Independent Auditor's Report *continued*

	The Risk	Our Response
Valuation of investment property (Group) (Group: £2,524.3 million; 2019: £2,532.5 million) *Refer to page 66 (Significant accounting policies) and pages 74-78 (Notes to the consolidated financial statements).*	**Subjective valuation** Investment properties represent 91.6% (2019: 91.5%) 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 valuation methodology and inputs which depend on the individual nature of each property, its location and expected future net rental values, market yields and comparable market transactions. Included in the independent external valuation of the UK investment properties as at 31 March 2020 is a "material valuation uncertainty" due to Novel Coronavirus (COVID-19) as per VPGA 10 of the RICS Valuation - Global Standards. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of investment properties has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.	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. With the assistance of our own property valuation specialists, we critically assessed whether 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 whether the methodologies adopted were appropriate by reference to acceptable valuation practice. **Benchmarking assumptions:** With the assistance of our own property valuation specialists we selected a sample of properties using various criteria including analysis of capital movements by comparison to industry indices or published market trends. We held discussions with the Group's external property valuers to critically assess movements in property values for the sample selected. We evaluated and challenged as appropriate the key assumptions upon which these valuations were based, including forecast rents, yields, discount rates, vacant periods and irrecoverable expenditure and comparable transactions by making a comparison to our own understanding of the market and to industry benchmarks. **Assessing transparency:** we considered the adequacy of the Group's disclosures on the valuation techniques and significant unobservable inputs employed in the valuation.

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Going concern

Refer to pages 30-31 (Going concern and Viability Statement) and page 64 (Significant accounting policies).

Disclosure quality

The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and parent Company.

That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.

Given the significant impact of the coronavirus pandemic, the risks most likely to adversely affect the Company's available financial resources over this period were:

- tenant default and significant reduction in rent collections impacting cash flow and earnings;
- availability of borrowings and compliance with loan covenants; and
- significant reduction in property values.

The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.

Our procedures included:

Funding assessment: We analysed the Group's financing terms and considering directors' forecasts and assumptions for ongoing covenant compliance and available headroom;

Historical comparisons: We assessed the reasonableness of the directors' cash flow projections by considering the historical accuracy of the previous forecasts;

Sensitivity analysis: We considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of severe but adverse effects that could arise from these risks individually and collectively such as increase in interest rates of borrowings, decrease in occupancy rates and fall in real estate prices and a gradual recovery in relation to these factors following lockdown as a result of the coronavirus pandemic;

COVID-19 knowledge: Considering the Director's assessment of COVID-19 related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. This included assessing the possibility of tenant default and the impact on rent collections for cash flow purposes, the ability of the Group to comply with the loan covenants and the significant reduction in property values;

Assessing transparency: We considered the completeness and accuracy of the matters covered in the Annual Report and assessed that they reflect the position of the Group's financing and the risks associated with the Group's ability to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT *continued*

The impact of uncertainties due to the UK exiting the European Union on our audit

Refer to page 2 (the Chairman's Introduction), page 6 (Viability Statement) and page 30 (Principal Risks and Uncertainties).

Unprecedented levels of uncertainty

All audits assess and challenge the reasonableness of estimates, in particular as described in the key audit matters on the valuation of investment property, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the Group's future prospects and performance.

In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement 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.

Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.

We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:

Our Brexit knowledge: We considered the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks.

Sensitivity analysis: When addressing valuation of investment property, disclosures in relation to going concern and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty.

Assessing transparency: As well as assessing individual disclosures as part of our procedures on valuation of investment property and disclosures in relation to going concern we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.

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Recoverability of investment in subsidiary undertakings (Company) (Parent: £1,243.6 million; 2019: £1,279.9 million) *Refer to page 94 (Accounting policies).*	**Low risk, high value** The carrying amount of the parent Company's investments in subsidiaries (including both equity investments and loans to subsidiary undertakings) represents 96.2% (2019: 99.7%) of the Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.	Our procedures included: **Tests of detail:** Comparing the carrying amount of 100% of investments with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making or whether they have a positive net asset value and therefore coverage of the debt owed. **Assessing subsidiary audits:** Assessing the work performed by the Group or subsidiary audit team on all of those subsidiaries and considering the results of that work, on those subsidiaries' profits and net assets. **Comparing valuations:** For the investments where the carrying amount exceeded the net asset value, comparing the carrying amount of the investment with the expected value of the business based on a suitable multiple of the subsidiaries' profit.

INDEPENDENT AUDITOR'S REPORT *continued*

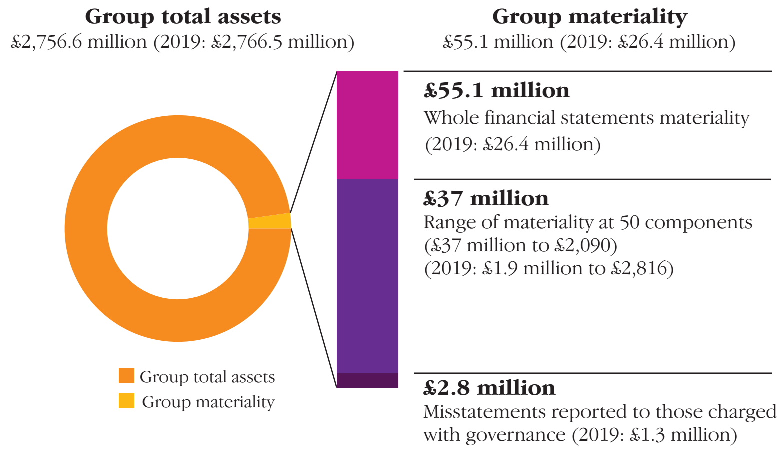
4. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £55.1 million (2019: £26.4 million), determined with reference to a benchmark of total assets, of which it represents 2.0% (2019: 1.0%).

Materiality for the parent Company financial statements as a whole was set at £27.0 million (2019: £13.5 million), determined with reference to a benchmark of Company gross assets, of which it represents 2.0% (2019: 1.0%).

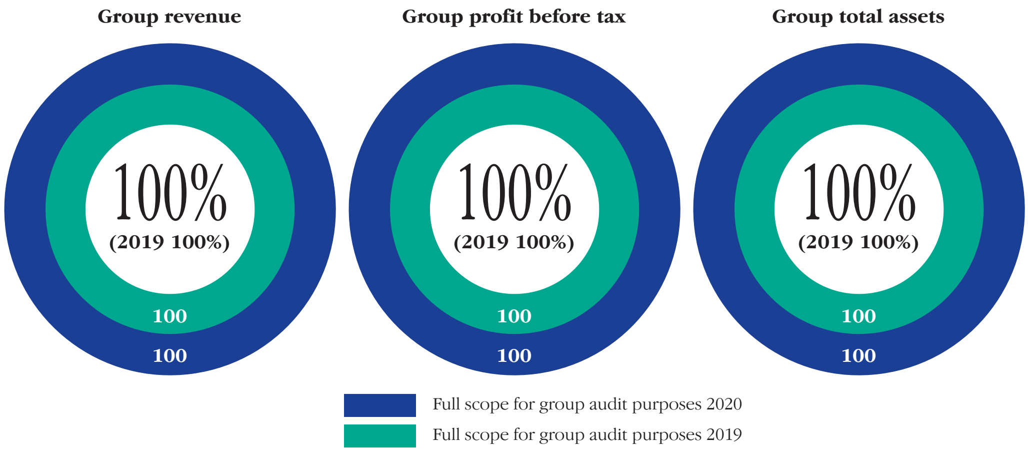
We agreed to report to those charged with governance any corrected or uncorrected identified misstatements exceeding £2.8 million (Group) (2019: £1.3 million) or £1.4 million (parent Company) (2019: £0.7 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

As the Company delisted from the London Stock Exchange on 11 May 2020, and all public shares were purchased by the exisitng majority shareholder, the materiality levels set were revised from those set at the planning stage (from representing 1.0% of total assets, as in 2019) to reflect the concentration in ownership.



