

*d*AEJAN  
HOLDINGS PLC  
*Annual Report & Accounts*  
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HOLDINGS PLC  
*Annual Report & Accounts*  
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## CHAIRMAN'S INTRODUCTION

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I am pleased to report on another year of sustained progress during which shareholders' funds have increased by 9.5% to £1,813 million (2017 - increase 11.9% to £1,656 million).

Against a background of difficult market conditions in the UK, the 5.9% (2017 - 7.2%) growth in the value of our property portfolio is a creditable result. Whilst we have seen a slowdown in the general rate of increase in property values, a number of development projects in both the UK and USA have neared completion and generated significant increases in value; these are discussed further in the following pages. Once again we have seen stronger growth in dollar terms in the value of our USA portfolio, 9.2% (2017 - 6.2%), particularly aided by the compression of rental yields.

Our overall rental income has increased by 4.6% (2017 - 6.6%) to £131.3 million (2017 - £125.5 million). The increase has been spread across a wide range of UK and USA properties. Unusually, in this year there were fewer ongoing schemes of major work with the result that service charge income is well down on the previous period.

### Outlook

Continuing political and economic uncertainty in the UK will provide a challenging environment for the Group in the coming year. Although the UK is due to leave the European Union in March 2019 the basis of departure and the arrangements which will follow are still completely unclear. Forecasts of economic growth continue to be revised downwards. In contrast, the domestic economic outlook in the USA is much more positive although this may be adversely impacted if a full blown tariff war develops between the USA and its major trading partners.


We remain committed to the pursuit of long term growth in net asset value created by projects of development and enhancement designed to generate significant increases in rental values. The timing of major projects is driven by general economic conditions, planning and construction timetables and does not necessarily align with the annual reporting cycle.

We are always long term in our approach and I remain confident that the pursuit of our tried and tested strategy will ensure that the Group continues to progress.

### Dividend

In keeping with our stated objective of prudent, sustained dividend growth, the Board is pleased to propose an increase in the total dividend of 5p to 103p (2017 - 98p).

Our sincere thanks must go to those whose efforts have delivered these results.

B S E Freshwater   
Chairman

*Above, right and  
contents page:  
11 East Chase Street,  
Baltimore, Maryland.  
Front cover:  
77 North Washington,  
Boston, Massachusetts.  
Inside front cover:  
260 West End Avenue,  
Manhattan, New York.  
Opposite page  
background:  
427 West 51st Street,  
Manhattan, New York.*

## FINANCIAL HIGHLIGHTS

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NET VALUATION GAIN

**£146.4 million**

(2017: £144.5 million)

PROFIT BEFORE TAX

**£201.3 million**

(2017: £198.4 million)

EARNINGS PER SHARE

**£12.45**

(2017: £9.93)

SHAREHOLDERS' FUNDS

**£1,812.9 million**

(2017: £1,655.7 million)

SHAREHOLDERS' FUNDS PER SHARE

**£111.25\***

(2017: £101.61)\*

GEARING

**13.8%\***

(2017: 14.6%)\*

PROPOSED TOTAL DIVIDEND PER SHARE

**103p**

(2017: 98p)

\*Definitions of these alternative performance measures are included on pages 20 to 22.

## STRATEGIC REPORT

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### 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 17 to the financial statements.

Similar arrangements with local managing agents operate in the USA.

### Managing risk

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

The Board has undertaken a robust assessment of the principal risks facing the Group, by reviewing detailed risk reports, 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

*Above and opposite  
page top: 77 North  
Washington, Boston,  
Massachusetts.  
Opposite page bottom:  
11 East Chase Street,  
Baltimore, Maryland.*

## STRATEGIC REPORT *continued*

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the maintenance of its many long standing relationships with leading banks and other financial institutions. The Group seeks to minimise the risk of sudden or unexpected rises in finance costs by way of fixed rate debt and financial derivative instruments whilst retaining some flexibility in relation to short term interest rates. As explained in Note 1(g) to the financial statements, the Group does not hedge account. Note 16 to the financial statements details the Group's exposure to the various financial instrument risks.

Managing risk has been central to the success of the Group over many years and in particular gearing has been kept at a relatively low level for the property industry; currently gearing is 13.8% (2017 - 14.6%).

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

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

### ***External risks***

#### ***Economic outlook***

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

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

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

We seek to mitigate and manage such risk by:

- Continuous monitoring of the economic outlook

*Right: 2160 Wallace,  
The Bronx, New York.*

*Far right:  
200 Portland Street,  
Boston, Massachusetts.*

*Above and opposite  
page bottom:*

*The St Paul Court,  
3120 St Paul Street,  
Baltimore, Maryland.*

*Opposite page top  
left: 1010 St Paul*

*Street, Baltimore,  
Maryland. Opposite*

*page top right: 2180  
Wallace, The Bronx,  
New York.*

## STRATEGIC REPORT *continued*

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- Continued maintenance of low gearing
- 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 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 25% 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 EU has seen significant movement in the US dollar/sterling rate of exchange. The rise in the value of sterling relative to the US dollar in the financial year was

*Properties in  
Manhattan, New York.  
Above: 670 Riverside  
Drive. Right:  
611 West 158th Street.*

12% (2017 - 13% fall). This has had the effect of reducing the reported value of our USA net assets. However, the average exchange rate for the year was not significantly different from the previous period and its impact on reported USA profits is therefore 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 loss of £29.8 million (2017 - gain of £29.1 million) arises in reserves mainly on the re-translation of the opening net book value of assets in the USA
- Incurring all costs used to generate US dollar rental income in US dollars

#### *Regulation*

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

We seek to mitigate and manage this risk by:

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

#### *Catastrophic events*

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

We seek to mitigate and manage this risk by:

- Insuring buildings with third parties
- Physical building security

*Properties in  
Manhattan, New York.  
Far Left:  
The Franconia,  
20 West 72nd Street.  
Left: 260 West End  
Avenue.*



## STRATEGIC REPORT *continued*

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- Fireproof storage of leases and other documents of title
- Dispersal of business critical IT systems and enhanced data security measures

### *Tenant default*

Tenant default constitutes a risk to income and, ultimately, to capital value. The multi-tenanted nature of the portfolio, with rental income derived from numerous properties, provides a natural measure of protection against the risk of individual default. In recent times we have seen the contraction or collapse of several high profile retail chains. The pressures facing UK high street outlets are likely to continue. However, our portfolio is not significantly exposed to the risk of any single retail tenant.

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

### *Internal risks*

#### *Regional concentration in UK portfolio*

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

We seek to mitigate and manage this risk by:

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

*Above, left and opposite page top: Park Street, Taunton, Somerset. Opposite page bottom: newly completed development at Thorncliffe Court, Clapham, London SW4.*

## STRATEGIC REPORT *continued*

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### *Acquisitions*

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

We seek to mitigate and manage this risk by:

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

### *Development*

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

We seek to mitigate and manage these risks by:

- Rigorous screening of all development opportunities including external professional advice and, where appropriate, market research
- 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.

*Properties in Finchley Road, London NW11.*  
*Above: Dudley Court.*  
*Opposite page top left: Dudley Court, top right: Montrose Court, bottom: Clarendon Court.*



*Right: progress on the Travelodge Hotel, Aldgate, London E1.*

We have sought to mitigate and manage this risk by:

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

#### Investment properties

A professional valuation of all of the Group's properties was carried out at 31 March 2018. The UK properties were valued by Colliers International Property Advisers UK LLP, Chartered Surveyors. In the USA, properties were valued by Joseph J. Blake and Associates, Inc. and Metropolitan Valuation Services, Inc. both of which are Certified General Real Estate Appraisers.

The table below shows a summary of the valuation of our investment property at 31 March 2018:

	Valuation March 2018 £m	Percentage change in year
<b>Commercial property</b>		
UK	1,023.1	+7.6%
USA	87.1	+3.0%
<b>Residential property</b>		
UK	776.2	+8.2%
USA	505.3	-2.4%
<b>Total</b>	<b>2,391.7</b>	<b>+5.3%</b>

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

	2018 £m	2017 £m
Opening valuation	2,256.8	2,009.4
New acquisitions	1.1	0.5
Additions to existing properties	39.6	29.7
Disposals	(4.1)	(1.2)
	2,293.4	2,038.4
Revaluation gain	146.4	144.5
Foreign exchange (loss)/gain	(66.6)	73.9
Closing valuation*	2,373.2	2,256.8

\*In this table and in the financial statements, the total valuation of £2,391.7 million (2017 - £2,271.1 million) has been reduced by an amount of £18.6 million (2017 - £14.3 million) relating to lease incentives, as required by accounting standards - see Note 9 to the consolidated financial statements.

This year the £48.9 million valuation uplift on USA properties is more than offset by the foreign exchange loss of £66.6 million arising on translation.

The market sentiment at the start of the year was that in the UK we were at, or about at, the peak of the property cycle. Whilst modest general valuation gains might continue, significant uplifts would be dependent upon the completion of successful developments, rent reviews and lettings. This has proved to be the case with our three principal projects, the Travelodge Hotel, Central Park in Brighton and Balham High Road, adding in aggregate some £50 million to the overall 5.9% valuation increase in the UK property portfolio. We have also seen a significant increase in the value of the development site adjacent to the hotel development in Aldgate, on the eastern fringe of the City of London.

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

## STRATEGIC REPORT *continued*

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The reduction of foreign investment interest has had a depressive effect on some commercial and residential values in central London. Residential values in outer London were largely flat. The UK outside the M25 showed modest gains with some residential hot spots doing well. Shortage of supply of commercial, industrial and warehousing property generated some positive movement. Well let and located commercial properties continued to attract favourable yields. In the USA, pressure from investors saw yields compressed with a positive effect on valuations; this together with the refurbishment and reletting of our Portland Street, Boston office property generated an overall uplift in US dollar terms of 9.2% in our USA portfolio.

### **Acquisitions and Developments**

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

#### ***Hotel Development***

The project to develop a 395 bedroom hotel for Travelodge on our site in Aldgate on the eastern fringe of the City of London, at a cost of some £31 million, is now complete and was handed over in July 2018.

#### ***Central Park***

The conversion of the office block Prestamex House, Brighton into 63 flats is nearing completion and marketing of a show flat has commenced.

#### ***Balham High Road***

This project has successfully reconfigured an existing building, added a new floor to create a total of nine new flats and a new retail unit which has been let to the Co-op.

During the coming year, work will continue on the flat development programme mentioned in last year's report which will cumulatively over several years add some 250 new residential units to our portfolio.

Preliminary work continued throughout the year on the planning of our Oxford Street site. This is a large and complex project and it is currently hoped that planning consent will be obtained next year.

*Above and left:  
Glenloch Court,  
London NW3.  
Opposite page: Oslo  
Court, London NW8.*

STRATEGIC REPORT *continued*

In the USA the largest project was improvement work to our office block in Portland Street, Boston costing \$6 million. The work was undertaken with input from WeWork, the serviced office space provider, who have taken a 15 year lease on four floors.

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

**Results for the year**

The profit before taxation for the year ended 31 March 2018 amounts to £201.3 million (2017 - £198.4 million). The result includes a net valuation gain of £146.4 million arising on investment properties (2017 - £144.5 million).

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

	2018 £m	2017 £m
Total rental and related income from investment property	142.9	140.7
Property operating expenses	(76.4)	(75.9)
Net rental and related income from investment property	66.5	64.8
Profit on disposals of investment property	11.9	14.6
Administrative expenses	(13.3)	(12.6)
Net operating profit before net valuation gains	65.1	66.8
Net valuation gains on investment property	146.4	144.5
Net financing expense	(10.2)	(12.9)
Profit before taxation	201.3	198.4

Overall we have seen an increase of £5.8 million in rental income, equivalent to 4.6% (2017 - 6.6%). In the UK the increase was 5.5% reflecting a reduction in the number of vacant residential units, a full year's rental for new commercial lettings made last year as well as new commercial lettings in the current year. In the USA we achieved rental growth across the portfolio with our Boston properties performing particularly well.

