

Daejan Holdings PLC

Report & Financial Statements 2006



Summary of Results

| | <i>Year ended 31 March</i> | |
|--------------------------------------|----------------------------|--------------|
| | 2006 £000 | 2005 £000 |
| Profit before Taxation | 162,659 | 96,420 |
| Profit after Taxation | 113,112 | 67,509 |
| Earnings per Share | 690.1p | 413.7p |
| Dividends per Share | 65.0p | 61.0p |
| Equity Shareholders' Funds per Share | £45.74 | £38.94 |

Final Dividend of 40p per share payable on 1 November 2006 to shareholders on the register on 6 October 2006

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Some of our Properties



Right:
*Bedford House,
Park Street, Taunton,
Somerset.*

Below:
*Barclays House,
High Street, Crawley,
West Sussex.*



Above: *Queensway Meadow, Newport, Gwent.*

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





*Left: Swan Courtyard,
Charles Edward Road,
Yardley, Birmingham.*

*Below:
Beacontree Plaza,
Gillette Way, Reading,
Berks.*



*Above: Somerfield Supermarket, High Street,
Newport, Shropshire.*

Left: 4200 Inverrary Boulevard, Lauderhill, Florida.

Chairman's Statement

I have great pleasure in presenting the Report and Accounts for the year ended 31 March 2006, our first annual accounts to be prepared using International Financial Reporting Standards (IFRS). These new standards are intended to be accepted internationally and have been mandated by the European Union (EU) for adoption in the preparation of the consolidated accounts of all companies whose shares are listed on a recognised Stock Exchange within the EU.

The adoption of IFRS has led to a number of changes to the way in which our results and financial position have traditionally been presented (UK GAAP). In particular, all properties are now included in the Consolidated Balance Sheet at valuation and the resultant year on year changes in valuation are included in arriving at Profit for the Year.

Our profit and loss accounts over many years have been based upon net property revenue and property sales and this has produced long term, steady progress in our reported profit. The IFRS approach will have the unintended consequence of injecting volatility into our reported profit, with every percentage point change in annual revaluation producing a swing of some £11 million in reported Profit before Tax.

Taking this years results as an example, the table below illustrates that the stated Profit before Tax of £162.6 million would, under UK GAAP, have been reported as a profit of £34.6 million.

Full details of the adjustments which have been made in order to restate the Consolidated Balance Sheet and Income Statement from UK GAAP onto an IFRS basis are set out in note 23 on page 42.

| | 2006 £000 | 2005 £000 |
|---|--------------|--------------|
| Profit under UK GAAP | 34,627 | 31,269 |
| Valuation Gains | 149,728 | 70,586 |
| Valuation Losses | (18,752) | (6,207) |
| Fair Value Gains | 1,288 | 2,919 |
| Adjustment for Gain on Sales of Ex-Trading Properties | (4,232) | (2,147) |
| Profit under IFRS | 162,659 | 96,420 |



Above:
Euro House,
High Street,
Hounslow, Middx.



Right:
The Square,
Broad Street,
Birmingham.

The new IFRS presentation includes in the Consolidated Income Statement all gains, both realised and unrealised. It is however important to remember that the cash which we utilise to run the business and pay dividends to Shareholders is largely generated from net rental income and realised gains. This is set out in the Consolidated Statement of Cash Flows on page 26, which shows Net Cash from Operating Activities in 2006 amounting to £17.1 million (2005 - £8.7 million).

Whilst the way in which we report to you may have changed, we have been constant in our focus on the reality of the business in our traditional manner and I am pleased to report a further satisfactory period with significant increases in both profit and the Group's net worth.

The revaluation of our Investment Properties at £1.1 billion is most encouraging and represents an overall annual uplift of 14%; this compares favourably with the uplift of 7% in 2005.

The table below shows the contribution to this uplift by type of property:

| | Valuation March 2006 | Percentage Change |
|----------------------|-------------------------|----------------------|
| Commercial Property | | |
| UK | £564.5m | +12.2% |
| USA | £34.2m | +18.3% |
| Residential Property | | |
| UK | £349.9m | +18.5% |
| USA | £152.4m | +3.7% |
| Total | £1,101.0m | 14% |



Above:
Barton Street, Bath.