Of the group's 50 (2019: 50) reporting components, we subjected 50 (2019: 50) to full scope audits for group purposes.

The components within the scope of our work accounted for the percentages illustrated below.



KPMG

The Group team approved the component materialities, which ranged from £2,090 to £37m (2019: £2,816 to £1.9m), having regard to the mix of size and risk profile of the Group across the components.

The work on 1 of the 50 components (2019: 1 of the 50 components) was performed by a component auditor and the rest, including the audit of the parent Company, was performed by the Group team.

The Group 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 Group team obtained an understanding of the component audited by the component auditor to assess the audit risk and strategy. On completion of the component auditor's procedures, 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. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see section 3 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Independent Auditor's Report *continued*

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

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

- the directors' confirmation within the Viability Statement that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks and Uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements 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 section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in these respects.

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

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.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 49, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8. The purpose of our audit work and to whom we owe our responsibilities

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

Richard Kelly (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London, E14 5GL

3 September 2020

Consolidated Income Statement

for the year ended 31 March 2020	*Notes*	**Year ended 31 March 2020 £000**	Year ended 31 March 2019 £000
Gross rental income		**151,641**	142,364
Service charge income		**14,502**	13,797
Total rental and related income from investment property	*2*	**166,143**	156,161
Property operating expenses	*3*	**(91,094)**	(79,580)
Net rental and related income from investment property		**75,049**	76,581
Profit on disposal of investment property		**15,775**	12,203
Net valuation (losses)/gains on investment property	*9*	**(90,494)**	83,928
Administrative expenses	*4*	**(14,254)**	(13,904)
Net operating (loss)/profit before net financing costs		**(13,924)**	158,808
Fair value losses on derivative financial instruments		**(1,335)**	(167)
Fair value losses on current investments		**(21)**	(5)
Other financial income	*5*	**1,929**	1,048
Financial expenses	*5*	**(19,800)**	(21,852)
Net financing expense		**(19,227)**	(20,976)
(Loss)/profit before taxation		**(33,151)**	137,832
Income tax	*6*	**(13,441)**	(17,853)
(Loss)/profit for the year		**(46,592)**	119,979
Attributable to:			
Equity holders of the parent		**(47,626)**	119,893
Non-controlling interest		**1,034**	86
(Loss)/profit for the year		**(46,592)**	119,979
Basic and diluted (loss)/earnings per share	*7*	**£(2.92)**	£7.36

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2020	**Year ended 31 March 2020 £000**	Year ended 31 March 2019 £000
(Loss)/profit for the year	**(46,592)**	119,979
Foreign exchange translation differences	**20,568**	24,350
Total comprehensive (loss)/income for the year	**(26,024)**	144,329
Attributable to:		
Equity holders of the parent	**(27,118)**	144,236
Non-controlling interest	**1,094**	93
Total comprehensive (loss)/income for the year	**(26,024)**	144,329

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2020	Issued share capital £000	Share premium account £000	Translation reserve £000	Retained earnings £000	Equity shareholders' funds £000	Non-controlling interest £000	Total equity £000
Balance at 1 April 2018	4,074	555	31,384	1,776,889	1,812,902	91	1,812,993
Profit for the year	–	–	–	119,893	119,893	86	119,979
Foreign exchange translation differences	–	–	24,343	–	24,343	7	24,350
Distributions to non-controlling interest	–	–	–	–	–	(17)	(17)
Dividends to equity shareholders	–	–	–	(16,784)	(16,784)	–	(16,784)
Balance at 1 April 2019	4,074	555	55,727	1,879,998	1,940,354	167	1,940,521
(Loss)/profit for the year	–	–	–	(47,626)	(47,626)	1,034	(46,592)
Foreign exchange translation differences	–	–	20,508	–	20,508	60	20,568
Distributions to non-controlling interests	–	–	–	–	–	(56)	(56)
Dividends to Equity Shareholders	–	–	–	(17,273)	(17,273)	–	(17,273)
Balance at 31 March 2020	**4,074**	**555**	**76,235**	**1,815,099**	**1,895,963**	**1,205**	**1,897,168**

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

Consolidated Balance Sheet

as at 31 March 2020	*Notes*	**31 March 2020 £000**	31 March 2019 £000
Assets			
Investment property	*9*	**2,524,260**	2,532,518
Deferred tax assets	*10*	**506**	226
Total non-current assets		**2,524,766**	2,532,744
Trade and other receivables	*11*	**76,976**	66,716
Current investments		**130**	151
Cash and cash equivalents	*12*	**146,275**	95,895
Properties held for sale	*13*	**8,450**	70,997
Total current assets		**231,831**	233,759
Total assets		**2,756,597**	2,766,503
Equity			
Share capital	*14*	**4,074**	4,074
Share premium		**555**	555
Translation reserve		**76,235**	55,727
Retained earnings		**1,815,099**	1,879,998
Total equity attributable to equity holders of the parent		**1,895,963**	1,940,354
Non-controlling interest		**1,205**	167
Total equity		**1,897,168**	1,940,521
Liabilities			
Loans and borrowings	*16*	**469,188**	418,069
Deferred tax liabilities	*10*	**297,642**	293,431
Lease obligations payable		**8,328**	-
Total non-current liabilities		**775,158**	711,500
Loans and borrowings	*16*	**21,739**	12,685
Trade and other payables	*15*	**61,332**	58,677
Current taxation		**1,200**	43,120
Total current liabilities		**84,271**	114,482
Total liabilities		**859,429**	825,982
Total equity and liabilities		**2,756,597**	2,766,503

The financial statements on pages 60 to 91 were approved by the Board of Directors on 3 September 2020 and were signed on its behalf by:

B S E Freshwater Director

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 March 2020	£000	Year ended 31 March 2020 £000	£000	Year ended 31 March 2019 £000
Cash flows from operating activities				
Cash generated from operations (Note 21)	**58,435**		61,506	
Interest received	**1,929**		1,048	
Interest paid	**(26,024)**		(15,486)	
Tax paid	**(58,563)**		(8,855)	
Net cash (used in)/generated from operating activities		**(24,223)**		38,213
Cash flows from investing activities				
Acquisition and development of investment property	**(47,636)**		(108,463)	
Proceeds from sale of investment property	**91,899**		16,098	
Net cash generated from/(absorbed by) investing activities		**44,263**		(92,365)
Cash flows from financing activities				
Repayment of bank loans	**(2,135)**		(59,603)	
New bank loans	**30,000**		60,000	
Repayment of mortgages	**(36,150)**		(40,063)	
New mortgages	**52,469**		102,814	
Dividends paid to equity holders of the parent	**(17,273)**		(16,784)	
Payments to non-controlling interest	**(56)**		(17)	
Net cash generated from financing activities		**26,855**		46,347
Net increase/(decrease) in cash and cash equivalents		**46,895**		(7,805)
Cash and cash equivalents brought forward		**95,895**		98,752
Effect of exchange rate fluctuations on cash held		**3,485**		4,948
Cash and cash equivalents *(Note 12)*		**146,275**		95,895

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. *Significant Accounting Policies*

Daejan Holdings Limited (formerly Daejan Holdings PLC) is a company domiciled in the United Kingdom. The consolidated financial statements of the Company for the year ended 31 March 2020 comprise the Company and its subsidiaries (together referred to as "the Group").