Service charge income is driven by the major works programmes undertaken in the period. This year, unusually, there were fewer ongoing major works and this is reflected in the reduced level of service charge income, which fell £3.7 million to £11.6 million.

Property expenses have remained at the level of the previous year. The reduction in expenditure on major works programmes has been offset by increased refurbishment expenditure on previously vacant units to enable reletting. In the USA our letting commission costs increased due to several new and negotiated commercial lettings.

Once again the profit on disposal derives almost entirely from the sale of lease extensions in the UK. On certain buildings where we own the freehold, long leasehold interests on some flats were previously sold. When the long leaseholders extend the length of their lease they pay us a premium and the Group has no control over when these extensions may occur.

The net finance costs have reduced this year principally as a result of the fair value gain of £1.9 million (2017 - £0.1 million) arising on the revaluation of our financial instruments.

In the USA our applicable tax rate has been reduced from 40% to 28%. The change in tax rate has resulted in a release from the provision for deferred taxation of £39.9 million. After other current and deferred tax charges this produces an overall credit for the year of £1.7 million (2017 - £36.3 million charge).

*Progress on Central Park, Brighton, East Sussex (formerly known as Prestamex House). Opposite page top left: May 2017. Above, opposite page top right and bottom: May 2018.*

## STRATEGIC REPORT *continued*

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### **Earnings per share**

This year earnings per share stands at £12.45 (2017 – £9.93) an increase of 25.4%.

This increase in earnings per share is primarily attributable to the release of deferred tax provisions following changes in USA tax legislation.

### **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 profits before tax” which do not include these valuation items. Underlying profit before tax for the last two years are set out below:

	2018 £m	2017 £m
Profit before tax per the income statement	201.3	198.4
Property valuation surplus	(146.4)	(144.5)
Financial instruments fair value adjustments	(1.9)	(0.1)
Adjustment to measurement of disposal profits ( <i>Note 9</i> )	1.9	1.0
Underlying profit before tax	54.9	54.8

This year's underlying profit before tax of £54.9 million is at a similar level to the previous year.

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 13.8% (2017 – 14.6%) for the Group as a whole. In the UK the ratio is 6.7% (2017 – 6.5%) whilst in the USA, where each property is financed separately on a ring-fenced basis, it is 33.3% (2017 – 35.8%).

*Above and opposite  
page: Africa House,  
Kingsway, London  
WC2.*

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.

## STRATEGIC REPORT *continued*

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### ***Shareholders' funds***

At 31 March 2018 shareholders' funds amounted to £1,812.9 million, an increase of 9.5% on last year's figure of £1,655.7 million. Shareholders' funds have grown in recent years as follows:

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

### ***Dividend***

The proposed total dividend for the year of 103p per share represents an increase of 5.1% (2017 - 98p).

### ***Outlook***

The Chairman's Introduction on page 2 describes the economic and political factors which will affect the Group in the coming year. We are in a period when the UK market generally is flat and

*Below: Barons Court,  
Kingsbury,  
London NW9.*

*This page and  
opposite page top:  
recently completed  
development at  
163 Abbey Foregate,  
Shrewsbury,  
Shropshire.*



## STRATEGIC REPORT *continued*

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likely to produce only modest valuation gains at best. We will therefore continue our focus on the enhancement of our rent roll in order to increase income and capital growth. 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. In the immediate future we are unlikely to experience the rate of growth in net asset values that we have enjoyed in recent years.

Preparatory and planning work will continue on the block of properties which we have assembled at the eastern end of Oxford Street WC1. This is a large and complex project and construction work is unlikely to commence until 2020.

In addition the flat development programme will continue with the aim, over a number of years, of adding a total of 250 units to our portfolio. The exact timing and speed with which we pursue these opportunities will be influenced by general economic and market conditions.

In the USA we continue to seek acquisition opportunities 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.

### **Employees**

*Above and below:  
Barclays House,  
Crawley, Sussex.*

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
- 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.

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

*Above and below:  
Talgarth Mansions,  
London W4.*

## STRATEGIC REPORT *continued*

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### **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 £196,000 (2017 - £151,000)
- 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 £1,001,386 (2017 - £960,659) 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 scheme being undertaken. So, for example, as previously reported the hotel which we are developing for Travelodge has been designed to achieve a BREEAM excellent rating. The environmental features include combined heat and power for energy efficiency, management of surface water run-off, energy efficient lighting, and the use of recycled aggregates and sustainably sourced construction materials.

*Above and opposite  
page: Grove Hall  
Court, London NW8.  
Right: New College  
Court, London NW3.  
Far Right: Vincent  
Court, London NW4.*

## STRATEGIC REPORT *continued*

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### **Viability statement**

In accordance with provision C.2.2 of the 2016 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.

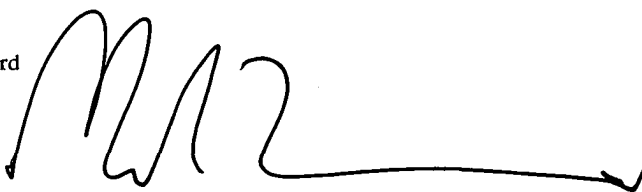
- The Group has a low risk, balanced portfolio of properties, with many commercial properties occupied by tenants with long leases. Based on current trends, the Directors continue to believe that the Group will be able to grant short term leases on residential properties and new leases on commercial 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 82.9% of the Group's current facilities mature during or beyond March 2022. 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 Brexit agreement and the possible consequences of the current political climate within the UK and the USA. Headroom on loan covenants have been stress-tested, the maturities of loan agreements reviewed and a five-year cash flow forecast produced.

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

By order of the Board  
*M R M Jenner*  
Company Secretary  
20 July 2018



*Above and right:*  
*Jeffries Passage,*  
*Guildford, Surrey.*  
*Opposite page:*  
*11 East Chase Street,*  
*Baltimore, Maryland.*

## DIRECTORS' REPORT

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### *Strategic Report*

The Company's Strategic Report for the year ended 31 March 2018 is set out on pages 4 to 28 and contains the following information:

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

### *Results and Dividend*

The profit for the year amounted to £203.0 million (2017 - £162.1 million). An interim dividend of 35p per share was paid on 9 March 2018 and the Directors now recommend the payment of a final dividend of 68p per share, making a total for the year of 103p per share (2017 - 98p per share).

The dividend, if approved, will be paid on 2 November 2018 to shareholders on the register on 5 October 2018.

### *Directors*

The Directors who served throughout the year, except as indicated below, and who are still in office, are:

Mr B S E Freshwater  
Mr S I Freshwater  
Mr S B Benaim  
Mr D Davis  
Mr A M Freshwater (USA)  
Mr C B Freshwater (Appointed 4 July 2017)  
Mr R E Freshwater  
Mr S Srulowitz (USA) (Appointed 4 July 2017)

Brief biographies of the Directors are as follows:

Mr B S E Freshwater. Aged 70 - 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 67 - 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 S B Benaim. Aged 62 - Was appointed to the Board in January 2017 and is an independent non-executive director. He was formerly Global Head of Real Estate at accountancy firm BDO.

Mr D Davis. Aged 83 - 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 47 - 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 46 - Was appointed to the Board as a non-executive Director on 4 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 48 - 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.

Mr S Srulowitz. Aged 66 - Was appointed to the Board on 4 July 2017 and is 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 36. 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 17 to the financial statements.

### *Share Capital and Substantial Directors' and other Shareholdings*

The structure of the Company's share capital, including the rights and obligations attaching to the shares, is given in Note 13 to the financial statements.

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

		Daejan Holdings PLC Ordinary Shares	
		31 March 2018	31 March 2017
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		-	-

**DIRECTORS' REPORT** *continued***Notes:**

1. All the holdings shown in the table on page 31 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 (2017 - 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 2018 a total of 7,876,431 shares (2017 - 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 2018, 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 2018:

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

The Company is not aware of any changes to any of the above interests from 31 March 2018 up to the date of signing this report.

*Relationship agreement with controlling shareholders*

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

- (a) transactions and arrangements with the controlling shareholders (and/or any of their associates) will be conducted at arm's length and on normal commercial terms;
- (b) neither the controlling shareholders nor any of their associates will take any action that would have the effect of preventing the listed company from complying with its obligations under the Listing Rules; and

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

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

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

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

The Board confirms that, since the entry into the Relationship Agreement on 14 November 2014 until 20 July 2018, being the latest practicable date prior to the publication of the annual report and accounts:

- (1) the Company has complied with the independence provisions included in the Relationship Agreement;
- (2) so far as the Company is aware, the independence provisions included in the Relationship Agreement have been complied with by all of the other parties to the Relationship Agreement and their associates and;
- (3) so far as the Company is aware, the other parties to the Relationship Agreement have procured compliance with the independence provisions in the Relationship Agreement by their related companies and their associates.

### *Corporate Governance*

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This report combines by reference the Corporate Governance Report on pages 35 to 38, which includes a statement on going concern.

### *Change of Control*

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

The Group has seven bank loan and mortgage facilities which contain change-of-control clauses. Five of these facilities require the prior written consent of the lender to a change of control over the parent company, without which such change of control would constitute an event of default. A change of control under the remaining two facilities would similarly constitute an event of default but no provision is made for the prior written consent of the lender. At 31 March 2018, these



## DIRECTORS' REPORT *continued*

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facilities represented £112.5 million (2017 - £113.9 million) of the loans and borrowings in the financial statements and undrawn facilities of £45.0 million (2017 - £48.4 million).


### *Auditor*

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

### *Statement of Disclosure of Information to the Auditor*

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

By order of the Board



M R M Jenner  
Secretary

20 July 2018

## CORPORATE GOVERNANCE REPORT

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### *Overview*

The Board is required to report on the extent of its application of the principles and of its compliance with the provisions contained in the 2016 UK Corporate Governance Code ("the Code").

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

During the year we did not comply with certain provisions of the Code in connection with non-executive representation on the Board. The Board has previously shared responsibility for all facets of the Company's business, without reserving areas of decision making solely for non-executive Directors or sub-committees, with those matters which the Code recommends should be reserved for audit, nomination and remuneration committees being dealt with by the entire Board. However, during the year and in accordance with the Code, the Board decided to establish formal audit, nominations and remuneration committees. Further details of these are included on pages 39 to 46. Given the extensive experience and knowledge of the Group possessed by the current Chairman it is not considered necessary to split the roles of Chairman and Chief Executive. The Group's independent non-executive directors provide some checks on this joint arrangement. Executive remuneration is not directly related to performance, but a link is established by virtue of executive remuneration not being agreed upon until after the results for the year are known.

### *The Board*

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

The Board meets regularly throughout the year on both a formal and informal basis. Comprehensive management information covering all aspects of the Group's business is supplied to the Board in a timely manner and in a form and quality which enables it to discharge its duties. The Board's principal focus, in accordance with the formal schedule of matters referred to it for decision, is on the formation of strategy and the monitoring and control of operations and financial performance. The performance of the Board, 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.

The Chairman of each of the Audit, Nominations and Remuneration Committees formally report to the Board on matters discussed at, decisions made at and any recommended actions arising from, meetings of these sub-committees.

The Board consults on a regular basis with the Group's external auditor and is charged with ensuring that its objectivity and independence is safeguarded.

## CORPORATE GOVERNANCE REPORT *continued*

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The entire Board is responsible for the approval of candidates for appointment to the Board, following recommendations from the Nominations Committee.