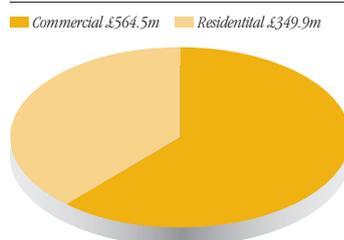
Left: Jeffries Passage,
North Street,
Guildford, Surrey.

Far left:
Temple Street,
Birmingham.

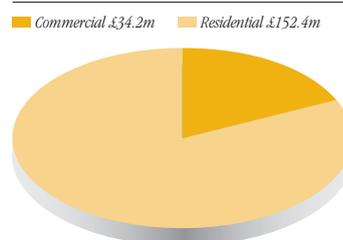
Chairman's Statement (continued)

Analysis by Property Type

Property UK



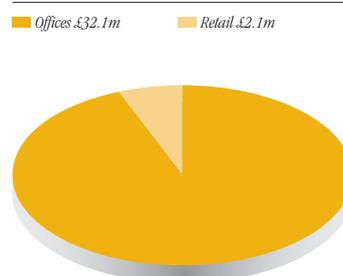
Property USA



Commercial Property UK

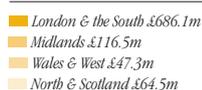


Commercial Property USA



Analysis by Location

UK Valuations



USA Valuations



Properties in the USA now comprise 17% of our total portfolio and it is intended that our holdings in the USA should be gradually expanded.

Turning to the results for the year, our Gross Rental Income at £77.5 million is up 17.5% on last year (2005 - £66 million). As I mentioned in my last report, we received in July 2005 a cumulative uplift of £3.5 million following the settlement of a long outstanding rent review for the Strand Palace Hotel. After adjusting for this non-recurring item, for new additions to our portfolio late in 2005 and for exchange rate movements we achieved an underlying rental growth of 5.5% in the UK and 9.2% in the USA, giving 6.3% rental growth overall.

Expenditure in the year on repairs at £22.4 million is £2.9 million up on last year (2005 - £19.5 million). In the UK, expenditure was up £1.1 million at £18.4 million with significant major works programmes at Park West, Heathcroft, Oakwood Court and a further 12 properties accounting for



Far left:
*The Promenade,
Cheltenham, Gloucs.*

Left: *1625 East 13th
Street, Brooklyn,
New York, USA.*

Below: *4 Crossroads
Drive, Hamilton,
New Jersey, USA.*



half of the repair spend. The remainder was spread widely on numerous small projects across the entire UK portfolio.

Of the total UK repair expenditure £12 million is recoverable from lessees via service charges (2005 - £11 million). At 31 March 2006 expenditure on major works projects on our UK properties with a total estimated cost of £16 million had been approved but not incurred; these projects will be completed over several accounting periods. In the USA the increase of £1.9 million was very largely attributable to costs incurred following damage by Hurricane Wilma to our apartment complex in Fort Lauderdale, Florida.

In the UK the residential letting market continues to be fairly active and our level of lettings is similar to last year. As far as our commercial properties are concerned the letting market has been somewhat less buoyant with an increase in rental income of only 2.5% in the year.

Increased lettings in the USA, particularly at Fort Lauderdale, Florida have contributed to the growth in USA rental income.

The Group's continuing performance gives your Board confidence to recommend an increase in the total dividend for the year from 61p to 65p per share; an increase of 6.6% (2005 - 5%). The final dividend payable in November, subject to shareholder approval, will be 40p per share. Your Board will continue with its policy of prudently increasing dividend levels in line with the Group's progress.

The Consolidated Balance Sheet at 31 March 2006 shows clearly the Group's continuing financial strength with Equity Shareholders Funds of £745 million (2005 - £634 million); equivalent to £45.74 per share (2005 - £38.94). This is an increase of 17.5% in the year. In keeping with our conservative approach we continue to maintain gearing at a relatively low level; 13% at the year end (2005 - 16%). Our cash resources and undrawn facilities, amounting at 31 March 2006 to £181 million (2005 - £138 million), enable us to readily respond to suitable investment opportunities.

Chairman's Statement (continued)



Although it seems unlikely that we will be able to take advantage of the introduction of the new Real Estate Investment Trust (REITS) legislation, we continue to keep the situation under active review.