The consolidated financial statements were authorised for issuance on 3 September 2020.

(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 92 to 96.

(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, current asset investments and properties held for sale.

The Group has undertaken a detailed and robust assessment of its projected future financial position including assessing what the Board considers a plausible worst-case downside scenario which incorporates the expected potential impact on the Group of the Covid-19 pandemic. The Board considered the potential impact to UK property prices, demand for UK property and the associated impact on rents and yields. Particular attention was given to the potential impact of an unfavourable or no Brexit agreement and the possible economic and social consequences of the current Covid-19 pandemic.

The plausible worst-case downside scenario included assuming quarterly rent cash collected for the following four quarters is the same as has been collected from June 2020 to August 2020 with administration and operating costs remaining the same in real terms. Development costs and dividends were included at the current expected level, although as discretionary costs the Board have the scope to delay or cancel these if necessary.

The Board is satisfied that even in the plausible worst-case scenario, the Group will have sufficient resources to be able to continue to operate and there are no breaches of any of its loan covenants.

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.

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) on page 71.

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 Group has applied the following new accounting standards and interpretations during the year:

- IFRS 16 *Leases*
- IFRIC 23 *Uncertainty over income tax treatments*
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation*
- Annual Improvements to IFRS Standards 2015-2017 Cycle

The Group adopted IFRS 16 Leases on 1 April 2019 using the modified retrospective approach. There have been no changes to the accounting policies where the Group is a lessor. Where the Group is a lessee, a right of use asset and lease liability are recognised. The lease liability and corresponding right of use asset, which is included in investment property, of £8,401,000 recognised at 1 April 2019 represents the present value of the remaining minimum lease payments. Prior year figures presented under IAS 17 Leases have not been restated. Further detail and analysis of the amount recognised is shown in Note 9 on page 74.

The adoption of the other new accounting standards and interpretations did not have an impact on the consolidated financial statements.

The following standards, amendments to standards and interpretations relevant to the Group have been issued but are not yet effective. None of these have been early-adopted by the Group and, based on the Group's ongoing assessment of each of them, none are expected to have a material impact on the Group's financial statements:

- Amendments to IAS 1 and IAS 8 *Definition of Material*
- Amendments to IAS 1 *Classification of liabilities as current or non-current*
- Amendments to IFRS 3 *Definition of a Business*
- Amendments to References to the Conceptual Framework in IFRS Standards

The adoption of the above Amendments are not expected to lead to any changes to the Group's accounting policies or have any other material impact on the financial position or performance of the Group.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

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*	
	2020	*2019*	***2020***	*2019*
US Dollar	**1.24**	1.30	**1.27**	1.31

(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 and properties held for sale

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 apart from one property which is classified as a current asset held for sale. Investment property is initially recognised at cost and subsequently recorded at fair value. Properties held for sale are 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.

The Group's interest in some of its investment properties are in the form of a long lease as opposed to freehold ownership. Following the adoption of IFRS 16 Leases, the Group recognises as liabilities amounts payable under head leases and a corresponding right of use asset, which is included in investment property. These leased investment properties are initially recorded at the present value of the remaining lease payments and are then subsequently carried at fair value. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. Leases held at the date of transition were discounted using the Group's incremental borrowing cost at that date.

Properties are classified as being held for sale when it is considered highly probable that a sale will be completed within one year of the classification date.

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 when utilised 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, service charges and other property related income 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 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. The tax charge for the year is recognised in the income statement, the statement of comprehensive income or directly in equity, depending on the accounting treatment of the related transaction.

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

Notes to the Consolidated Financial Statements *continued*

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 and properties held for sale (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.

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.

The Group makes a provision for impairment for the expected credit losses associated with its trade and other receivables reflecting historic credit loss experience and the specific circumstances of the debtor.

(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 in 1(a) to 1(t) on pages 64 to 68. 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 the accounting policy that management considers particularly significant because of the level of complexity and estimation involved in its application and its impact on the consolidated financial statements.

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. As noted in Note 1(h), all the Group's properties are valued by external valuers with appropriate qualifications and experience.

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 2020	*UK* £000	*USA* £000	*Eliminations* £000	*Total* £000
Rental and related income	103,013	63,130	–	166,143
Property operating expenses	(55,871)	(35,223)	–	(91,094)
Profit/(loss) on disposal of property	16,253	(478)	–	15,775
Net valuation movements on property	3,005	(93,499)	–	(90,494)
Administrative expenses	(12,631)	(1,623)	–	(14,254)
Profit/(loss) before finance costs	53,769	(67,693)	–	(13,924)
Fair value losses	(1,356)	–	–	(1,356)
Other financial income	699	1,419	(189)	1,929
Financial expenses	(6,295)	(13,694)	189	(19,800)
Profit/(loss) before taxation	46,817	(79,968)	–	(33,151)
Income tax (charge)/credit	(27,054)	13,613	–	(13,441)
Profit/(loss) for the year	19,763	(66,355)	–	(46,592)
Capital expenditure	41,586	6,303	–	47,889
Investment property	1,826,641	697,619	–	2,524,260
Other assets	121,192	123,722	(12,577)	232,337
Total segment assets	1,947,833	821,341	(12,577)	2,756,597
Total segment liabilities	(403,569)	(468,437)	12,577	(859,429)
Capital employed	1,544,264	352,904	–	1,897,168

for the year ended 31 March 2019	*UK* £000	*USA* £000	*Eliminations* £000	*Total* £000
Rental and related income	100,364	55,797	–	156,161
Property operating expenses	(48,831)	(30,749)	–	(79,580)
Profit/(loss) on disposal of property	12,728	(525)	–	12,203
Net valuation movements on property	51,845	32,083	–	83,928
Administrative expenses	(13,085)	(819)	–	(13,904)
Profit before finance costs	103,021	55,787	–	158,808
Fair value losses	(172)	–	–	(172)
Other financial income	178	1,053	(183)	1,048
Financial expenses	(12,218)	(9,817)	183	(21,852)
Profit before taxation	90,809	47,023	–	137,832
Income tax charge	(13,725)	(4,128)	–	(17,853)
Profit for the year	77,084	42,895	–	119,979
Capital expenditure	23,644	81,858	–	105,502
Investment property	1,785,746	746,772	–	2,532,518
Other assets	152,777	92,979	(11,771)	233,985
Total segment assets	1,938,523	839,751	(11,771)	2,766,503
Total segment liabilities	(396,165)	(441,588)	11,771	(825,982)
Capital employed	1,542,358	398,163	–	1,940,521

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

3. *Property Operating Expenses*

	2020 **£000**	*2019* £000
Porterage, cleaning and repairs	**41,552**	36,336
Insurance	**5,909**	5,663
Building services	**25,057**	21,653
Other management costs	**18,576**	15,928
	91,094	79,580

Of the property operating expenses shown above, an amount of £1,256,000 (2019 – £871,000) related to properties which generated no income during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

4. *Administrative Expenses*

	2020 £000	2019 £000
Staff costs	**7,516**	7,538
Directors' remuneration	**2,735**	2,625
Audit and accountancy	**950**	888
Legal and other administrative expenses	**3,053**	2,853
	14,254	13,904

Auditor's remuneration:

For the year, the fees payable to KPMG LLP were £31,000 (2019 – £31,000) for the audit of the Company and £499,000 (2019 – £442,000) for the audit of the Group's subsidiaries, together with £Nil (2019 – £Nil) for audit related assurance services and £Nil (2019 – £Nil) 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 (2019 – 207). The average number of full time equivalents whose staff costs were borne by the Group during the year was 146 (2019 – 149). The aggregate staff cost of these persons is shown above and can be analysed as follows:

	2020 £000	2019 £000
Salaries	**6,066**	5,950
NI contributions	**650**	640
Pensions	**800**	948
	7,516	7,538

In addition the property and administrative management companies provide, under agency arrangements, staff to perform various caretaking roles. Those costs totalling £1,063,000 (2019 – £1,053,000) are included within property operating expenses (Note 3) under porterage, cleaning and repairs.