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

During the year there were three full formal board meetings attended by all Directors, except Mr C B Freshwater and Mr S I Freshwater who were each unable to attend one meeting.

### *Directors and Directors' Independence*

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The Board currently comprises the Chairman, who acts in an executive capacity, one further executive Director and six non-executive Directors. The names of the Directors together with their biographical details are set out on pages 30 and 31. 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.

### *Financial Reporting*

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The Board has ultimate responsibility for all aspects of the Group's financial reporting obligations and is assisted 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 is 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 and the assessment of tax liabilities, 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 and discusses the tax position of the Group with its advisers.

#### **External auditor**

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

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## *Internal Controls*

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

The Code requires that the Directors review the effectiveness of the Group's system of internal controls, covering financial, operational and compliance controls and risk management. The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant business risks faced by the Group and the internal control systems, and that this process has been in place for the year under review and up to the date of approval of the Annual Report & Accounts. This process is considered by the Audit Committee in detail and reviewed by the Board at regular intervals.

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 meet 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.

## CORPORATE GOVERNANCE REPORT *continued*

### *Investor Relations*

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

The Board continues to support the concept of individual resolutions on separate issues at Annual General Meetings. Details of proxy voting on each resolution will be disclosed on the company website after the meeting. In accordance with the Code, notice of the Annual General Meeting and the Annual Report & Accounts will be sent to shareholders at least twenty working days before the meeting.

### *Compliance Statement*

The Board considers the Company has complied throughout the year ended 31 March 2018 with all the provisions of the Code with the exception of the following paragraphs:

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

\*Following the formation of the Audit, Nominations and Remuneration Committees on 28 November 2017, the Company has become compliant with additional paragraphs of the Code during the current year and further compliance will be achieved next year once these committees have had a full year of operation.

### *Going Concern*

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 4 to 28, which also refers to the financial position of the Group, its cash flows, liquidity position and borrowing facilities. In addition, Note 16 to the financial statements includes the Group's objectives, policies and processes for managing its financial risks, together with details of its financial instruments, hedging activities and exposures to credit, liquidity and market risks.

As shown in the consolidated statement of cash flows, the Group generated net cash from operating activities of £35.5 million during the year (2017 - £19.0 million). Gearing, on the basis of gross debt to total assets, was 13.8% (2017 - 14.6%). Net debt (total loans and borrowings less cash and cash equivalents) has decreased to £251.7 million (2017 - £268.3 million), due principally to the strengthening of Sterling against the US dollar during the period. The Group has undrawn committed facilities of £63.4 million at the balance sheet date (2017 - £48.4 million). The Group has considerable financial resources and very low gearing and therefore, the Directors consider that the Group is well placed to manage its business risks successfully in the current and foreseeable economic conditions. Consequently, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least twelve months from the date of approving this Annual Report & Accounts. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

## AUDIT COMMITTEE REPORT

### *Formation, role and responsibilities*

The Audit Committee was formed during the year ended 31 March 2018 and, up until the date of approval of this Annual Report, has met three times. Mr Benaim and Mr Srulowitz attended all three meetings. Mr Davis attended two meetings. It is intended that the Audit Committee will formally meet at least three times during each financial year in future. The Audit Committee will meet at least once a year with the Group's external auditor without any other party being present.

The primary role of the Audit Committee is to assist the Board in ensuring the integrity of the Group's financial reporting, internal controls and risk management framework.

### *Membership*

The three members of the Audit Committee are Mr S B Benaim (Chairman), Mr D Davis and Mr S Srulowitz, all of whom are non-executive directors of the Group and were all appointed when the committee was formed.

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 C.3.1 of the UK Corporate Governance Code ("the 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 36, in view of his length of service, Mr Davis is not technically independent and therefore whilst the composition of the Audit Committee is consistent with the EU Directive which requires the majority of members to be independent, it is not strictly compliant with the Code which requires all members to be independent.

### *Main activities since formation*

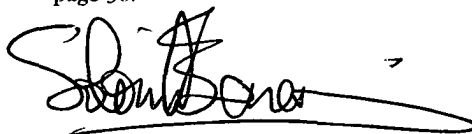
Membership	The three members of the committee each agreed to serve and Mr Benaim agreed to be the chairman of the committee.
Adoption of terms of reference	Terms of reference were reviewed in detail and recommended for approval by the main Board.
Risk management and internal controls	<p>The Group's register of 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, management were challenged by the Audit Committee on the appropriateness and completeness of both the register and the internal controls framework.</p> <p>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 Audit Committee considered relevant professional advice received by the Group and the Chairman met with the valuers of the UK property portfolio. The Audit Committee were satisfied that the carrying values of both investment properties and the corporate tax creditor shown in the financial statements are appropriate.</p> <p>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 37.</p>

## AUDIT COMMITTEE REPORT *continued*

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2018 Annual Report	The Audit Committee reviewed the 2018 Annual Report and Accounts and concluded that taken as a whole, it presents a fair, balanced and understandable assessment of the Group's position and prospects.
FRC review	The Audit Committee reviewed the correspondence received by the Company during the year from the FRC's Audit Quality Review team and were satisfied with the responses received to the issues they raised with the external auditor and Management.
External auditor	The Audit Committee reviewed the independence and effectiveness of the external auditor, including by meeting with them, scrutinising their external audit plan and considering observations from the Group's Finance team. The Audit Committee is satisfied with their review and recommends that they be re-appointed at the forthcoming AGM. Further details of the Group's policies towards and relationship with the external auditor is included on page 36.

*S B Benaim*  
20 July 2018



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## NOMINATIONS COMMITTEE REPORT

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### *Formation, role and responsibilities*

The Nominations Committee was formed during the year ended 31 March 2018 and, up until the date of approval of this Annual Report, has met once, in July 2018, with all members attending the meeting. It is intended that the Nominations Committee will formally meet at least once during each financial year in future. Additional meetings will be held when necessary.

The primary role of the Nominations Committee is to develop and maintain a formal procedure for making recommendations on Board appointments. The Board and the Nominations Committee recognise the growing emphasis placed on criteria such as diversity and gender but continues to believe that appointees should be selected primarily on the basis of a full, balanced range of criteria considered to be key to the management of the Group, without any forced emphasis.

### *Membership*

The three members of the Nominations Committee are Mr B S E Freshwater (Chairman), Mr S B Benaim and Mr S Srulowitz, all of whom were appointed when the committee was formed.

### *Main activities since formation*

The Nominations 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. No new appointments were made to the Board between the date the Nominations Committee was formed and the date of approval of this Annual Report.

  
B S E Freshwater

20 July 2018



## REMUNERATION COMMITTEE REPORT

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### *Formation, role and responsibilities*

The Remuneration Committee was formed during the year ended 31 March 2018 and, up until the date of approval of this Annual Report, has met once, in July 2018, with all members attending the meeting. It is intended that the Remuneration Committee will formally meet at least once during each financial year in future. Additional meetings will be held when necessary.

The primary role of the Remuneration Committee is to determine an appropriate remuneration package for executive directors. The formation of this committee formalises the work that was previously performed by the non-executive members of the Board to determine directors remuneration.

### *Membership*

The three members of the Remuneration Committee are Mr D Davis (Chairman), Mr S B Benaim and Mr S Srulowitz, all of whom are non-executive directors of the Group and were appointed when the committee was formed.

### *Directors' Remuneration Policy*

Set out below and on page 43 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 more directly align their interests with shareholders generally.

#### **3. Strategy**

##### ***Purpose***

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

##### ***Annual review***

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

The annual review takes into consideration:

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

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

#### ***Shareholder views***

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

#### **4. Benefits**

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

#### **5. Pension**

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

#### **6. Recruitment of executive Directors**

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

#### **7. Service contracts**

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

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

**REMUNERATION COMMITTEE REPORT** *continued***Total directors' remuneration**

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

	Salary	Benefits	Performance pay	Long term performance pay	Pension contri- butions	Total
2018	£	£	£	£	£	£
Mr B S E Freshwater	1,200,000	-	-	-	-	1,200,000
Mr S I Freshwater	1,200,000	-	-	-	-	1,200,000
Mr S B Benaim	21,712	-	-	-	-	21,712
Mr D Davis	20,000	-	-	-	-	20,000
Mr A M Freshwater	20,000	-	-	-	-	20,000
Mr C B Freshwater	14,923	-	-	-	-	14,923
Mr R E Freshwater	20,000	-	-	-	-	20,000
Mr S Srulowitz	14,923	-	-	-	-	14,923
	2,511,558	-	-	-	-	2,511,558

**Comparative table**

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

**Changes in the year**

Following their review, the Remuneration Committee recommended increases to the basic salaries of the executive directors and these increases were approved by the full Board.

Mr B S E Freshwater and Mr S I Freshwater received an increase in basic salary of £50,000 per annum during the year (2017 - £50,000), equivalent to 4.3% (2017 - 4.5%). These increases were agreed at a meeting of the Remuneration Committee.

The total staff costs borne by the Group under its arrangements with its management companies in the UK increased by 7.6% due to an increase in the number of employees and additional pension cost charges made by the management companies (2017 decreased by 0.4%). Since such staff are employed under these arrangements, no consultations regarding directors' remuneration policy or implementation have been held.

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

**Non-executive directors' remuneration**

The non-executive directors receive a base fee of £20,000 per annum which is reviewed periodically, pro-rated for their period of service in any one year. This entitlement has not changed in recent years. The Chairman of the Audit Committee receives an additional fee of £5,000, pro-rated for his or her period of service in any one year.

**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
2018	7,314	28.4	2,512	9.7	15,969	61.9
2017	6,798	28.0	2,364	9.7	15,155	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 pages 31 and 32.

**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	13,598,815	95.0%
Against	719,968	5.0%

## REMUNERATION COMMITTEE REPORT *continued*

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### **Total shareholder return**

The following graph shows the total shareholder returns for the Company (based on an investment of £100 at 1 April 2008) for each of the last ten financial years compared to the FTSE All Share Real Estate Investment and Services Index and the FTSE 350 Index. The Company is a constituent of both these indices and the Board considers these to be the most appropriate broad market equity indices for illustrating the Company's relative performance.

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

<b>Mr B S E Freshwater</b>	<b>£</b>
2009	700,000
2010	720,000
2011	740,000
2012	770,000
2013	820,000
2014	870,000
2015	1,000,000
2016	1,100,000
2017	1,150,000
2018	1,200,000

By order of the Board

*D Davis*

20 July 2018

## DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the Directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs as adopted by the EU") and applicable law and have elected to prepare the parent company financial statements in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that 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*

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### *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.

*David Freshwater*  
B S E Freshwater  
Chairman

20 July 2018

## 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 PLC ("the Company") for the year ended 31 March 2018 which comprise 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 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

#### 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 believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the company before 1959. The period of total uninterrupted engagement is for more than the 60 financial years ended 31 March 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

#### Overview

<b>Materiality:</b>	£24.1 million (2017: £21.6 million)
Group financial statements as a whole	1.0% (2017: 0.9%) of Gross Assets
<b>Lower materiality:</b>	£2.7 million (2017: £2.4 million)
Applied to certain items	5.0% (2017: 4.4%) of normalised profit
<b>Coverage</b>	100% (2017: 100%) of Gross Assets
<b>Risks of material misstatement vs 2017</b>	
<b>Recurring risks (Group)</b>	Valuation of investment property ◀ ▶ Current tax liability ◀ ▶
<b>Recurring risk (Parent)</b>	Recoverability of investment in subsidiary undertakings ◀ ▶



## INDEPENDENT AUDITOR'S REPORT *continued*

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### **2. 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. We summarise below the key audit matters (unchanged from 2017), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

#### ***The Risk***

##### ***Valuation of investment property (Group)***

(Group: £2,373.2 million; 2017: £2,256.8 million)

*Refer to page 39 (Audit Committee Report), page 64 (Significant accounting policies) and page 72 (Notes to the consolidated financial statements).*

#### ***Subjective valuation***

Investment properties represent 93.6% (2017: 93.8%) 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.