The property market has continued to see reductions in investment yields and it seems likely that these lower yields will prevail for the immediate future. Looking forward, however, we cannot rule out the possibility of a change in sentiment which may impact on yields and values.

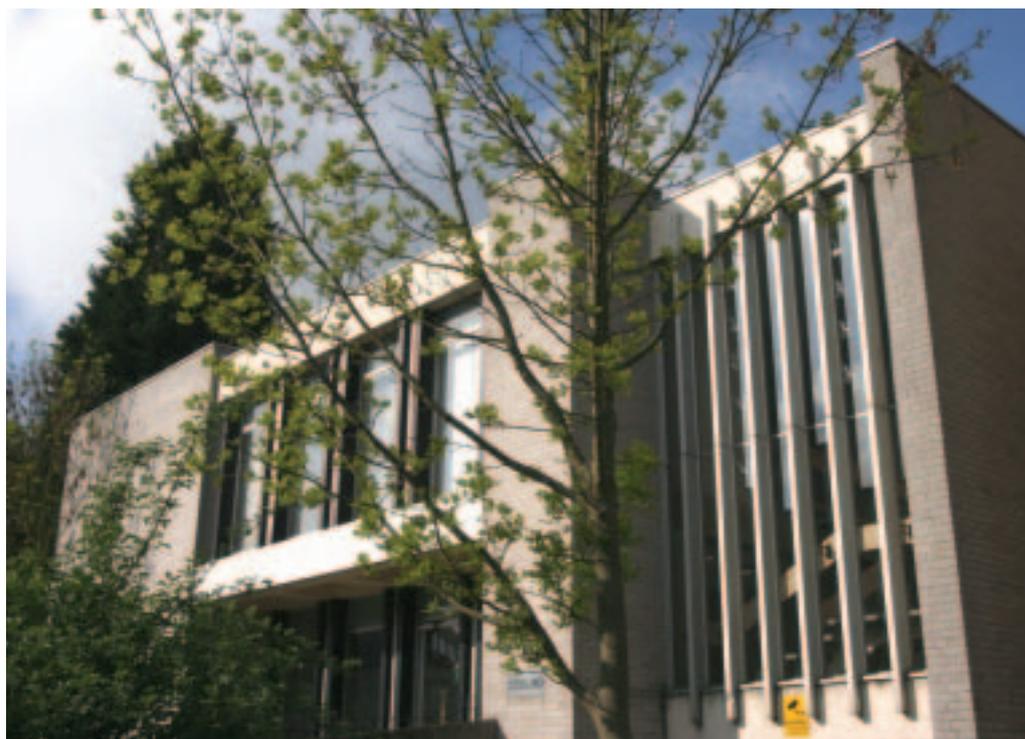
Yield compression has had a positive effect on valuations of our existing properties. It also means that profit margins on prospective purchases, particularly in the UK, have been narrower which allows a lesser margin of protection against

commercial risk. We have therefore concentrated our efforts on seeking new opportunities to enhance rental and capital values within our existing portfolio.

I have confidence that our approach of enterprise tempered by caution, combined with the strength and diversity of our portfolio, will enable us to deliver the long term steady progress that has become the hallmark of our Group.

I would like to conclude this report by expressing my sincere thanks to our staff for their unstinting efforts on behalf of the Group and its shareholders throughout the year.

B.S.E. FRESHWATER
Chairman



Above:
*Kew House,
Brentford,
Middx.*

Right:
*Hills Road,
Cambridge.*

Directors' Report

The Directors have pleasure in presenting their Report together with the Financial Statements for the year to 31 March 2006.

Principal Activities of the Group

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

Properties

A professional valuation of all the Group's properties was carried out at 31 March 2006. The resultant figures are included in the Financial Statements now presented and the increase of £131 million over previous book values has been included in the Income Statement. The Group's UK properties were valued by Cardales, Chartered Surveys and by Colliers CRE, Chartered Surveyors and produced a revaluation surplus of £119 million.

The Group's USA properties were valued by KTR Newmark, Meredith & Green, Joseph J. Blake and Associates Inc. and Metropolitan Valuation Services Inc. All the USA firms are General Certified appraisers. The revaluation surplus arising on the USA properties was £12 million.