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

5. *Financial Income and Expenses*

	2020 £000	2019 £000
Financial income:		
Bank interest receivable	**59**	73
Other financial income	**1,870**	975
	1,929	1,048
Financial expenses:		
Interest payable on bank loans	**3,744**	4,529
Interest payable on mortgages	**15,483**	10,784
Interest on overdue tax (see Note 6)	**563**	6,400
Other interest payable	**10**	139
	19,800	21,852

6. *Taxation*

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

	2020	*2019*
	£000	£000
UK corporation tax	**14,821**	8,336
UK prior year items	**(243)**	(5,118)
	14,578	3,218
Overseas taxation	**1,316**	1,500
Total current tax	**15,894**	4,718
Deferred tax	**(30,095)**	21,878
Deferred tax – increase/(reduction) in future tax rate	**27,642**	(8,743)
Total deferred tax	**(2,453)**	13,135
Total tax charge	**13,441**	17,853
Reconciliation of tax expense		
Profit before taxation	**(33,151)**	137,832
Corporation tax at the standard UK rate of 19% (2019 – 19%)	**(6,299)**	26,188
Increase/(reduction) in future tax rate	**27,642**	(8,743)
Prior year items	**(243)**	(5,118)
Impact of different tax rates	**(6,926)**	2,851
Indexation and non-taxable items	**(1,716)**	(149)
Non-allowable expenses	**681**	2,601
Other	**302**	223
Total tax charge	**13,441**	17,853

In March 2020 it was announced that the planned reduction in the UK corporation tax rate from 19% to 17% on 1 April 2020 would not take place. In the USA changes to certain USA state taxes meant the rate of tax our USA results are subject to increased to 28% (2019 – 26%). Both these increases in tax rates have meant we have had to recalculate our deferred tax balances which has increased these liabilities by £20,102,000 in the UK and £7,540,000 in the USA.

The Group's effective tax rate for the current year was 41% (2019 – 13%). As detailed above the recalculation of the deferred tax liabilities due to tax rate changes has increased the tax charge by £27,642,000 (2019 – reduced by £8,743,000). Removing these amounts and prior year tax credits (2020 – £243,000; 2019 – £5,118,000) our effective tax rate in the UK was 15% and in the USA was 26% consistent with the statutory rates in each country.

In November 2019 the Group signed a settlement agreement with HMRC relating to the interpretation of tax legislation regarding historical financing arrangements. An amount of £36,438,000 plus interest was paid to HMRC to settle these historic tax liabilities. The amount paid was in line with the provision made in the prior year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

7. *Earnings per Share*

Earnings per share is calculated on the loss, after taxation and non-controlling interests, of £47,626,000 (2019 – earnings of £119,893,000) and the weighted average shares in issue during the year of 16,295,357 (2019 – 16,295,357).

8. *Dividends*

	2020	*2019*
	£000	£000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2018,		
paid 2 November 2018 @ 68p per share	**–**	11,081
Interim dividend for the year ended 31 March 2019,		
paid 8 March 2019 @ 35p per share	**–**	5,703
Final dividend for the year ended 31 March 2019,		
paid 1 November 2019 @ 71p per share	**11,570**	–
Interim dividend for the year ended 31 March 2020,		
paid 6 March 2020 @ 35p per share	**5,703**	–
	17,273	16,784

9. *Investment Property*

	Freehold	*Long leasehold*	*Short leasehold*	***Total 2020***	*Total 2019*
	£000	£000	£000	**£000**	£000
Balance at 1 April	**2,134,789**	**372,830**	**24,899**	**2,532,518**	2,373,184
Gross up of head lease liability	**–**	**4,752**	**3,649**	**8,401**	-
Adjusted opening balance	**2,134,789**	**377,582**	**28,548**	**2,540,919**	2,373,184
Disposals	**(2,405)**	**(2,272)**	**–**	**(4,677)**	(4,339)
New acquisitions	**28,828**	**990**	**–**	**29,818**	77,477
Additions to existing properties	**17,100**	**971**	**–**	**18,071**	28,025
Revaluation (recognised in profit)	**(129,366)**	**40,301**	**(1,429)**	**(90,494)**	83,928
Transfer to properties held for sale	**–**	**(8,450)**	**–**	**(8,450)**	(70,997)
Reclassification	**(2,097)**	**2,510**	**(413)**	**–**	-
Foreign exchange movements (recognised in other comprehensive income)	**34,466**	**4,607**	**–**	**39,073**	45,240
Balance at 31 March	**2,081,315**	**416,239**	**26,706**	**2,524,260**	2,532,518

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 2020. The aggregate amount of £1,843.8 million (2019 – £1,804.2 million) is based on open market values, assessed in accordance with the RICS Valuation – Current Global Standards (incorporating the International Valuation Standards). The Group's USA investment properties were also independently professionally valued at 31 March 2020 by Metropolitan Valuation Services, Inc., a USA Certified General Real Estate Appraisers. The aggregate amount of £701.6 million (2019 – £750.5 million) is based on open market values, assessed in accordance with the Standards of

Professional Appraisal Practice of the Appraisal Institute. Both 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 £21.2 million (2019 – £22.1 million), relating to lease incentives included in Trade and other receivables and increased by an amount of £8.4 million (2019 – £Nil) relating to lease obligations.

As explained in Note 1(u), 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.

The report of the UK valuer on property valuations as at 31 March 2020 included the following material valuation uncertainty clause due to the Covid-19 pandemic:

"The outbreak of Novel Coronavirus (Covid-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020 has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity is being impacted in many sectors. At the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes to inform opinions of value. The current response to Covid-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. Our valuation is therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that Covid-19 might have on the real estate market, we recommend that you keep the valuation of the properties in this portfolio under frequent review."

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 for the status of occupation 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 maintained at 10% in 2020 reflecting current estimates of costs being incurred. It is estimated that an increase of one percentage point in this discount would result in a decrease of £8.8 million (2019 – £8.8 million) in the value of investment property. 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. Rent regulation laws in New York state came into effect on 1 July 2019 depressing New York residential values substantially. Average capitalisation rates increased from 3.4% to 5.2%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

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.