#### ***Our Response***

##### ***Our procedures included:***

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

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

**Benchmarking assumptions:** with the assistance of our own property valuation specialists we held discussions with the Group's external property valuers to critically assess movements in property values. For a sample of properties selected using various criteria including analysis of capital movements by comparison to industry indices or published market trends, 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.

*Our results*

We found the valuation of investment properties to be acceptable (2017: acceptable).

***The Risk***

***Current tax liability (Group)***

(Group: £47.3 million; 2017: £47.2 million)

*Refer to page 39 (Audit Committee Report), page 66 (Significant accounting policies) and page 71 (Notes to the consolidated financial statements).*

***Dispute outcome***

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

The majority of the current tax liability relates to a number of open periods which the Group has with HM Revenue & Customs (HMRC), as a result of ongoing enquiries into the interpretation of tax legislation regarding historical financing arrangements undertaken by the Group.

***Our Response***

***Our procedures included:***

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

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

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

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

***Our results***

We found the current tax liability to be acceptable (2017: acceptable).

## INDEPENDENT AUDITOR'S REPORT *continued*

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### ***The Risk***

#### ***Recoverability of investment in subsidiary undertakings (Parent)***

(Parent: £1,326.9 million; 2017: £1,330.5 million)

*Refer to page 90 (Accounting policies) and page 92 (Notes to the Company financial statements).*

#### ***Low risk, high value***

The carrying amount of the parent company's investments in subsidiaries represents 98.6% (2017: 99.4%) 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 Response***

#### ***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. For the investments where the carrying amount exceeded the net asset value, comparing the carrying amount of the investment with the consolidated net assets.

**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, including assessing the ability of the subsidiaries to obtain liquid funds and therefore the ability of the subsidiaries to fund the repayment.

#### ***Our results***

We found the recoverability of the investment in subsidiary to be acceptable (2017: acceptable).

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

Materiality for the Group financial statements as a whole was set at £24.1 million (2017: £21.6 million), determined with reference to a benchmark of total assets, of which it represents 1.0% (2017: 0.9%).

In addition, we applied materiality of £2.7 million (2017: £2.4 million), determined with regard to normalised profit before tax adjusted for net valuation gains, fair value gains on derivative financial instruments and realised gains on property disposals, as defined on page 20, to rental income, property operating expenses, administrative expenses and financial expenses, for which we believe misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the company's members' assessment of the financial performance of the Group.

Materiality for the Parent Company financial statements as a whole was set at £13.4 million (2017: £13.4 million), determined with reference to a benchmark of Company gross assets, of which it represents 1.0% (2017: 1.0%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1.2 million (Group) (2017: £1.1 million), £0.7 million (Parent Company) (2017: £0.7 million) or £0.1 million (2017: £0.1 million) for misstatements relating to procedures performed to

the lower materiality, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 50 (2017: 50) reporting components, we subjected 50 (2017: 50) to full scope audits for group purposes.

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

The Group team approved the component materialities, which ranged from £2,038 to £2.2m (2017: £1,995 to £1.9m), having regard to the mix of size and risk profile of the Group across the components.

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 work on 1 of the 50 components (2017: 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.

## INDEPENDENT AUDITOR'S REPORT *continued*

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

### **4. We have nothing to report on going concern**

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement on page 47 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; or
- the related statement under the Listing Rules set out on page 32 is materially inconsistent with our audit knowledge.

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.

#### ***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 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 on page 28 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;

- the principal risks 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.

Under the Listing Rules we are required to review the Viability statement. We have nothing to report in this respect.

#### ***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 are required to report to you if the Corporate Governance Report does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

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 47, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such

## INDEPENDENT AUDITOR'S REPORT *continued*

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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 other irregularities (see below), 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, other irregularities 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](http://www.frc.org.uk/auditorsresponsibilities).

### ***Irregularities – ability to detect***

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience, through discussion with the directors and other management (as required by auditing standards).

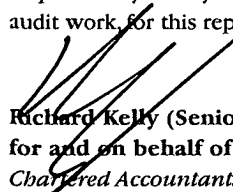
We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit team of relevant laws and regulations identified at group level, with a request to report on any indications of potential existence of non-compliance with relevant laws and regulations (irregularities) in these areas, or other areas directly identified by the component team.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

**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

20 July 2018



## CONSOLIDATED INCOME STATEMENT

		Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
<i>for the year ended 31 March 2018</i>	<i>Notes</i>		
Gross rental income		131,323	125,522
Service charge income		11,562	15,216
<b>Total rental and related income from investment property</b>	2	<b>142,885</b>	<b>140,738</b>
Property operating expenses	3	(76,407)	(75,938)
<b>Net rental and related income from investment property</b>		<b>66,478</b>	<b>64,800</b>
Profit on disposal of investment property		11,893	14,594
Net valuation gains on investment property	2	146,438	144,508
Administrative expenses	4	(13,263)	(12,559)
<b>Net operating profit before net financing costs</b>		<b>211,546</b>	<b>211,343</b>
Fair value gains on derivative financial instruments		1,923	86
Fair value gains on current investments		6	-
Other financial income	5	581	499
Financial expenses	5	(12,794)	(13,532)
<b>Net financing expense</b>		<b>(10,284)</b>	<b>(12,947)</b>
<b>Profit before taxation</b>		<b>201,262</b>	<b>198,396</b>
Income tax	6	1,696	(36,266)
<b>Profit for the year</b>		<b>202,958</b>	<b>162,130</b>
<b>Attributable to:</b>			
Equity holders of the parent		202,889	161,779
Non-controlling interest		69	351
<b>Profit for the year</b>		<b>202,958</b>	<b>162,130</b>
<b>Basic and diluted earnings per share</b>	7	<b>£12.45</b>	<b>£9.93</b>

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
<i>for the year ended 31 March 2018</i>		
Profit for the year	202,958	162,130
Foreign exchange translation differences	(29,759)	29,076
<b>Total comprehensive income for the year</b>	<b>173,199</b>	<b>191,206</b>
Attributable to:		
Equity holders of the parent	173,156	190,845
Non-controlling interest	43	361
<b>Total comprehensive income for the year</b>	<b>173,199</b>	<b>191,206</b>

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY


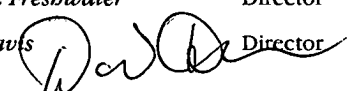
<i>for the year ended 31 March 2018</i>	Issued share capital £000	Share premium account £000	Translation reserve £000	Retained earnings £000	Equity shareholders' funds £000	Non- controlling interest £000	Total equity £000
Balance at 1 April 2016	4,074	555	32,051	1,443,345	1,480,025	69	1,480,094
Profit for the year	-	-	-	161,779	161,779	351	162,130
Foreign exchange translation differences	-	-	29,066	-	29,066	10	29,076
Distributions to non-controlling interest	-	-	-	-	-	(190)	(190)
Dividends to equity shareholders	-	-	-	(15,155)	(15,155)	-	(15,155)
<b>Balance at 31 March 2017</b>	<b>4,074</b>	<b>555</b>	<b>61,117</b>	<b>1,589,969</b>	<b>1,655,715</b>	<b>240</b>	<b>1,655,955</b>
Profit for the year	-	-	-	202,889	202,889	69	202,958
Foreign exchange translation differences	-	-	(29,733)	-	(29,733)	(26)	(29,759)
Distributions to non-controlling interest	-	-	-	-	-	(192)	(192)
Dividends to equity shareholders	-	-	-	(15,969)	(15,969)	-	(15,969)
<b>Balance at 31 March 2018</b>	<b>4,074</b>	<b>555</b>	<b>31,384</b>	<b>1,776,889</b>	<b>1,812,902</b>	<b>91</b>	<b>1,812,993</b>

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

## CONSOLIDATED BALANCE SHEET

<i>as at 31 March 2018</i>	<i>Notes</i>	<b>31 March 2018 £000</b>	<b>31 March 2017 £000</b>
<b>Assets</b>			
Investment property	9	2,373,184	2,256,800
Deferred tax assets	10	197	524
<b>Total non-current assets</b>		<b>2,373,381</b>	<b>2,257,324</b>
Trade and other receivables	11	62,714	65,062
Current investments		158	162
Cash and cash equivalents	12	98,752	84,283
<b>Total current assets</b>		<b>161,624</b>	<b>149,507</b>
<b>Total assets</b>		<b>2,535,005</b>	<b>2,406,831</b>
<b>Equity</b>			
Share capital	13	4,074	4,074
Share premium		555	555
Translation reserve		31,384	61,117
Retained earnings		1,776,889	1,589,969
<b>Total equity attributable to equity holders of the parent</b>		<b>1,812,902</b>	<b>1,655,715</b>
Non-controlling interest		91	240
<b>Total equity</b>		<b>1,812,993</b>	<b>1,655,955</b>
<b>Liabilities</b>			
Loans and borrowings	15	296,501	303,242
Deferred tax liabilities	10	271,807	299,756
<b>Total non-current liabilities</b>		<b>568,308</b>	<b>602,998</b>
Loans and borrowings	15	53,958	49,297
Trade and other payables	14	52,489	51,360
Current taxation		47,257	47,221
<b>Total current liabilities</b>		<b>153,704</b>	<b>147,878</b>
<b>Total liabilities</b>		<b>722,012</b>	<b>750,876</b>
<b>Total equity and liabilities</b>		<b>2,535,005</b>	<b>2,406,831</b>

The financial statements on pages 58 to 87 were approved by the Board of Directors on 20 July 2018 and were signed on its behalf by:

  
 B S E Freshwater Director  
  
 D Davis Director

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

<i>for the year ended 31 March 2018</i>	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
<b>Cash flows from operating activities</b>		
Cash generated from operations (Note 20)	56,480	39,150
Interest received	581	500
Interest paid	(12,592)	(13,529)
Tax paid	(8,967)	(7,132)
<b>Net cash from operating activities</b>	<b>35,502</b>	<b>18,989</b>
<b>Cash flows from investing activities</b>		
Acquisition and development of investment property	(39,424)	(27,726)
Proceeds from sale of investment property	16,085	18,242
<b>Net cash absorbed by investing activities</b>	<b>(23,339)</b>	<b>(9,484)</b>
<b>Cash flows from financing activities</b>		
Repayment of bank loans	(2,509)	(1,871)
New bank loans	15,000	-
Repayment of mortgages	(58,398)	(6,899)
New mortgages	70,216	8,057
Dividends paid to equity holders of the parent	(15,969)	(15,155)
Payments to non-controlling interest	(192)	(190)
<b>Net cash generated from/(absorbed by) financing activities</b>	<b>8,148</b>	<b>(16,058)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>20,311</b>	<b>(6,553)</b>
Cash and cash equivalents brought forward	84,283	84,863
Effect of exchange rate fluctuations on cash held	(5,842)	5,973
<b>Cash and cash equivalents (Note 12)</b>	<b>98,752</b>	<b>84,283</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### *1. Significant Accounting Policies*

Daejan Holdings PLC is a company domiciled in the United Kingdom. The consolidated financial statements of the Company for the year ended 31 March 2018 comprise the Company and its subsidiaries (together referred to as “the Group”).

The consolidated financial statements were authorised for issuance on 20 July 2018.

#### (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 88 to 92.

#### (b) Basis of preparation

The consolidated financial statements are presented in sterling, the Company’s functional currency and the Group’s presentational currency, rounded to the nearest thousand. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: investment property, derivative financial instruments and current asset investments.