Business Review

The Group's Business Review and future developments are included in the Chairman's Statement set out on pages 4 to 8 which are included in this report by reference.

International Financial Reporting Standards

Daejan Holdings PLC has adopted International Financial Reporting Standards ("IFRS") for the first time in these financial statements. The 2005 comparatives have been restated for IFRS. Reconciliations of the results and net assets under UK GAAP, as previously reported, to IFRS are given in note 23. The adoption of IFRS has resulted in a number of adjustments to the previously reported results and net assets which are explained in the same note.

Directors' Report (continued)*Results & Dividend*

The profit for the financial year amounted to £113,112,000 (2005 - £67,509,000). An Interim Dividend of 25p per share was paid on 10 March 2006 and the Directors now recommend the payment of a Final Dividend of 40p per share, making a total for the year of 65p per share, an increase of 4p over the previous year.

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

| | Property Income | | Profit | |
|-----------------------------------|-----------------|-------------|------------|-------------|
| | UK £000 | USA £000 | UK £000 | USA £000 |
| Gross Rental and Service Charges | 77,114 | 18,575 | 38,794 | 3,915 |
| Sales of Investment Properties | 7,969 | 4,196 | 4,884 | 1,289 |
| Net Valuation Gains | 119,138 | 11,838 | 119,138 | 11,838 |
| | 204,221 | 34,609 | 162,816 | 17,042 |
| Financing Charges (net) | | | (5,908) | (2,200) |
| Administrative and Other Expenses | | | (8,568) | (523) |
| | | | 148,340 | 14,319 |
| | | | 14,319 | |
| Profit before Taxation | | | 162,659 | |

Principal Accounting Estimates and Judgements

The Group's critical accounting policies and estimates are disclosed in full in note 1 to the financial statements. This note is intended to highlight those policies that are critical to the business based on the level of management judgement required in their application, their complexity and potential impact on the results and financial position reported for the Group. The principal area of judgement is the valuation of properties.

Financial Objectives and Policies and Exposure to Financial Risk

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

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

Impact of Future Accounting Standards not yet endorsed

Additional standards have been issued but were not effective during the year and are not expected to have any material effect on the results of the Group.

Payment Policy

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

Directors

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

Mr B S E Freshwater

Mr D Davis

Mr S I Freshwater

Brief biographies of the Directors are as follows:-

Mr B S E Freshwater. Aged 58 - Joined the Board in December 1971 with primary responsibility for the Group's finances. In July 1976 he was appointed Managing Director and, additionally, became Chairman in July 1980.

Mr D Davis. Aged 71 - A Chartered Accountant and member of the Institute of Taxation, was previously a partner in Cohen Arnold, the Group's consulting accountants. He relinquished his partnership in 1971 in order to devote more time to his numerous business and other interests. He has been a non-executive Director of the Company since December 1971.

Mr S I Freshwater. Aged 55 - Directs the Group's operations in the USA and also has responsibility for the Group's UK sales division. He has been a Director of the Company since January 1986.

Directors' Interests

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

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

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

Directors' Report (continued)*Substantial Interests & Interests of Directors*

| | | | |
|---------------------|---------------------|-----------------|----------|
| Daejan Holdings PLC | | 31 March | 31 March |
| Ordinary Shares | | 2006 | 2005 |
| D Davis | (notes 2 & 3) | 763 | 763 |
| B S E Freshwater | (notes 1, 2, 3 & 4) | 590,033 | 590,033 |
| S I Freshwater | (notes 2, 3 & 4) | 89,270 | 89,270 |

Notes:

- All the above holdings were beneficially owned. Mr B S E Freshwater's shareholding represents 3.6% of the Issued Share Capital of the Company.
- A further 4,363,116 shares (2005 - 4,363,116) representing 26.8% of the Issued Share Capital of the Company were held by Freshwater family trusts and by charitable companies in which Mr B S E Freshwater, Mr S I Freshwater and Mr D Davis have no beneficial interest.
- In addition to the holding shown in the table and in note 2 above, companies owned and controlled by Mr B S E Freshwater, Mr S I Freshwater and by their families, and family trusts, held at 31 March 2006 a total of 7,876,431 shares (2005 - 7,876,431) representing 48.3% of the Issued Share Capital of the Company. Mr D Davis has a non-beneficial interest in some of these shares as a Director of the companies concerned, or as a trustee.
- Of these shares 89,270 are held by a company owned jointly by Mr B S E Freshwater and Mr S I Freshwater.
- There have been no changes in any of the above interests since 31 March 2006 up to the date of signing this report.