2020	*Fair Value*	*Rental value £ per sq ft*			*Equivalent Yield %*		
	£000	Low	Average	High	Low	Average	High
UK Commercial							
Office Units							
Greater London	297,195	7.8	59.2	81.2	3.3%	4.8%	12.4%
UK – South	36,556	2.0	13.6	47.2	2.6%	8.6%	48.1%
UK – North	9,797	3.2	11.2	17.0	7.5%	11.7%	18.1%
Retail Units							
Greater London	254,988	6.4	26.2	75.1	1.0%	6.8%	15.4%
UK – South	129,197	0.2	20.0	60.1	2.2%	8.2%	21.4%
UK – North	20,728	2.1	9.5	26.0	6.0%	11.0%	16.2%
Industrial Units							
All UK	47,513	2.0	9.3	29.5	5.3%	10.9%	27.3%
Leisure and Service Units							
All UK	213,560	4.4	20.2	42.4	4.8%	6.2%	14.5%
Land and Development							
All UK	1,563	–	–	–	–	–	–
Total UK Commercial	**1,011,097**						
UK Residential		*Sales value £ per sq ft*					
Greater London	741,498	316	831	1,543	–	–	–
UK – South	87,343	133	315	505	–	–	–
UK – North	3,847	105	182	241	–	–	–
Total UK Residential	**832,688**						
Total UK	**1,843,785**						
USA Commercial		*Rental value £ per sq ft*			*Capitalisation rate %*		
Massachusetts, Philadelphia and New Jersey	107,768	9.0	29.6	34.1	5.0%	5.2%	6.5%
Total USA Commercial	**107,768**						
USA Residential Apartments		*Rental value £ per sq ft*			*Capitalisation rate %*		
New York City	165,202	8.8	11.9	28.6	3.8%	5.2%	5.5%
Florida	212,390	7.7	10.6	13.2	5.3%	5.5%	6.0%
Other States	120,029	10.7	12.3	15.3	4.8%	5.3%	5.5%
New York City – unsold co-operative	96,249	3.5	13.9	63.5	8.0%	9.5%	12.0%
					Discount rate %		
Total USA Residential	**593,870**						
Total USA	**701,638**						
Total Group	**2,545,423**						
Less lease incentives	(21,163)						
	2,524,260						

2019	*Fair Value* £000	*Rental value £ per sq ft* Low	Average	High	*Equivalent Yield %* Low	Average	High
UK Commercial							
Office Units							
Greater London	296,790	7.0	55.1	77.3	3.2%	4.7%	11.8%
UK – South	42,994	2.7	11.6	42.4	4.9%	10.4%	36.1%
UK – North	9,492	3.2	8.0	14.5	7.2%	10.4%	18.1%
Retail Units							
Greater London	252,971	5.4	33.6	81.3	1.0%	6.4%	13.3%
UK – South	130,921	0.2	17.8	55.7	2.2%	7.9%	22.3%
UK – North	22,522	1.0	8.6	26.0	6.2%	11.2%	16.2%
Industrial Units							
All UK	47,684	1.2	8.7	61.1	5.3%	8.4%	27.4%
Leisure and Service Units							
All UK	181,385	3.0	19.6	36.9	4.7%	6.3%	14.7%
Land and Development							
All UK	1,636	–	–	–	–	–	–
Total UK Commercial	**986,395**						
UK Residential		*Sales value £ per sq ft*					
Greater London	729,924	337	886	1,753	–	–	–
UK – South	84,433	115	325	542	–	–	–
UK – North	3,446	106	170	234	–	–	–
Total UK Residential	**817,803**						
Total UK	**1,804,198**						
USA Commercial		*Rental value £ per sq ft*			*Capitalisation rate %*		
Massachusetts, Philadelphia and New Jersey	103,036	6.0	26.8	33.0	5.0%	5.1%	6.5%
Total USA Commercial	**103,036**						
USA Residential Apartments		*Rental value £ per sq ft*			*Capitalisation rate %*		
New York City	246,857	8.2	11.1	28.0	2.5%	3.4%	5.2%
Florida	195,569	6.6	8.5	10.7	5.3%	5.6%	5.8%
Other States	115,685	9.9	11.7	15.4	4.5%	5.2%	5.5%
New York City – unsold co-operative					*Discount rate %*		
	89,321	3.5	12.7	64.6	9.0%	9.7%	15.0%
Total USA Residential	**647,432**						
Total USA	**750,468**						
Total Group	**2,554,666**						
Less lease incentives	(22,148)						
	2,532,518						

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 could give rise to a magnifying effect on the valuation. Due to the number of properties included in the Group's valuations, it is impracticable to disclose the extent of the possible effects of each assumption and it is possible that outcomes that are different from the current assumptions could result in a material adjustment to the valuation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

The present value of future minimum lease payments in relation to leasehold investment properties is £8.4 million at 31 March 2020 (2019 restated – £8.4 million). In determining the present value, the Group used the estimated incremental borrowing cost at the date of transition as the discount rate. In accordance with the accounting policy described in Note 1(h) following the introduction of IFRS 16 *Leases*, this has been recognised in the current year. Prior year figures have not been adjusted.

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

	2020			2019 (restated)		
	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	**539**	**(501)**	**38**	541	(504)	37
Due within two to five years	**2,157**	**(1,983)**	**174**	2,158	(1,994)	164
Due after more than five years	**43,205**	**(35,051)**	**8,154**	43,744	(35,544)	8,200
	45,901	**(37,535)**	**8,366**	46,443	(38,042)	8,401

Capital commitments, arising from contractual obligations not yet invoiced or paid, for the purchase, construction, development or enhancement of investment properties, amounted to £7.9 million at 31 March 2020 (2019 – £8.9 million).

10. *Deferred Tax Assets and Liabilities*

	2020			2019		
	Assets £000	***Liabilities £000***	***Net £000***	*Assets £000*	*Liabilities £000*	*Net £000*
Investment property	**–**	**(265,918)**	**(265,918)**	–	(269,037)	(269,037)
Accelerated tax depreciation	**–**	**(31,724)**	**(31,724)**	–	(24,394)	(24,394)
Financial instruments	**506**	**–**	**506**	226	–	226
	506	**(297,642)**	**(297,136)**	226	(293,431)	(293,205)

The movement in deferred tax is as follows:

	Investment property £000	***Accelerated tax depreciation £000***	***Financial instruments £000***	***Total 2020 £000***	*Total 2019 £000*
Balance at 1 April	**(269,037)**	**(24,394)**	**226**	**(293,205)**	(271,610)
Recognised in income	**8,487**	**(6,314)**	**280**	**2,453**	(13,135)
Foreign exchange movements	**(5,368)**	**(1,016)**	**–**	**(6,384)**	(8,460)
Balance at 31 March	**(265,918)**	**(31,724)**	**506**	**(297,136)**	(293,205)

11. Trade and Other Receivables

	2020 £000	2019 £000
Rent and service charges debtor	**42,592**	37,927
Rent and service charges accrued	**3,915**	4,722
Other debtors and prepayments	**27,836**	23,574
Mortgages granted repayable within one year	**468**	493
Corporation tax recoverable	**2,165**	–
	76,976	66,716

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

	2020 £000	2019 £000
Not past due	**31,679**	31,941
Past due by less than one month	**9,059**	5,940
Past due by one to three months	**2,362**	1,257
Past due by three to six months	**3,720**	2,227
Past due by more than six months	**7,531**	8,956
	54,351	50,321
Impairment	**(7,844)**	(7,672)
Net	**46,507**	42,649

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

	2020 £000	2019 £000
Balance at 1 April	**7,672**	8,228
Amounts written off	**(1,319)**	(1,144)
Movement in allowance for impairment	**1,491**	588
Balance at 31 March	**7,844**	7,672

12. Cash and Cash Equivalents

	2020 £000	2019 £000
Bank balances	**146,056**	80,477
Short term deposits	**219**	15,418
Cash and cash equivalents in the balance sheet and cash flow statement	**146,275**	95,895

Included within bank balances are tenants' deposits of £4,489,000 (2019 – £4,989,000) in the UK and £3,109,000 (2019 – £2,803,000) in the USA, which cannot be used in the ordinary course of business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

13. Properties held for sale

During the year, the Group entered into an unconditional contract to sell a property in Birmingham. The sale is due to complete before the end of the calendar year and so, in accordance with IFRS 5 *Non-current assets held for sale and discontinued operations*, the property is treated as held for sale at 31 March 2020. Properties treated as held for sale at 31 March 2019 were duly sold during the current year.