The Group has considerable financial resources and very low gearing and therefore, the Directors consider that the Group is well placed to manage its business risks successfully in the current and foreseeable economic conditions. Consequently, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least twelve months from the date of approving this Annual Report and Accounts. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

To facilitate comparisons with most other major UK listed property groups, the consolidated statement of cash flows on page 61 has been presented using the indirect method; no restatement of prior year numbers was required.

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 pages 66 and 67.

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 following accounting standards and guidance were adopted by the Group during the year, none of which has had a material impact on the Group's financial statements:

- Amendments to IFRS 7 *Financial Instruments: Disclosures*
- Amendments to IFRS 12 *Disclosure of Interests in Other Entities*
- Amendments to IAS 7 *Statement of Cash Flows*
- Amendments to IAS 12 *Income taxes*

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.

- IFRS 9 *Financial Instruments* (effective year ended 31 March 2019)
- IFRS 10 *Consolidated Financial Statements* (amendment)
- IFRS 15 *Revenue from contracts with customers* (effective year ended 31 March 2019)
- IFRS 16 *Leases* (effective year ended 31 March 2020)
- IAS 19 *Employee Benefits* (amendment)
- IAS 23 *Borrowing Costs* (amendment)
- IAS 28 *Investments in Associates and Joint Ventures* (amendment)
- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (amendment)
- IAS 38 *Intangible Assets* (amendment)
- IAS 40 *Investment Property* (amendment)
- IFRIC 22 *Foreign currency transactions and advance consideration*

In relation to IFRS 9 *Financial Instruments*, the effect of any change to the Group's current accounting policies covering the measurement of financial instruments and the estimation of impairment is expected to be immaterial.

In relation to IFRS 15 *Revenue from Contracts with Customers*, the Group's revenue primarily relates to property rental income which is outside the scope of IFRS 15.

In relation to IFRS 16 *Leases*, the Group is primarily a lessor whereas the standard primarily affects lessees. The Group's assessment of the impact of IFRS 16 is ongoing.

#### (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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

### (f) Foreign currency translation

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

	<i>Year end</i>		<i>Average</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
US Dollar	1.40	1.25	1.33	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

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

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

When the Group begins to redevelop an existing investment property for continued future use as an investment property, the property continues to be treated as an investment property, and is measured based on the fair value model. Interest is capitalised on such developments to the extent that such interest is directly attributable to the cost of redevelopment.

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

Acquisitions and disposals are recognised on the date that the significant risks and rewards of ownership have been transferred. Any resulting gain or loss based on the difference between sale proceeds and valuation is included in the income statement and taxation applicable thereto is shown as part of the taxation charge.

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(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.

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(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.

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(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.

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(l) Dividends

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

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(m) Trade and other payables

Trade and other payables are initially stated at fair value and subsequently carried at amortised cost.

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(n) Net rental income

Net rental income comprises rent and service charges receivable less applicable provisions and costs associated with the properties. Rental income from investment property leased out under operating leases is recognised in the income statement on a straight-line basis over the certain term of the 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.

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(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.

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(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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

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Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities (which, in the case of investment property, is assumed to be through sale), using tax rates enacted or substantively enacted at the balance sheet date.

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

### (q) Segmental reporting

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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

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

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

### (s) Provisions

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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

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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

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The Group's significant accounting policies are set out in 1(a) to 1(t) on pages 62 to 66. Not all of these policies require management to make subjective or complex judgements or estimates. The following is intended to provide further detail relating to those accounting policies that management consider particularly significant because of the level of complexity and estimation involved in their application and their impact on the consolidated financial statements.

(i) Property valuations

The valuation of the Group's property portfolio is inherently subjective, depending on many factors, including the individual nature of each property, its location and expected future net rental values, market yields and comparable market transactions (as set out in Note 9). Therefore the valuations are subject to a degree of uncertainty and are made on the basis of assumptions which may not prove to be accurate, particularly in periods of difficult market or economic conditions. As noted in Note 1(h), all the Group's properties are valued by external valuers with appropriate qualifications and experience.

(ii) Income taxes

The tax treatment of some transactions and calculations cannot be determined until a formal resolution has been reached with the relevant tax authorities. In particular, the Group is discussing the treatment of historical financing arrangements with tax authorities (as set out in Note 6). In such cases, a best estimate of the relevant tax charge or credit is made, having regard to the extent of uncertainties associated with it. Where the final outcome of such matters is different from the amounts initially recorded, those differences will be reflected in the income and deferred taxes amounts at the time of formal resolution.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued**2. Segmental Analysis*

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

	<i>UK</i>	<i>USA</i>	<i>Eliminations</i>	<i>Total</i>
<i>for the year ended 31 March 2018</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Rental and related income	92,395	50,490	-	142,885
Property operating expenses	(47,278)	(29,129)	-	(76,407)
Profit/(loss) on disposal of property	12,900	(1,007)	-	11,893
Net valuation movements on property	97,504	48,934	-	146,438
Administrative expenses	(12,600)	(663)	-	(13,263)
Profit before finance costs	142,921	68,625	-	211,546
Fair value gains	1,929	-	-	1,929
Other financial income	144	618	(181)	581
Financial expenses	(5,425)	(7,550)	181	(12,794)
Profit before taxation	139,569	61,693	-	201,262
Income tax (charge)/credit	(21,883)	23,579	-	1,696
Profit for the year	117,686	85,272	-	202,958
Capital expenditure	32,057	8,580	-	40,637
Investment property	1,783,506	589,678	-	2,373,184
Other assets	84,777	87,821	(10,777)	161,821
Total segment assets	1,868,283	677,499	(10,777)	2,535,005
Total segment liabilities	(385,452)	(347,337)	10,777	(722,012)
Capital employed	1,482,831	330,162	-	1,812,993

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

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

### 3. *Property Operating Expenses*

	<i>2018</i> <i>£000</i>	<i>2017</i> <i>£000</i>
Porterage, cleaning and repairs	35,501	35,763
Insurance	4,908	5,055
Building services	20,142	21,537
Other management costs	15,856	13,583
	<b>76,407</b>	<b>75,938</b>

Of the property operating expenses shown above, an amount of £907,000 (2017 - £2,076,000) related to properties which generated no income during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued**4. Administrative Expenses*

	2018 £000	2017 £000
Staff costs	7,314	6,798
Directors' remuneration	2,512	2,364
Audit and accountancy	928	824
Legal and other administrative expenses	2,509	2,573
	13,263	12,559

**Auditor's remuneration:**

For the year, the fees payable to KPMG LLP were £31,000 (2017 - £31,000) for the audit of the Company and £434,000 (2017 - £404,000) for the audit of the Group's subsidiaries, together with £Nil (2017 - £Nil) for audit related assurance services and £Nil (2017 - £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 206 (2017 - 203). The average number of full time equivalents whose staff costs were borne by the Group during the year was 149 (2017 - 143). The aggregate staff cost of these persons is shown above and can be analysed as follows:

	2018 £000	2017 £000
Salaries	5,779	5,492
NI contributions	626	593
Pensions	909	713
	7,314	6,798

In addition the property and administrative management companies provide, under agency arrangements, staff to perform various caretaking roles. Those costs totalling £1,058,000 (2017 - £1,037,000) are included within property operating expenses (Note 3) under portorage, cleaning and repairs.

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

*5. Financial Income and Expenses*

	2018 £000	2017 £000
Financial income:		
Bank interest receivable	41	44
Other financial income	540	455
	581	499
Financial expenses:		
Interest payable on bank loans	3,136	3,053
Interest payable on mortgages	9,479	10,466
Other interest payable	179	13
	12,794	13,532

## 6. Taxation

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

	2018	2017
	£000	£000
UK corporation tax	7,787	8,026
UK prior year items	(382)	751
	7,405	8,777
Overseas taxation	1,598	808
Total current tax	9,003	9,585
Deferred tax	29,248	33,830
Deferred tax - reduction in future tax rate	(39,947)	(7,149)
Total deferred tax	(10,699)	26,681
Total tax (credit)/charge	(1,696)	36,266
<b>Reconciliation of tax expense</b>		
Profit before taxation	201,262	198,396
Corporation tax at the standard UK rate of 19% (2017 - 20%)	38,240	39,679
Reduction in future tax rate	(39,947)	(7,149)
Prior year items	(382)	751
Impact of different tax rates	2,708	6,582
Indexation and non-taxable items	(2,850)	(3,426)
Other	535	(171)
Total tax (credit)/charge	(1,696)	36,266

Legislation changes have been enacted that mean the UK Corporation tax rate will reduce from 19% to 17% from 1 April 2020 and the USA Corporation tax rate will reduce from 35% in the current year to 21% next year. With USA State taxes our applicable overall tax rate on USA profits is 40% in the current year and will be 28% next year. These enacted rate changes will reduce the Group's tax charge accordingly. The deferred tax balances at 31 March 2018 have been calculated based on the 17% rate in the UK and the 28% rate in the USA.

The Group's effective tax rate for the current year was 0.8% credit (2017: 18.3% charge). As set out in the tables above the current year benefitted from a £39,947,000 tax credit from the recalculation of our USA deferred tax balances based on the newly enacted USA Corporation tax rate. Removing this tax credit our effective tax rate is 19%, a rate consistent with the UK Corporation tax rate and the prior year. The increased tax charge from our profits arising in the USA that are subject to a higher Corporation tax rate has been offset by an element of our UK property valuations not being taxable due to an indexation allowance.

Tax liabilities are recognised when it is considered probable that there will be a future outflow of funds to a tax authority. In assessing the amount of tax due the Group uses professional advisers in both the UK and the USA to assist in assessing tax due on open tax computations. The principal uncertain tax item relates to enquiries opened by HMRC relating to the interpretation of tax legislation regarding historical financing arrangements that had been entered into over several years in the ordinary course of business but have now ceased. On advice of leading Counsel, we continue

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

actively to dispute the assessments from HMRC but at present we estimate the probable range of outcomes of the tax which may become due is £23 to £52 million. The directors have made an accrual for tax which is within this range, included within the current tax liability and which is in their view an adequate estimate of potential tax that might arise. An accrual has also been made for potential interest. Due to the uncertainty associated with such items, it is possible that at a future date, on reaching a conclusion on these open tax matters, the final outcome may vary significantly.

7. *Earnings per Share*

Earnings per share is calculated on the earnings, after taxation and non-controlling interests, of £202,889,000 (2017 - £161,779,000) and the weighted average shares in issue during the year of 16,295,357 (2017 - 16,295,357).

8. *Dividends*

	2018 £000	2017 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2016, paid 11 November 2016 @ 58p per share	-	9,452
Interim dividend for the year ended 31 March 2017, paid 10 March 2017 @ 35p per share	-	5,703
Final dividend for the year ended 31 March 2017, paid 10 November 2017 @ 63p per share	10,266	-
Interim dividend for the year ended 31 March 2018, paid 9 March 2018 @ 35p per share	5,703	-
	15,969	15,155

The Board has recommended a final dividend for the year ended 31 March 2018 of £11,081,000, representing 68p per share. This dividend has not been included as a liability in these financial statements.