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

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

Related Party Transaction

On 14 October 2004 as part of the wider financial planning strategy, Daejan Holdings PLC ("Daejan") and Metropolitan Properties Co. Limited ("Metropolitan") acquired, respectively, a 74.9% and 24.9% shareholding in Arch Holdings Limited. On the same date, Arch Holdings Limited acquired a 100% shareholding in Arch (2004) Limited (formerly CBS Underwriting Limited) ("CBS").

Metropolitan and its Associates own more than 10% of Daejan's Ordinary Share Capital and moreover is controlled by two of the Directors of Daejan. Metropolitan is therefore a related party of Daejan. As a result, the acquisition of the interests in Arch Holdings Limited and Arch (2004) Limited were related party transactions as defined by the rules of the United Kingdom Listing Authority.

Full details of the holdings are set out in note 9 on page 35 of the Report and Accounts. Brewin Dolphin Securities, the Company's Stockbrokers, have stated that, in their opinion, the transaction to acquire the stake in CBS was fair and reasonable insofar as the shareholders of Daejan were concerned.

Capital Gains Tax

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

Charitable Donations

Charitable Donations made by the Group amounted to £120,000 (2005 - £120,000). There were no political contributions (2005 - £Nil).

Auditors

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

Statement of Disclosure of Information to Auditors

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

By Order of the Board,

M R M Jenner

Secretary

9 August 2006

Directors' Remuneration Report

Audited Information

Remuneration

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

| 2006 | Salary £ | Fees £ | Total £ |
|---------------------|------------------|---------------|------------------|
| Mr B S E Freshwater | 575,000 | 20,000 | 595,000 |
| Mr D Davis | – | 20,000 | 20,000 |
| Mr S I Freshwater | 504,000 | 20,000 | 524,000 |
| | 1,079,000 | 60,000 | 1,139,000 |

| 2005 | Salary £ | Fees £ | Total £ |
|---------------------|----------------|---------------|----------------|
| Mr B S E Freshwater | 500,000 | 20,000 | 520,000 |
| Mr D Davis | – | 20,000 | 20,000 |
| Mr S I Freshwater | 435,000 | 20,000 | 455,000 |
| | 935,000 | 60,000 | 995,000 |

Pensions

Mr B S E Freshwater participates in a Small Self-administered Pension Scheme which provides at any time after age 60 a sum of money to purchase a pension subject to Inland Revenue limits and other statutory rules. The pension scheme also provides on death in service, for all contributions made to be applied in providing benefits for Mr Freshwater's dependants. This is a defined contribution scheme to which no further contributions will be made.

Unaudited Information

Compliance

The Board considers that the Company has complied throughout the year with the requirements of the Combined Code in relation to Directors' remuneration with the exception of the provision relating to the formation and constitution of a remuneration committee (see page 16). In determining remuneration policy, the Board has given full consideration to the Principles of Good Governance and Code of Best Practice as set out in Section 1 of the Combined Code annexed to the Listing Rules of the Financial Services Authority.

Policy

The remuneration policy adopted by the Board is designed to ensure that the Directors' interests are allied to the long-term growth of the Group and therefore to the interests of the shareholders as a whole. The Group does not operate any form of bonus scheme or share option scheme since the Executive Directors' salaries for the year are determined by the Board once the results for the year are known with any salary increase calculated and paid with effect from the beginning of the financial year.

Remuneration of Non Executive Directors

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

Service Contracts

No Director has a service contract.