Properties held for sale are recorded at their fair value of £8.45 million (2019 – £71.0 million). The fair value is a Level 3 valuation as defined by IFRS 13 and is based on offers received discounted for risks of completion.

14. Share Capital

	Number	**2020** £000	2019 £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.

15. Trade and Other Payables

	2020 £000	2019 £000
Rent and service charges charged in advance	**26,080**	22,233
Other creditors and accruals	**32,589**	35,116
Derivative financial instruments	**2,663**	1,328
	61,332	58,677

16. Loans and Borrowings

	2020 £000	2019 £000
Non-current liabilities		
Mortgages	**349,635**	326,627
Bank loans	**119,553**	91,442
	469,188	418,069
Current liabilities		
Mortgages	**20,312**	11,011
Bank loans	**1,427**	1,674
	21,739	12,685
Total loans and borrowings		
Mortgages	**369,947**	337,638
Bank loans	**120,980**	93,116
	490,927	430,754

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:

	2020 Bank loans £000	**2020** Mortgages £000	**2020** Total £000	2019 Total £000
Due within one year	**1,427**	**20,312**	**21,739**	12,685
Due within one to two years	**1,629**	**11,437**	**13,066**	29,814
Due within two to five years	**117,924**	**19,344**	**137,268**	113,169
Due after more than five years	**–**	**318,854**	**318,854**	275,086
	120,980	**369,947**	**490,927**	430,754

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

	2020 Fixed £000	**2020** Floating £000	**2020** Total £000	2019 Fixed £000	2019 Floating £000	2019 Total £000
Sterling	**60,245**	**90,980**	**151,225**	61,278	63,115	124,393
US Dollar	**339,702**	**–**	**339,702**	297,587	8,774	306,361
	399,947	**90,980**	**490,927**	358,865	71,889	430,754

Floating rate bank loans bear rates based on LIBOR. The Group's interest rate swaps are set out in Note 17 on page 85. The interest rate profile of the Group's fixed rate mortgages was as follows:

	2020 £000	2019 £000
Per cent.		
3.0-3.5	**129,924**	121,701
3.5-4.0	**111,859**	89,641
4.0-4.5	**50,794**	41,461
4.5-5.0	**47,125**	44,784
5.0-5.5	**13,403**	13,658
5.5-6.0	**7,042**	7,159
6.0-6.5	**9,800**	10,461
	369,947	328,865

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:

	2020 %	2019 %	**2020** Years	2019 Years
Sterling	**3.69**	3.72	**10.1**	11.1
US Dollar	**3.83**	3.87	**8.4**	8.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

17. Financial Assets and Liabilities

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

	2020		2019	
	Carrying amount £000	Financing income/ (expense) £000	Carrying amount £000	Financing income/ (expense) £000
Current asset investments	**130**	**(21)**	151	(5)
Current assets at fair value through profit or loss	**130**	**(21)**	151	(5)
Derivative financial instruments	**(2,663)**	**(1,335)**	(1,328)	(167)
Current liabilities at fair value	**(2,663)**	**(1,335)**	(1,328)	(167)
Trade and other receivables	**76,976**	**1,870**	66,716	975
Cash and cash equivalents	**146,275**	**59**	95,895	73
Current assets at amortised cost	**223,251**	**1,929**	162,611	1,048
Trade and other payables	**(58,669)**	**(10)**	(57,349)	(139)
Lease obligations payable	**(8,328)**	**(21)**	–	–
Floating rate loans and borrowings	**(120,980)**	**(3,744)**	(101,889)	(4,263)
Fixed rate loans and borrowings	**(369,947)**	**(15,462)**	(328,865)	(11,050)
Current and non-current liabilities at amortised cost	**(557,924)**	**(19,237)**	(488,103)	(15,452)
Total financial instruments	**(337,206)**	**(18,664)**	(326,669)	(14,576)

The finance expense of £1,335,000 (2019 – £167,000) relating to derivative financial instruments is stated net of £66,000 income (2019 – £23,000) relating to credit risk movements.

Fair values of financial instruments

With the exception of fixed rate loans and borrowings, the Group's financial instruments are shown in the table above at fair value. Fixed rate loans and borrowings 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 £425,101,000 (2019 – £353,976,000). 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 based upon an expected credit loss model, 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 2020, gearing was 17.8% (2019 – 15.6%) (see note 23). Cash and short-term deposits at 31 March 2020 were £146.3 million (2019 – £95.9 million) and £21.7 million of loans and borrowings were repayable within one year (2019 – £12.7 million). In addition, at the same date, the Group had undrawn committed facilities of £55.0 million (2019 – £85.0 million), which expire between 2022 and 2023.

The maturity analysis of the undiscounted cash flows arising from the Group's financial liabilities at 31 March 2020 was as follows:

				2020		
	Carrying amount £000	***Aggregate undiscounted cash flows £000***	***Due within one year £000***	***Due within 1-2 years £000***	***Due within 2-5 years £000***	***Due after more than 5 years £000***
Bank loans	**120,980**	**120,980**	**1,427**	**1,629**	**117,924**	**–**
Mortgages	**369,947**	**369,947**	**20,312**	**11,437**	**19,344**	**318,854**
Interest	**–**	**125,756**	**17,687**	**16,827**	**43,087**	**48,155**
Interest rate swaps	**2,663**	**2,254**	**268**	**268**	**803**	**915**
Trade and other payables	**58,669**	**58,669**	**58,669**	**–**	**–**	**–**
	552,259	**677,606**	**98,363**	**30,161**	**181,158**	**367,924**

				2019		
	Carrying amount £000	*Aggregate undiscounted cash flows £000*	*Due within one year £000*	*Due within 1-2 years £000*	*Due within 2-5 years £000*	*Due after more than 5 years £000*
Bank loans	93,116	93,116	1,674	1,674	89,768	–
Mortgages	337,638	337,638	11,011	28,140	23,401	275,086
Interest	–	121,032	15,829	15,276	40,688	49,239
Interest rate swaps	1,328	2,165	229	229	687	1,020
Trade and other payables	57,349	57,349	57,349	–	–	–
	489,431	611,300	86,092	45,319	154,544	325,345

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 16.

It is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before taxation by approximately £0.9 million per annum, on the basis of the floating rate debt outstanding at 31 March 2020, 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 2020 of £2.5 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*	
	2020	*2019*	***2020***	*2019*	***2020***	*2019*
	%	%	**£000**	£000	**£000**	£000
Maturing within one year	**–**	–	**–**	–	**–**	–
Maturing after five years	**1.6**	1.6	**30,000**	30,000	**2,663**	1,328
			30,000	30,000	**2,663**	1,328

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 ten percentage point decrease in the value of the US dollar against sterling would result in a decrease in the sterling value of the Group's USA net assets of £32.3 million.