9. *Investment Property*

	Freehold £000	Long leasehold £000	Short leasehold £000	Total 2018 £000	Total 2017 £000
Balance at 1 April	1,862,619	368,938	25,243	2,256,800	2,009,361
Disposals	(1,975)	(2,159)	-	(4,134)	(1,192)
New acquisitions	1,069	-	-	1,069	472
Additions to existing properties	38,832	736	-	39,568	29,706
Revaluation (recognised in profit)	143,786	5,549	(2,897)	146,438	144,508
Foreign exchange movements (recognised in other comprehensive income)	(57,202)	(9,355)	-	(66,557)	73,945
Balance at 31 March	1,987,129	363,709	22,346	2,373,184	2,256,800

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

2018. The aggregate amount of £1,799.3 million (2017 - £1,668.6 million) is based on open market values, assessed in accordance with the RICS Valuation - Professional Standards (2014). The Group's USA investment properties were also independently professionally valued at 31 March 2018 by Joseph J. Blake and Associates, Inc. and Metropolitan Valuation Services, Inc., both USA Certified General Real Estate Appraisers. The aggregate amount of £592.4 million (2017 - £602.5 million) is based on open market values, assessed in accordance with the Standards of Professional Appraisal Practice of the Appraisal Institute. All three valuers have recent experience in the location and category of the property being valued.

The aggregate professional valuations included in the above table have been reduced by an amount of £18.6 million (2017 - £14.3 million), relating to lease incentives included in Trade and other receivables.

As explained in Note 1(u)(i), property valuations are inherently subjective, depending on many factors, including the individual nature of each property, its location and expected future net rental values, market yields and comparable market transactions. These fair value measurements are unrealised and classified as Level 3 as defined by IFRS 13 *Fair Value Measurement*. There have been no transfers between the levels of fair value hierarchy during the year. During the year £1.9 million (2017 - £1.0 million) of unrealised property revaluation recognised in prior years was realised through the sale of properties, this is included in the underlying profit calculation on page 20.

#### **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 2018 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 £8.6 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.

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

2018	Fair Value £000	Rental Value £ per sq ft			Equivalent Yield %		
		Low	Average	High	Low	Average	High
<b>UK Commercial</b>							
<b>Office Units</b>							
Greater London	305,780	7.4	52.0	75.0	4.6%	5.2%	13.9%
UK - South	45,282	2.0	15.2	45.1	4.4%	9.6%	29.3%
UK - North	10,629	3.2	9.0	14.5	7.0%	10.1%	13.7%
<b>Retail Units</b>							
Greater London	247,799	5.4	42.8	81.3	3.5%	4.8%	15.1%
UK - South	144,166	4.0	19.9	61.4	2.2%	7.8%	21.5%
UK - North	26,622	2.1	10.3	26.0	6.5%	10.1%	14.8%
<b>Industrial Units</b>							
All UK	39,276	1.5	7.4	61.0	5.4%	8.5%	24.2%
<b>Leisure and Service Units</b>							
All UK	142,866	5.0	18.1	37.6	6.6%	8.1%	14.7%
<b>Land and Development</b>							
All UK	60,739	-	-	-	-	-	-
<b>Total UK Commercial</b>	<b>1,023,159</b>						
<b>UK Residential</b>							
		Sales value £ per sq ft					
Greater London	697,193	329	918	1,814	-	-	-
UK - South	76,031	103	328	551	-	-	-
UK - North	2,950	106	171	237	-	-	-
<b>Total UK Residential</b>	<b>776,174</b>						
<b>Total UK</b>	<b>1,799,333</b>						
<b>USA Commercial</b>							
		Rental value £ per sq ft			Capitalisation rate %		
Massachusetts, Philadelphia and New Jersey	87,062	7.4	25.1	31.2	5.0%	5.1%	6.8%
<b>Total USA Commercial</b>	<b>87,062</b>						
<b>USA Residential Apartments</b>							
		Rental value £ per sq ft			Capitalisation rate %		
New York City	216,372	7.3	9.8	24.3	2.3%	3.2%	3.8%
Florida	102,736	6.1	8.5	9.4	6.0%	6.1%	6.3%
Other States	104,944	9.5	10.8	13.0	4.8%	5.4%	5.8%
<b>New York City - co-operative</b>							
	81,291	3.3	12.1	56.9	6.0%	9.6%	15.0%
<b>Total USA Residential</b>	<b>505,343</b>						
<b>Total USA</b>	<b>592,405</b>						
<b>Total Group</b>	<b>2,391,738</b>						
Less lease incentives	(18,554)						
	<b>2,373,184</b>						

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

The present value of future minimum lease payments in relation to the leasehold investment properties is £9.8 million at 31 March 2018 (2017 - £9.8 million).

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

	2018			2017		
	Minimum	Interest	Present	Minimum	Interest	Present
	Lease	on lease	value	Lease	on lease	value
	Payments	payments	of lease	Payments	payments	of lease
	£000	£000	£000	£000	£000	£000
Due within one year	539	(532)	7	541	(537)	4
Due within two to five years	2,155	(2,137)	18	2,164	(2,154)	10
Due after more than five years	44,203	(34,414)	9,789	44,664	(34,852)	9,812
	46,897	(37,083)	9,814	47,369	(37,543)	9,826

Capital commitments, arising from contractual obligations not yet invoiced or paid, for the purchase, construction, development or enhancement of investment properties, amounted to £16.5 million at 31 March 2018 (2017 - £42.2 million).

**10. Deferred Tax Assets and Liabilities**

	2018			2017		
	Assets	Liabilities	Net	Assets	Liabilities	Net
	£000	£000	£000	£000	£000	£000
Investment property	-	(250,383)	(250,383)	-	(270,661)	(270,661)
Accelerated tax depreciation	-	(21,424)	(21,424)	-	(29,095)	(29,095)
Financial instruments	197	-	197	524	-	524
	197	(271,807)	(271,610)	524	(299,756)	(299,232)

The movement in deferred tax is as follows:

	Accelerated			Financial	
	Investment	depreci-	instru-	Total	Total
	property	ation	ments	2018	2017
	£000	£000	£000	£000	£000
Balance at 1 April	(270,661)	(29,095)	524	(299,232)	(254,725)
Recognised in income	6,110	4,916	(327)	10,699	(26,681)
Foreign exchange movements	14,168	2,755	-	16,923	(17,826)
Balance at 31 March	(250,383)	(21,424)	197	(271,610)	(299,232)

*11. Trade and Other Receivables*

	2018 £000	2017 £000
Rent and service charges debtor	34,598	27,354
Rent and service charges accrued	4,020	6,291
Other debtors and prepayments	23,683	30,904
Mortgages granted repayable within one year	413	513
	62,714	65,062

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

	2018			2017		
	Gross	Impair-	Net	Gross	Impair-	Net
	£000	ment £000	£000	£000	ment £000	£000
Not past due	27,038	-	27,038	23,168	-	23,168
Past due by less than one month	6,008	(886)	5,122	4,617	(354)	4,263
Past due by one to three months	1,632	(321)	1,311	1,481	(151)	1,330
Past due by three to six months	1,865	(389)	1,476	1,839	(333)	1,506
Past due by more than six months	10,303	(6,632)	3,671	12,418	(9,040)	3,378
	46,846	(8,228)	38,618	43,523	(9,878)	33,645

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

	2018 £000	2017 £000
Balance at 1 April	9,878	10,805
Amounts written off	(1,508)	(598)
Movement in allowance for impairment	(142)	(329)
Balance at 31 March	8,228	9,878

*12. Cash and Cash Equivalents*

	2018 £000	2017 £000
Bank balances	73,836	62,567
Short term deposits	24,916	21,716
Cash and cash equivalents in the balance sheet and cash flow statement	98,752	84,283

Included within bank balances are tenants' deposits of £4,677,000 (2017 - £3,553,000) in the UK and £2,669,000 (2017 - £2,885,000) in the USA, which cannot be used in the ordinary course of business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued**13. Share Capital*

	Number	2018 £000	2017 £000
Allotted, called up and fully paid:			
Ordinary shares of 25 pence per share	16,295,357	4,074	4,074

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

*14. Trade and Other Payables*

	2018 £000	2017 £000
Rent and service charges charged in advance	22,783	18,574
Other creditors and accruals	28,545	29,702
Derivative financial instruments	1,161	3,084
	52,489	51,360

*15. Loans and Borrowings*

	2018 £000	2017 £000
<b>Non-current liabilities</b>		
Mortgages	230,429	225,283
Bank loans	66,072	77,959
	296,501	303,242
<b>Current liabilities</b>		
Mortgages	27,311	47,028
Bank loans	26,647	2,269
	53,958	49,297
<b>Total loans and borrowings</b>		
Mortgages	257,740	272,311
Bank loans	92,719	80,228
	350,459	352,539

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:

	<b>2018</b>			<b>2017</b>
	<b>Bank loans</b>	<b>Mortgages</b>	<b>Total</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Due within one year	26,647	27,311	53,958	49,297
Due within one to two years	–	10,681	10,681	57,226
Due within two to five years	66,072	41,975	108,047	99,138
Due after more than five years	–	177,773	177,773	146,878
	<b>92,719</b>	<b>257,740</b>	<b>350,459</b>	<b>352,539</b>

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

	<b>2018</b>			<b>2017</b>		
	<b>Fixed</b>	<b>Floating</b>	<b>Total</b>	<b>Fixed</b>	<b>Floating</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Sterling	57,259	67,719	124,978	58,190	55,228	113,418
US Dollar	217,263	8,218	225,481	239,121	–	239,121
	<b>274,522</b>	<b>75,937</b>	<b>350,459</b>	<b>297,311</b>	<b>55,228</b>	<b>352,539</b>

Floating rate bank loans bear rates based on LIBOR. The Group's interest rate swaps are set out in Note 16 on page 83. The interest rate profile of the Group's fixed rate mortgages was as follows:

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Per cent.		
3.0-3.5	110,800	109,899
3.5-4.0	93,874	84,293
4.0-4.5	3,383	10,904
4.5-5.0	4,974	6,526
5.0-5.5	13,901	14,129
5.5-6.0	7,275	31,312
6.0-6.5	15,315	15,248
	<b>249,522</b>	<b>272,311</b>

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:

	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>%</b>	<b>%</b>	<b>Years</b>	<b>Years</b>
Sterling	5.98	5.97	8.2	9.2
US Dollar	3.62	3.84	7.9	6.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued***16. Financial Assets and Liabilities**

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

	2018		2017	
	Carrying amount £000	Financing income/ (expense) £000	Carrying amount £000	Financing income/ (expense) £000
Current asset investments	158	6	162	-
Current assets at fair value	158	6	162	-
Derivative financial instruments	(1,161)	1,923	(3,084)	86
Current liabilities at fair value	(1,161)	1,923	(3,084)	86
Trade and other receivables	62,714	540	65,062	455
Cash and cash equivalents	98,752	41	84,283	44
Current assets at amortised cost	161,466	581	149,345	499
Trade and other payables	(51,328)	(179)	(48,276)	(13)
Floating rate loans and borrowings	(100,937)	(3,414)	(80,228)	(3,053)
Fixed rate loans and borrowings	(249,522)	(9,201)	(272,311)	(10,466)
Current and non-current liabilities at amortised cost	(401,787)	(12,794)	(400,815)	(13,532)
Total financial instruments	(241,324)	(10,284)	(254,392)	(12,947)

The finance income of £1,923,000 (2017: £86,000) relating to derivative financial instruments is stated net of £35,000 expense (2017: £35,000 income) 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 £260,155,000 (2017 - £287,351,000). 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.

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***Financial instrument risk management***

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

Credit risk  
Liquidity risk  
Market risk

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

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

***Credit risk***

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

***Trade receivables***

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

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

***Cash and derivative financial instruments***

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

***Maximum exposure***

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued***Liquidity risk**

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

The Group's policy is to seek to maintain cash balances to meet all short and medium term requirements. The Group has a low level of gearing relative to the property investment sector as a whole and has long standing relationships with many leading banks and financial institutions from which the Board expect to be able to raise further funds if required. At 31 March 2018, gearing was 13.8% (2017 - 14.6%) on the basis of gross debt to gross assets. Cash and short-term deposits at 31 March 2018 were £98.8 million (2017 - £84.3 million) and £54.0 million of loans and borrowings were repayable within one year (2017 - £49.3 million). In addition, at the same date, the Group had undrawn committed facilities of £63.4 million (2017 - £48.4 million), which expire between 2018 and 2022.