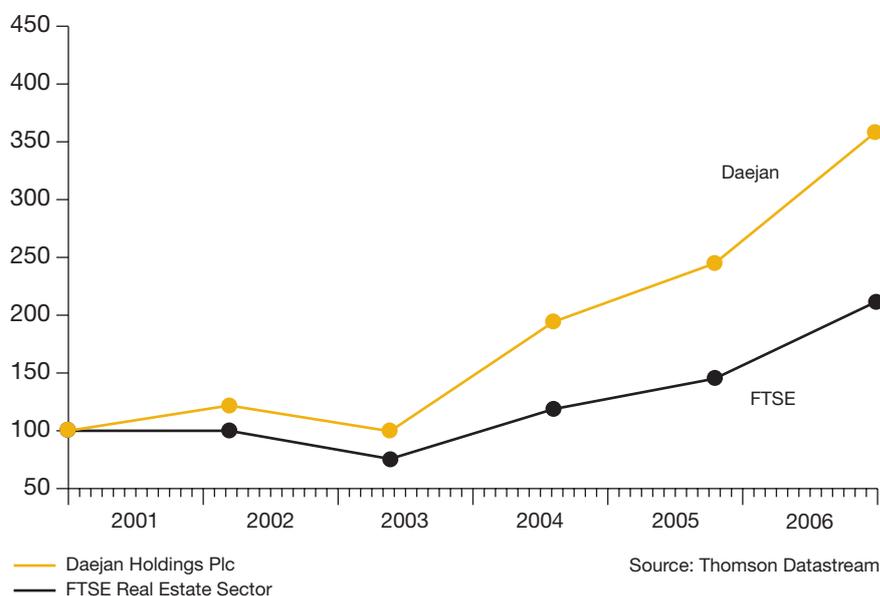
Total Shareholder Return

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

Daejan Holdings Total Shareholder Return Index versus FTSE Real Estate Sector Total Return Index

for the five financial years ended 31 March 2006 (rebased as at 1 April 2001)

TSR Performance Graph



Approved by the Board on 9 August 2006 and signed on its behalf by

M R M Jenner

Company Secretary

Corporate Governance

Corporate Governance

The Board is required by the Financial Services Authority to report on the extent of its application of the principles and of its compliance with the provisions contained in the revised Combined Code issued by the Financial Reporting Council in July 2003.

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

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

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

The Board

The Group is controlled through its Board of Directors. The Board's main roles are to create value to 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 them to meet those objectives.

The Board meets regularly throughout the year on both a formal and informal basis. Comprehensive management information covering all aspects of the Company's business is supplied to the Board in a timely manner and in a form and quality to enable it to discharge its duties. The Board's principal focus, in accordance with the formal schedule of matters referred to it for decision, is on the formation of strategy and the monitoring and control of operations and financial performance. All Directors have access to the Company Secretary who is responsible for ensuring that the Board

procedures are complied with. The Board has agreed a procedure for Directors in the furtherance of their duties to take independent professional advice if necessary, at the Company's expense.

The Board consult on a regular basis with the Group's external auditors and are charged with ensuring that their objectivity and independence is safeguarded.

The entire Board is responsible for the selection and approval of candidates for appointment to the Board. All Directors retire by rotation and submit themselves to shareholders at Annual General Meetings at regular intervals and at least every three years. The Board acknowledge that in view of his length of service the non-executive Director is not technically independent. The non-executive Director will stand for re-election on an annual basis in order to comply with the revised Combined Code.

During the year there were four formal Board Meetings and attendance was:

B S E Freshwater (4), S I Freshwater (4), D Davis (4).

Directors and Directors' Independence

The Board currently comprises the Chairman, one non-executive Director and one executive Director. The names of the Directors together with their biographical details are set out on page 11. All the Directors served throughout the period under review.

Directors' Remuneration

Details of the Directors' remuneration are contained in the Remuneration Report on page 14.

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 revised Combined Code introduced a requirement that the Directors review the effectiveness of the Group's system of internal controls. This extends the existing requirement in respect of internal financial controls to cover all controls including: financial, operational, compliance, 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, that this process has been in place for the year

Corporate Governance *(continued)*

under review and up to the date of approval of the Annual Report and Accounts. This process is reviewed by the Board at regular intervals and accords with the Turnbull guidance.

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

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

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

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

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

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

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

Investor Relations

The Board values communication with private and institutional shareholders and with analysts. The Annual General Meeting is used as an opportunity to meet private shareholders. Other opportunities

are taken during the year to discuss the strategic and other issues with institutional shareholders and analysts.

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

Financial Reporting

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

Compliance Statement

The Board consider the Company has complied throughout the year ended 31 March 2006 with the provisions of the revised Code with the exception of the following paragraphs:

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

Going Concern

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

Directors' Responsibilities

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

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards.