Capital management

The capital structure of the Group consists of equity attributable to equity holders of the parent together with net debt. This is kept under constant review to ensure the Group has sufficient capital to fund its operations and that the Group's strategy of low gearing is maintained. The Group seeks to maintain a balance between longer-term finance appropriate to fund its long-term investment property holding strategy and medium-term finance which provides a more cost effective source of finance. Equity comprises issued share capital, reserves and retained earnings as set out in the consolidated statement of changes in equity. Net debt comprises a mix of fixed rate mortgages and shorter-term bank loans as set out in Note 16 and cash and short term deposits as set out in Note 12. All loans and borrowings are secured against investment property and the bank loans are drawn against committed facilities.

Notes to the Consolidated Financial Statements *continued*

18. *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 C B Freshwater and Mr R E Freshwater have a beneficial interest in a trust holding interests in shares in Highdorn Co. Limited.

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 2020, the aggregate net amounts due to the Group from Highdorn and FPM was £4.0 million (2019 – £0.5 million due from the Group 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.

Included in the balance above are amounts paid and payable by the Group for the provision of property and other management services to Highdorn Co. Limited and Freshwater Property Management Limited, which were as follows:

	2020	*2019*
	£000	£000
Balance due to related party managing agents at 1 April	**2,285**	2,511
Charged during the year	**4,537**	4,898
Paid during the year	**(4,312)**	(5,124)
Balance due to related party managing agents at 31 March	**2,510**	2,285

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 £1,083,131 (2019 – £1,052,477). The Directors' interests in the Company and the principal shareholders are described on pages 34 and 35. The Board considers that the Directors are the key management personnel of the Group and their remuneration is disclosed on page 46.

19. *Contingent Liabilities*

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

20. *Operating Lease Agreements*

The Group earns rental income by leasing its investment properties to tenants under operating leases which vary in terms and provisions between type of property and type of tenure. Leases providing for contingent rents are rare within the Group's property portfolio and no amounts for contingent rents are included in rental income for the year (2019 – £Nil).

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

	2020 £000	2019 £000
Due within one year	**66,682**	84,751
Due within one to two years	**57,186**	53,992
Due within two to five years	**145,741**	114,717
Due after more than five years	**377,516**	351,134
	647,125	604,594

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

21. Notes to the Consolidated Statement of Cash Flows

Cash generated from operations

	2020 £000	2019 £000
Net operating (loss)/profit before net financing costs	**(13,924)**	158,808
Adjusted for:		
Net valuation loss/(gain) on investment property (Note 9)	**90,494**	(83,928)
Net gain on sale of investment property	**(15,775)**	(12,203)
Net valuation loss on listed investments	**–**	2
Cash flows from operations before changes in working capital	**60,795**	62,679
Changes in working capital:		
Change in trade and other receivables	**(8,907)**	(2,982)
Change in trade and other payables	**6,547**	1,809
Working capital movement	**(2,360)**	(1,173)
Cash generated from continuing operations	**58,435**	61,506

Change in liabilities during the year relating to financing activities

	2020 £000	2019 £000
Total loans and borrowings at 1 April (Note 16)	**430,754**	350,459
Repayment of bank loans	**(2,135)**	(59,603)
New bank loans in year	**30,000**	60,000
Repayment of mortgages	**(36,150)**	(40,063)
New mortgages	**52,469**	102,814
Foreign exchange impact	**15,989**	17,147
Total loans and borrowings at 31 March (Note 16)	**490,927**	430,754

Notes to the Consolidated Financial Statements *continued*

22. *Subsidiary Undertakings*

At 31 March 2020, except where indicated, the following were indirect subsidiaries of the Company, where the Company's direct and indirect interest is in ordinary shares. All were wholly owned, except as indicated 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

* Directly owned

Fifth Charles Investments Limited*
First Charles Investments Limited*
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*

* Directly owned

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.

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

22-04 Collier Avenue LLC
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

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.
Madison Oaks Apartment Homes LLC(ii)
New Franconia Associates***
Sevens G.C. Realty Corp.
Tampa Sunscape Inc.
Waterford Park Apartment Homes LLC(ii)

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

23. *Alternative Performance Measures*

The directors use a number of alternative performance measures within this Annual Report to provide more relevant explanations of the Group's financial position and performance. Provided below are explanations for each such measure and reconciliations to relevant IFRS balances.

Underlying profit before tax

The directors consider "underlying profit before tax" which excludes unrealised changes in the valuation of property and certain financial instruments to be a useful measure as it represents the element of our results that has actually been realised. 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 before tax which generates the cash we use to re-invest in the business and to pay dividends and taxes.

	2020 **£000**	*2019* £000
(Loss)/profit before tax per the income statement	**(33,151)**	137,832
Add back/(deduct) property valuation losses/(gains)	**90,494**	(83,928)
Add back financial instruments fair value losses	**1,356**	172
Add back realised valuation gains on property disposals	**59,901**	-
Underlying profit before tax	**118,600**	54,076

Shareholders' funds per share

The directors consider that shareholders' funds per share is a useful measure as it reflects the fair value of the investment property we hold and is a common measure used across the property industry. It is calculated by dividing the total equity attributable to equity holders of the parent by the weighted average number of shares in issue during the period.

	2020	*2019*
Total equity attributable to equity holders of the parent (£000)	**1,895,963**	1,940,354
Weighted average number of shares in issue during the year	**16,295,357**	16,295,357
Shareholders funds per share (£)	**116.35**	119.07

Gearing

The Group considers gearing to be the ratio of our loans and borrowings to the value of our total assets. 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.

	2020 UK £000	**2020 USA £000**	**2020 Total £000**	2019 UK £000	2019 USA £000	2019 Total £000
Loans and borrowing (Note 16)	**151,225**	**339,702**	**490,927**	124,393	306,361	430,754
Total assets	**1,947,833**	**808,764**	**2,756,597**	1,938,523	827,980	2,766,503
Gearing	**7.8%**	**42.0%**	**17.8%**	6.4%	37.0%	15.6%

Valuation of investment properties

Valuation gains or losses on investment properties is a key metric for property companies and is presented on the face of the income statement. To assist a reader's understanding, we also express the net revaluation gains or losses recognised during the year as a percentage of the value of investment property at the start of the year. Where a property's value is not denominated in sterling, such as those in the USA, the opening value is first adjusted for the impact of movements in exchange rates during the year.

	2020 UK £000	**2020 USA £000**	**2020 Total £000**	2019 UK £000	2019 USA £000	2019 Total £000
Carrying value at 1 April (Note 9)	**1,785,746**	**746,772**	**2,532,518**	1,783,506	589,678	2,373,184
Gross up of head lease liability	**8,159**	**242**	**8,401**	–	–	–
Foreign exchange movements	**–**	**39,073**	**39,073**	–	45,240	45,240
Value at 1 April at year end exchange rate	**1,793,905**	**786,087**	**2,579,992**	1,783,506	634,918	2,418,424
Acquisitions	**29,818**	**–**	**29,818**	2,815	74,662	77,477
Additions to existing properties	**11,768**	**6,303**	**18,071**	20,829	7,196	28,025
Disposals	**(3,405)**	**(1,272)**	**(4,677)**	(2,252)	(2,087)	(4,339)
Revaluation	**3,005**	**(93,499)**	**(90,494)**	51,845	32,083	83,928
Transfer to properties held for sale	**(8,450)**	**–**	**(8,450)**	(70,997)	–	(70,997)
Carrying value at 31 March (Note 9)	**1,826,641**	**697,619**	**2,524,260**	1,785,746	746,772	2,532,518
Valuation gain percentage	**0.2%**	**(11.9)%**	**(3.5)%**	2.9%	5.1%	3.5%

24. *Events after the reporting period*

An offer made on 21 February 2020 for the entire share capital of the Company not already owned by the Freshwater Concert party by Dock Newco Limited by means of a scheme of arrangement was sanctioned by the Court on 5 May 2020 and became effective on 7 May 2020. The listing of the Company's shares on the premium listing segment of the Official List of the FCA was cancelled and the Company's shares ceased to be admitted to trading on the Main Market for listed securities of the London Stock Exchange on 11 May 2020.