The maturity analysis of the undiscounted cash flows arising from the Group's financial liabilities at 31 March 2018 was as follows:

	Carrying amount £000	Aggregate undiscounted cash flows £000	2018			
			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	92,719	92,719	26,647	-	66,072	-
Mortgages	257,740	257,740	27,311	10,681	41,975	177,773
Interest	-	81,496	11,539	10,074	24,906	34,977
Interest rate swaps	1,161	3,956	918	325	973	1,740
Trade and other payables	51,328	51,328	51,328	-	-	-
	402,948	487,239	117,743	21,080	133,926	214,490

	Carrying amount £000	Aggregate undiscounted cash flows £000	2017			
			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	80,228	80,228	2,269	26,712	51,247	-
Mortgages	272,311	272,311	47,028	30,514	47,891	146,878
Interest	-	71,774	11,206	9,857	21,870	28,841
Interest rate swaps	3,084	5,822	1,320	971	1,135	2,396
Trade and other payables	48,276	48,276	48,276	-	-	-
	403,899	478,411	110,099	68,054	122,143	178,115

**Market risk**

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

**Interest rates**

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

only to limit exposure to potential interest rate fluctuations. The interest rate profile of the Group's loans and borrowings is set out in Note 15.

It is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before taxation by approximately £0.6 million per annum, on the basis of the floating rate debt outstanding at 31 March 2018, 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 2018 of £3.1 million, together with a corresponding increase in the Group's profit before taxation.

#### *Interest rate swaps*

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

	<i>Contracted rate</i>		<i>Notional principal</i>		<i>Fair value</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	%	%	£000	£000	£000	£000
Maturing within one year	5.6	5.6	25,000	25,000	766	2,084
Maturing after five years	1.6	1.6	30,000	30,000	395	1,000
			<b>55,000</b>	<b>55,000</b>	<b>1,161</b>	<b>3,084</b>

#### *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 £30.0 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 15 and cash and short term deposits as set out in Note 12. All loans and borrowings are secured against investment property and the bank loans are drawn against committed facilities.

### *17. Related Party Transactions*

Day-to-day management of the Group's properties and its operations in the UK is mainly carried out by Highdorn Co. Limited and by Freshwater Property Management Limited. Mr B S E Freshwater and Mr S I Freshwater are Directors of both companies. They have no beneficial interest in the share capital of Highdorn Co. Limited. Mr B S E Freshwater, Mr S I Freshwater and Mr D Davis are Directors of the parent company of Freshwater Property Management Limited but have no beneficial interest in either company. Mr C B Freshwater and Mr R E Freshwater have a beneficial interest in a trust holding interests in shares in Highdorn Co. Limited.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

In their capacity as property managing agents, Highdorn Co. Limited ("Highdorn") and Freshwater Property Management Limited ("FPM") collect rents and incur direct property expenses on behalf of the Group. At 31 March 2018, the aggregate net amounts due to the Group from Highdorn and FPM was £2.7 million (2017 - £6.6 million). These amounts are not secured and are payable on demand. No guarantees have been given or received and the amounts are settled in cash.

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:

	2018 £000	2017 £000
Balance due to related party managing agents at 1 April	1,889	2,891
Charged during the year	6,179	4,488
Paid during the year	(5,557)	(5,490)
Balance due to related party managing agents at 31 March	2,511	1,889

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 £1,001,386 (2017 - £960,659). The Directors' interests in the Company and the principal shareholders are described on pages 31 and 32. The Board considers that the Directors are the key management personnel of the Group and their remuneration is disclosed on page 44.

### 18. *Contingent Liabilities*

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

### 19. *Operating Lease Agreements*

The Group earns rental income by leasing its investment properties to tenants under operating leases which vary in terms and provisions between type of property and type of tenure. Leases providing for contingent rents are rare within the Group's property portfolio and no amounts for contingent rents are included in rental income for the year (2017 - £Nil).

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

	2018 £000	2017 £000
Due within one year	75,386	76,536
Due within one to two years	44,721	49,043
Due within two to five years	95,365	105,796
Due after more than five years	233,788	273,792
	449,260	505,167

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

## 20. Notes to the Consolidated Statement of Cash Flows

### Cash generated from operations

	2018 £000	2017 £000
<b>Net operating profit before net financing costs</b>	<b>211,546</b>	<b>211,343</b>
<b>Adjusted for:</b>		
Net valuation gain on investment property (Note 9)	(146,438)	(144,508)
Net gain on sale of investment property	(11,893)	(14,594)
Net valuation loss/(gain) on listed investments	10	(3)
<b>Cash flows from operations before changes in working capital</b>	<b>53,225</b>	<b>52,238</b>
<b>Changes in working capital:</b>		
Change in trade and other receivables	366	(5,040)
Change in trade and other payables	2,889	(8,048)
<b>Working capital movement</b>	<b>3,255</b>	<b>(13,088)</b>
<b>Cash generated from continuing operations</b>	<b>56,480</b>	<b>39,150</b>

### Change in liabilities during the year relating to financing activities

	2018 £000	2017 £000
Total loans and borrowings at 1 April (Note 15)	352,539	321,928
Repayment of bank loans	(2,509)	(1,871)
New bank loans in year	15,000	-
Repayment of mortgages	(58,398)	(6,899)
New mortgages	70,216	8,057
Foreign exchange impact	(26,389)	31,324
<b>Total loans and borrowings at 31 March (Note 15)</b>	<b>350,459</b>	<b>352,539</b>

## 21. Subsidiary Undertakings

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

### Incorporated in Great Britain and registered in England and Wales

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

Agecroft Estates Limited	Brickfield Properties Limited
Alsam Limited	Chilon Investment Co. Limited
Astral Estates (London) Limited	City and Country (Londonderry House) Limited
Bagnight Limited*	City and Country Properties (Birmingham) Limited
Bampton (B&B) Limited	City and Country Properties (Camberley) Limited
Bampton (Redbridge) Limited	City and Country Properties (Estates) Limited
Bampton Holdings Limited	City and Country Properties (Gillingham) Limited
Bampton Homes Limited	
Bampton Management Limited	
Bampton Property Group Limited (The)	

\* Directly owned

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

City and Country Properties (Leeds) Limited	Daejan Investments Limited
City and Country Properties (Midlands) Limited	Daejan Metropolitan Investments Limited*
City and Country Properties Limited	Daejan Properties Limited
Coindragon Limited*	Daejan Retail Properties Limited
Coineagle Limited*	Daejan Securities Limited*
Coinface Limited*	Daejan Services Limited*
Coinmad Limited*	Daejan Traders Limited*
Coinmoat Limited*	Daneryn Limited*
Coinorbit Limited*	Derlingrange Limited*
Coinpilot Limited*	Ealux Limited
Coinreach Limited*	Endell Developments Limited*
Coinsmart Limited*	Endell Properties Limited*
Coinspear Limited*	Endell Real Estate Limited*
Coinsun Limited	Esslock Limited
Consbrix Developments Limited	Fifth Charles Investments Limited*
Cromlech Property Co. Limited (The)	First Charles Investments Limited*
Crozera Limited	Foredale Limited*
Daejan (Brentford) Limited*	Gertsbrix Developments Limited
Daejan (Brighton) Limited	Grapeseal Limited*
Daejan (Cambridge) Limited	Halliard Property Co. Limited (The)
Daejan (Cardiff) Limited	Hampstead Way Investments Limited
Daejan (Care Homes) Limited*	Inputstock Limited
Daejan (Dartford) Limited	Inputstripe Limited
Daejan (Design & Build) Limited*	Insworth Investments Limited*
Daejan (Durham) Limited	Johnsbrix Developments Limited
Daejan (FH 1998) Limited	Kingforge Limited*
Daejan (FHNV 1998) Limited	Kintsilk Investments Limited
Daejan (Hanger Hill) Limited*	Lawnstamp Limited
Daejan (High Wycombe) Limited	Lesbrix Developments Limited
Daejan (Kingston) Limited	Limebridge Co. Limited
Daejan (Lauderdale) Limited	Lookstate Limited
Daejan (Norwich) Limited	Lyme & Farrar Limited
Daejan (NUNV) Limited	Marfred Limited
Daejan (NUV) Limited	Mineral and General Investments Limited
Daejan (PF) Limited	Modboon Limited*
Daejan (Reading) Limited	Mont Investments Limited
Daejan (Taunton) Limited	Offerworld Limited
Daejan (UK) Limited*	Pegasus Investment Company Limited
Daejan (US) Limited*	Ronend Properties Limited*
Daejan (Warwick) Limited	Rosebel Holdings Limited
Daejan (Watford) Limited	Seaglen Investments Limited
Daejan (Wimbledon) Limited*	Semlark Limited*
Daejan (Worcester) Limited	Simlock Limited
Daejan Commercial Properties Limited	St. Leonards Properties Limited
Daejan Developments Limited	Strand Palace Hotel Limited*
Daejan Enterprises Limited	Summerseas Investment Co. Limited
Daejan Estates Limited	Wisebourne Limited*
Daejan Investments (Grove Hall) Limited	Workvideo Limited*
Daejan Investments (Harrow) Limited	
Daejan Investments (Park) 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***

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<sup>(i)</sup>  
Daejan 11 E Chase LLC<sup>(i)</sup>  
Daejan 77, Inc.<sup>(vi)</sup>  
Daejan 3120 Court LLC<sup>(i)</sup>  
Daejan Astoria LLC  
Daejan Baltimore Inc.  
Daejan Chesterfield LLC<sup>(ii)</sup>  
Daejan Crossroads LLC  
Daejan Enterprises Inc.  
Daejan Fisherman's Landing LLC<sup>(iii)</sup>

Daejan Greenwich Commons LLC<sup>(iv)</sup>  
Daejan Hidden Palms LLC<sup>(iii)</sup>  
Daejan Holdings (U.S.) Inc.<sup>(vi)</sup>  
Daejan Inverrary LLC  
Daejan Lauderdale Inc.  
Daejan Lycoming LLC, Inc.  
Daejan N.Y. Ltd.  
Daejan Oak Manor, Inc.<sup>(v)</sup>  
Daejan Portland, Inc.  
DJN Crossroad, Inc.  
DJN Greenwich Inc.  
DJN Raritan LLC  
Ivory 1150 Concourse Corp.  
Ivory 1166 G.C. Realty Corp.  
Ivory 3045 Grand Concourse Corp.  
Ivory 3591 Bainbridge Corp.  
Ivory 3780 Bronx Blvd. Corp.  
Ivory 3908 Bronx Realty Corp.  
Ivory 780 Grand Corp.  
Ivory 790 G.C. Corp.  
New Franconia Associates\*\*\*  
Sevens G.C. Realty Corp.  
Tampa Sunscape Inc.