The group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the group. The Companies Act 1985 provides in relation to such financial statements, that references in the relevant part of that Act to financial statements giving a true and fair view, are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company and of the profit or loss of the parent company for that period.

In preparing each of the group and parent company financial statements, the directors are required to:-

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that 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 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

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

Independent Auditors' Report

Independent auditors' report to the members of Daejan Holdings PLC

We have audited the group and parent company financial statements (the "financial statements") of Daejan Holdings Plc for the year ended 31 March 2006 which comprise the primary statements such as the Group Income Statement, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent company financial statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 20.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion

Independent Auditors' Report (continued)

on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 March 2006 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 March 2006; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation.

KPMG Audit Plc

Chartered Accountants

Registered Auditor

London

9 August 2006

Consolidated Income Statement

| <i>for the year ended 31 March 2006</i> | <i>Notes</i> | Year ended 31 March 2006 £000 | Year ended 31 March 2005 £000 |
|---|--------------|--|--|
| Gross Rental Income | | 77,526 | 65,985 |
| Service Charge Income | | 18,163 | 17,442 |
| Total Rental and Related Income from Investment Properties | | 95,689 | 83,427 |
| Property Operating Expenses | 3 | (52,980) | (46,760) |
| Net Rental & Related Income from Investment Properties | | 42,709 | 36,667 |
| Profit on Disposal of Investment Properties | | 6,173 | 7,959 |
| Valuation Gains on Investment Properties | | 149,728 | 70,586 |
| Valuation Losses on Investment Properties | | (18,752) | (6,207) |
| Net Valuation Gains on Investment Properties | | 130,976 | 64,379 |
| Administrative Expenses | 4 | (9,091) | (7,669) |
| Net Operating Profit before Net Financing Costs | | 170,767 | 101,336 |
| Fair Value Gains on Financial Instruments | | 1,298 | 2,908 |
| Fair Value (Losses)/Gains on Current Investments | | (10) | 11 |
| Financial Income | | 2,119 | 2,151 |
| Financial Expenses | | (11,515) | (9,986) |
| Net Financing Costs | 5 | (8,108) | (4,916) |
| Share of Post Tax Profit of Equity Accounted Associates | | - | - |
| Profit Before Taxation | | 162,659 | 96,420 |
| Income Tax Expense | 6 | (49,547) | (28,911) |
| Profit for the Year | | 113,112 | 67,509 |
| Attributable to:- | | | |
| Equity Holders of the Parent | | 112,460 | 67,413 |
| Minority Interest | | 652 | 96 |
| Profit for the Year | | 113,112 | 67,509 |
| Basic and Diluted Earnings per Share | 7 | 690.1p | 413.7p |

The notes on pages 27 to 44 form part of these Financial Statements.

Consolidated Statement of Recognised Income and Expense

| <i>for the year ended 31 March 2006</i> | Year ended 31 March 2006 £000 | Year ended 31 March 2005 £000 |
|--|--|--|
| Foreign Exchange translation differences | 8,307 | 1,870 |
| Income & Expense Recognised Directly in Equity | 8,307 | 1,870 |
| Profit for the Year | 113,112 | 67,509 |
| Total Recognised Income & Expense for the Year | 121,419 | 69,379 |
| Attributable to:- | | |
| Equity Holders of the Parent | 120,767 | 69,283 |
| Minority Interest | 652 | 96 |
| Total Recognised Income & Expense for the Year | 121,419 | 69,379 |

The notes on pages 27 to 44 form part of these Financial Statements.