In June 2020, the Group entered into a new loan agreement with two leading banks, borrowing an additional £225 million on standard commercial terms.

Neither of these events have been included in the financial statements for the year ended 31 March 2020 as they represent non-adjusting events after the reporting period.

Company Balance Sheet

as at 31 March 2020

	Notes		*2020*		*2019*
		£000	**£000**	£000	£000
Fixed assets					
Investment in subsidiary undertakings	*4*		**1,243,319**		1,279,894
Deferred tax assets			**506**		226
			1,243,825		1,280,120
Current assets					
Debtors		**19,283**		1,791	
Cash at bank		**29,167**		1,961	
		48,450		3,752	
Creditors: amounts falling due within one year	*5*	**(317,896)**		(298,592)	
Net current liabilities			**(269,446)**		(294,840)
Total assets less current liabilities			**974,379**		985,280
Creditors: amounts falling due after more than one year	*6*		**(62,826)**		(48,057)
Net assets			**911,553**		937,223
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			**906,031**		931,701
Equity shareholders' funds			**911,553**		937,223

The financial statements of Daejan Holdings Limited (Company number 305105) on pages 92 to 96 were approved by the Board of Directors on 3 September 2020 and were signed on its behalf by:

B S E Freshwater Director

Company Statement of Changes in Equity

for the year ended 31 March 2020	*Issued share capital* £000	*Share premium account* £000	*Other reserves* £000	*Retained earnings* £000	*Equity shareholders' funds* £000
Balance at 1 April 2018	4,074	555	893	953,738	959,260
Loss for the year	–	–	–	(5,253)	(5,253)
Dividends to equity shareholders	–	–	–	(16,784)	(16,784)
Balance at 1 April 2019	**4,074**	**555**	**893**	**931,701**	**937,223**
Loss for the year	**–**	**–**	**–**	**(8,397)**	**(8,397)**
Dividends to equity shareholders	**–**	**–**	**–**	**(17,273)**	**(17,273)**
Balance at 31 March 2020	**4,074**	**555**	**893**	**906,031**	**911,553**

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 £8,397,000 (2019 – £5,253,000).

(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 debtors and trade and other creditors

Trade and other debtors are recognised initially at transaction price plus attributable transaction costs. 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 less any impairment losses in the case of trade and other debtors. 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. Debtors and creditors are retranslated using the rate of exchange at the balance sheet date.

2. *Profit on Ordinary Activities before Taxation*

The Company has no staff other than its Directors and their remuneration is set out on page 46 of the Group accounts. The parent company audit fee is disclosed on page 72 of the Group accounts.

3. *Dividends*

	2020	*2019*
	£000	£000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2018, paid 2 November 2018 @ 68p per share	**–**	11,081
Interim dividend for the year ended 31 March 2019, paid 8 March 2019 @ 35p per share	**–**	5,703
Final dividend for the year ended 31 March 2019, paid 1 November 2019 @ 71p per share	**11,570**	–
Interim dividend for the year ended 31 March 2020, paid 6 March 2020 @ 35p per share	**5,703**	–
	17,273	16,784

4. *Investments in Subsidiary Undertakings*

	Shares at cost	*Loans*	*Total*
	£000	£000	£000
At 1 April 2019	991,933	287,961	1,279,894
Additions	106	–	106
Loans	–	(36,681)	(36,681)
At 31 March 2020	**992,205**	**251,114**	**1,243,319**

Notes to the Company Financial Statements *continued*

5. Creditors: Amounts falling due within one year

	2020	2019
	£000	£000
Bank loans and overdrafts	**148**	129
Amounts owed to subsidiary undertakings	**314,238**	296,540
Other creditors and accruals	**847**	595
Derivative financial instruments	**2,663**	1,328
	317,896	298,592

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

	2020	2019
	£000	£000
Secured bank loans	**62,826**	48,057

7. Share Capital

		2020	2019
	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.

9. Events after the reporting period

An offer made on 21 February 2020 for the entire share capital of the Company not already owned by the Freshwater Concert party by Dock Newco Limited by means of a scheme of arrangement was sanctioned by the Court on 5 May 2020 and became effective on 7 May 2020. The listing of the Company's shares on the premium listing segment of the Official List of the FCA was cancelled and the Company's shares ceased to be admitted to trading on the Main Market for listed securities of the London Stock Exchange on 11 May 2020.

Group Five-year Record

	2016	*2017*	*2018*	*2019*	***2020***
	£000	£000	£000	£000	**£000**
Total rental and related income	138,197	140,738	142,885	156,161	**166,143**
Property operating expenses	(70,008)	(75,938)	(76,407)	(79,580)	**(91,094)**
Net rental and related income	68,189	64,800	66,478	76,581	**75,049**
Profit on disposal of investment properties	11,725	14,594	11,893	12,203	**15,775**
Net valuation gains/(losses) on investment properties	117,947	144,508	146,438	83,928	**(90,494)**
Administrative expenses	(13,041)	(12,559)	(13,263)	(13,904)	**(14,254)**
Net operating profit/(loss) before net financing costs	184,820	211,343	211,546	158,808	**(13,924)**
Net financing expense	(11,578)	(12,947)	(10,284)	(20,976)	**(19,227)**
Profit/(loss) before taxation	173,242	198,396	201,262	137,832	**(33,151)**
Income tax	(30,237)	(36,266)	1,696	(17,853)	**(13,441)**
Profit/(loss) for the year	143,005	162,130	202,958	119,979	**(46,592)**
Earnings/(loss) per share	£8.77	£9.93	£12.45	£7.36	**£(2.92)**
Total assets	2,158,073	2,406,831	2,535,005	2,766,503	**2,756,597**
Equity shareholders' funds	1,480,094	1,655,955	1,812,993	1,940,521	**1,897,168**
Equity shareholders' funds per share	£90.82	£101.61	£111.25	£119.07	**£116.35**

DIRECTORS AND ADVISERS

Directors

B S E Freshwater

(Chairman and Managing Director)

S I Freshwater

D Davis (non-executive)

A M Freshwater (non-executive)

C B Freshwater (non-executive)

R E Freshwater (non-executive)

Secretary

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

Registered & Head Office

Freshwater House,

158-162 Shaftesbury Avenue,

London WC2H 8HR

Registered in England

Co. No. 305105

Auditor

KPMG LLP

15 Canada Square,

London E14 5GL

Consulting Accountants

Cohen Arnold

New Burlington House,

1075 Finchley Road,

London NW11 0PJ

Principal Bankers

Barclays Bank PLC

Lloyds Banking Group PLC

NatWest Group PLC

Notes

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