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

\* Directly owned

\*\* 75% owned


\*\*\* 70% owned

## COMPANY BALANCE SHEET

*as at 31 March 2018*

	<i>Notes</i>	<b>2018</b>	<b>2017</b>
		<b>£000</b>	<b>£000</b>
Fixed assets			
Investment in subsidiary undertakings	4	1,326,904	1,330,488
Deferred tax assets		197	524
		<b>1,327,101</b>	<b>1,331,012</b>
Current assets			
Debtors		560	1,157
Cash at bank		18,187	6,570
		<b>18,747</b>	<b>7,727</b>
Creditors: amounts falling due within one year	5	(338,321)	(300,635)
Net current liabilities		<b>(319,574)</b>	<b>(292,908)</b>
Total assets less current liabilities		<b>1,007,527</b>	<b>1,038,104</b>
Creditors: amounts falling due after more than one year	6	(48,267)	(60,469)
Net assets		<b>959,260</b>	<b>977,635</b>
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		953,738	972,113
Equity shareholders' funds		<b>959,260</b>	<b>977,635</b>

The financial statements of Daejan Holdings PLC (Company number 305105) on pages 88 to 92 were approved by the Board of Directors on 20 July 2018 and were signed on its behalf by:

*B S E Freshwater* Director 

*D Davis* Director 

## COMPANY STATEMENT OF CHANGES IN EQUITY

<i>for the year ended 31 March 2018</i>	<i>Issued share capital</i>	<i>Share premium account</i>	<i>Other reserves</i>	<i>Retained earnings</i>	<i>Equity shareholders' funds</i>
	£000	£000	£000	£000	£000
Balance at 1 April 2016	4,074	555	893	990,498	996,020
Loss for the year	-	-	-	(3,230)	(3,230)
Dividends to equity shareholders	-	-	-	(15,155)	(15,155)
Balance at 1 April 2017	4,074	555	893	972,113	977,635
Loss for the year	-	-	-	(2,406)	(2,406)
Dividends to equity shareholders	-	-	-	(15,969)	(15,969)
<b>Balance at 31 March 2018</b>	<b>4,074</b>	<b>555</b>	<b>893</b>	<b>953,738</b>	<b>959,260</b>



## NOTES TO THE COMPANY FINANCIAL STATEMENTS

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### *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 £2,406,000 (2017 - £3,230,000).

#### (b) Investments in subsidiary undertakings

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

#### (c) Financial instruments

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

#### **Basic financial instruments**

##### (i) Trade and other creditors

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

##### (ii) Loans and borrowings

Loans and borrowings are initially recognised at fair value and are subsequently recorded at amortised cost. Transaction costs are deducted from the fair value at recognition and any differences between the amount initially recognised and the redemption value is recognised in the income statement over the period of the borrowings on an effective interest rate basis.

#### **Derivative financial instruments**

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

**(d) Deferred tax**

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

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

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

**(e) Foreign currencies**

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

**2. Profit on Ordinary Activities before Taxation**

The Company has no staff other than its Directors and their remuneration is set out on page 44 of the Group accounts. The parent company audit fee is disclosed on page 70 of the Group accounts.

**3. Dividends**

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2016, paid 11 November 2016 @ 58p per share	-	9,452
Interim dividend for the year ended 31 March 2017, paid 10 March 2017 @ 35p per share	-	5,703
Final dividend for the year ended 31 March 2017, paid 10 November 2017 @ 63p per share	10,266	-
Interim dividend for the year ended 31 March 2018, paid 9 March 2018 @ 35p per share	5,703	-
	<b>15,969</b>	<b>15,155</b>

The Board has recommended a final dividend for the year ended 31 March 2018 of £11,081,000, representing 68p per share. This dividend has not been included as a liability in these financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS *continued*4. *Investments in Subsidiary Undertakings*

	<i>Shares at cost £000</i>	<i>Loans £000</i>	<i>Total £000</i>
At 1 April 2017	991,933	338,555	1,330,488
Loans	–	(3,584)	(3,584)
At 31 March 2018	991,933	334,971	1,326,904

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

	<i>2018 £000</i>	<i>2017 £000</i>
Bank loans and overdrafts	26,888	2,498
Amounts owed to subsidiary undertakings	296,563	294,282
Other creditors and accruals	13,709	771
Derivative financial instruments	1,161	3,084
	338,321	300,635

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

	<i>2018 £000</i>	<i>2017 £000</i>
Secured bank loans	48,267	60,469

7. *Share Capital*

	<i>Number</i>	<i>2018 £000</i>	<i>2017 £000</i>
Allotted, called up and fully paid:			
Ordinary shares of 25 pence per share	16,295,357	4,074	4,074

8. *Profit and Loss Reserve*

Some years ago, the Company sold its shareholdings in certain subsidiary undertakings to intermediate holding companies. As a result of that transaction, the parent company transferred £645.1 million of revaluation gains relating to these investments to the profit and loss reserve. As the transfer of these revaluation gains arose as a result of a sale of assets within the Group, it is unlikely that the Company will seek to treat the profit and loss reserve thus arising as distributable.

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

## GROUP FIVE-YEAR RECORD

	2014	2015	2016	2017	2018
	£000	£000	£000	£000	£000
Total rental and related income	112,202	128,976	138,197	140,738	142,885
Property operating expenses	(68,789)	(70,041)	(70,008)	(75,938)	(76,407)
Net rental and related income	43,413	58,935	68,189	64,800	66,478
Profit on disposal of investment properties	11,320	12,036	11,725	14,594	11,893
Net valuation gains on investment properties	122,050	229,722	117,947	144,508	146,438
Administrative expenses	(10,550)	(11,821)	(13,041)	(12,559)	(13,263)
Net operating profit before financing costs	166,233	288,872	184,820	211,343	211,546
Net financing expense	(8,063)	(11,333)	(11,578)	(12,947)	(10,284)
Profit before taxation	158,170	277,539	173,242	198,396	201,262
Income tax	(12,231)	(49,979)	(30,237)	(36,266)	1,696
Profit for the year	145,939	227,560	143,005	162,130	202,958
Earnings per share	£8.95	£13.95	£8.77	£9.93	£12.45
Total assets	1,655,552	1,964,088	2,158,073	2,406,831	2,535,005
Equity shareholders' funds	1,117,533	1,345,874	1,480,094	1,655,955	1,812,993
Equity shareholders' funds per share	£68.58	£82.59	£90.82	£101.61	£111.25

## DIRECTORS AND ADVISERS

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### ***Directors***

B S E Freshwater  
(Chairman and Managing Director)  
S I Freshwater  
S B Benaim (non-executive)  
D Davis (non-executive)  
A M Freshwater (USA) (non-executive)  
C B Freshwater (non-executive)  
R E Freshwater (non-executive)  
S Srulowitz (USA) (non-executive)

### ***Secretary***

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

### ***Registered & Head Office***

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

### ***Registrars***

Equiniti  
Aspect House,  
Spencer Road,  
Lancing,  
West Sussex BN99 6DA

### ***Auditor***

KPMG LLP  
15 Canada Square,  
London E14 5GL

### ***Consulting Accountants***

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

### ***Principal Bankers***

Lloyds Banking Group plc  
Barclays Bank PLC  
The Royal Bank of Scotland Group plc

### ***Stockbrokers***

N+1 Singer  
1 Bartholomew Lane,  
London EC2N 2AX

## NOTICE OF MEETING

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Notice is hereby given that the Eighty Second Annual General Meeting of Daejan Holdings PLC will be held at The Connaught Rooms, 61-65 Great Queen Street, London WC2B 5DA, on Wednesday 29 August at 2.30 p.m. for the following purposes:

### Ordinary Business

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

1. To receive the Financial Statements for the year ended 31 March 2018 together with the Reports of the Directors and the Auditor. (Resolution 1)
2. To approve the Remuneration Report for the year ended 31 March 2018. (Resolution 2)
3. To declare a final dividend. (Resolution 3)
4. To re-elect B S E Freshwater as a Director. (Resolution 4)
5. To re-elect S I Freshwater as a Director. (Resolution 5)
6. To re-elect S B Benaim as a Director. (Resolution 6)
7. To re-elect S Srolowitz as a Director. (Resolution 7)
8. To re-elect D Davis as a Director. (Resolution 8)
9. To re-elect R E Freshwater as a Director. (Resolution 9)
10. To re-elect A M Freshwater as a Director. (Resolution 10)
11. To re-elect C B Freshwater as a Director. (Resolution 11)
12. To reappoint KPMG LLP as Auditor, and to authorise the Directors to agree its remuneration. (Resolution 12)

By order of the Board

*M R M Jenner*  
Secretary



### Explanatory Note to Resolutions 6 and 7

The UK Corporate Governance Code provides for all directors of companies forming the FTSE350 to be subject to annual re-election by shareholders. Accordingly all members of the Board are standing for re-election at this Annual General Meeting. Biographical details of all the directors are set out on pages 30 and 31 of the annual report.

Resolutions 6 and 7 relate to the re-election of Mr S Benaim and Mr S Srolowitz who are the directors that the Board has determined are independent directors for the purposes of the UK Corporate Governance Code. Because the Company has controlling shareholders, set out on page 32 of the annual report, (that is exercising more than 30% of the voting rights of the Company) the Listing Rules require that such directors seeking re-election by shareholders who are deemed independent must be approved by a majority of both:

1. The shareholders of the Company; and
2. The independent shareholders of the Company (that is the shareholders of the Company entitled to vote on the election of directors who are not controlling shareholders of the Company).

Resolutions 6 and 7 are therefore being proposed as ordinary resolutions which all shareholders may vote on but in addition the Company will separately count the number of votes cast by independent shareholders in favour of the resolution. The Company will announce the results of the resolutions on this basis as well as announcing the results of the ordinary resolutions of all shareholders.

Neither Mr Benaim nor Mr Srolowitz have any previous or existing material relationship with the Company, its directors or any controlling shareholder.

20 July 2018

## NOTICE OF MEETING *continued*

### Shareholder Notes

1. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting and at any adjournment of it. A member may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. If a proxy appointment is submitted without indicating how the proxy should vote on any resolution, the proxy will exercise his/her discretion as to whether and, if so, how he/she votes.
2. A proxy need not be a member of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact the Company's Registrar, Equiniti Limited, on 0371 384 2203 (international callers: +44 121 415 7047). Lines open 8.30 a.m. to 5.30 p.m., Monday to Friday. Members may also appoint a proxy through the CREST electronic proxy appointment service as described in note 13 below.
3. To be valid any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand to Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA no later than 2.30 p.m. on 27 August 2018, together with, if appropriate, the power of attorney or other authority (if any) under which it is signed or a duly certified copy of that power or authority.
4. The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in note 13(a) below) will not prevent a member attending the meeting and voting in person if he/she wishes to do so.
5. A vote withheld option is provided on the form of proxy to enable you to instruct your proxy not to vote on any particular resolution. However, it should be noted that a vote withheld in this way is not a 'vote' in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution.
6. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
7. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1, 2 and 3 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.
8. To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the votes they may cast), members must be registered in the register of members of the Company at 6.30 p.m. on 27 August 2018 (or, in the event of any adjournment, 6.30 p.m. on the date which is two days before the time of the adjourned meeting). Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
9. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
10. If a member submits more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
11. Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (i) to do so would interfere unduly with the preparation for the meeting or would involve the disclosure of confidential information or (ii) the answer has already been given on a website in the form of an answer to a question or (iii) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
12. As at the date of issue of this notice the Company's issued share capital consists of 16,295,357 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at the date of issue of this notice are 16,295,357.
13. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for this meeting by using the procedures described in the CREST Manual which can be viewed at [www.euroclear.com](http://www.euroclear.com). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. Please note the following:
  - (a) In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by the latest time(s) for receipt of proxy appointments specified in this notice. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time

any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

- (b) CREST members and, where applicable, their CREST sponsors or voting service providers, should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
  - (c) The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
- 14. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided they do not do so in relation to the same shares.
  - 15. A copy of this notice and other information required by Section 311A of the Companies Act 2006 can be found at [www.daejanholdings.com](http://www.daejanholdings.com).
  - 16. You may not use any fax number, email address or other electronic address provided in this document or on the proxy form to communicate with the Company for any purpose other than expressly stated.



## NOTES

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***Opposite page: 260 West End Avenue, Manhattan, New York. Back cover: 11 East Chase Street, Baltimore, Maryland.***

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*Design, art direction and photography by Roger Watt.*