Consolidated Balance Sheet

| <i>as at 31 March 2006</i> | <i>Notes</i> | 31 March 2006 £000 | 31 March 2005 £000 |
|--|--------------|-----------------------------------|--------------------------|
| Assets | | | |
| Investment Properties | 8 | 1,101,048 | 955,157 |
| Investment in Associate | 9 | – | – |
| Other Investments | 10 | 617 | 617 |
| Deferred Tax Assets | 11 | 2,608 | 2,997 |
| Total Non-Current Assets | | 1,104,273 | 958,771 |
| Trade and Other Receivables | 12 | 32,043 | 26,354 |
| Investments | 13 | 160 | 169 |
| Cash at Bank | 14 | 37,300 | 44,825 |
| Total Current Assets | | 69,503 | 71,348 |
| Total Assets | | 1,173,776 | 1,030,119 |
| Equity | | | |
| Issued Capital | 15 | 4,074 | 4,074 |
| Share Premium | 15 | 555 | 555 |
| Retained Earnings | 15 | 740,659 | 629,832 |
| Total Equity Attributable to Equity Holders of the Parent | | 745,288 | 634,461 |
| Minority Interest | | 330 | 206 |
| Total Equity | | 745,618 | 634,667 |
| Liabilities | | | |
| Interest Bearing Loans and Borrowings | 17 | 140,212 | 154,174 |
| Deferred Tax Liabilities | 11 | 219,045 | 180,912 |
| Total Non-Current Liabilities | | 359,257 | 335,086 |
| Bank Overdrafts | 14 | 15 | – |
| Interest Bearing Loans and Borrowings | 17 | 8,448 | 9,161 |
| Trade and Other Payables | 16 | 42,209 | 40,664 |
| Taxation | | 18,229 | 10,541 |
| Total Current Liabilities | | 68,901 | 60,366 |
| Total Liabilities | | 428,158 | 395,452 |
| Total Equity & Liabilities | | 1,173,776 | 1,030,119 |

The Financial Statements on pages 23 to 44 were approved by the Board of Directors on 9 August 2006 and were signed on its behalf by:-

| | |
|------------------|----------|
| B.S.E Freshwater | Director |
| D. Davis | Director |

The notes on pages 27 to 44 form part of these Financial Statements.

Consolidated Statement of Cash Flows

| <i>for the year ended 31 March 2006</i> | Year ended 31 March 2006 | | Year ended 31 March 2005 | |
|--|--------------------------------|---------------|--------------------------------|---------------|
| | £000 | £000 | £000 | £000 |
| Cash Flows From Operating Activities | | | | |
| Cash Receipts – Rent and Charges | 90,284 | | 81,254 | |
| Cash Paid to Suppliers and Employees | (59,785) | | (55,170) | |
| Cash Generated from Operations | 30,499 | | 26,084 | |
| Interest Received | 2,119 | | 2,151 | |
| Interest Paid | (11,543) | | (10,223) | |
| Drawings by Minority Interest in USA partnership | (528) | | (23) | |
| UK Corporation Tax Paid | (3,352) | | (9,152) | |
| Overseas Tax Paid | (83) | | (171) | |
| Net Cash from Operating Activities (Note 19) | | 17,112 | | 8,666 |
| Cash Flows from Investing Activities | | | | |
| Acquisition of Investment Properties | (6,806) | | (29,991) | |
| Proceeds from Sale of Investment Properties | 12,165 | | 24,975 | |
| Net cash from Investing Activities | | 5,359 | | (5,016) |
| Cash Flows from Financing Activities | | | | |
| Repayment of Secured Loans | (24,782) | | (13,306) | |
| Repayment of Mortgage Advances | (1,321) | | (967) | |
| New Mortgage Advances | 4,728 | | 21,311 | |
| Dividends Paid | (9,940) | | (9,940) | |
| Net Cash from Financing Activities | | (31,315) | | (2,902) |
| Net (Decrease)/Increase in Cash and Cash Equivalents | | (8,844) | | 748 |
| Cash and Cash Equivalents Brought Forward | | 44,825 | | 43,812 |
| Effect of Exchange Rate Fluctuations on Cash Held | | 1,304 | | 265 |
| Cash and Cash Equivalents (Note 14) | | 37,285 | | 44,825 |

The notes on pages 27 to 44 form part of these Financial Statements.

Notes to the Consolidated Financial Statements

1. Significant accounting policies

Daejan Holdings PLC is a company domiciled in the United Kingdom. The consolidated financial statements of the Company for the year ended 31 March 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The consolidated financial statements were authorised for issuance on 9 August.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs). These are the Group's first IFRS consolidated financial statements and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in note 23. This note includes reconciliations of equity and profit or loss for the comparative period reported under United Kingdom GAAP (previous GAAP) to those reported for those periods under IFRSs.

The Company has elected to prepare its parent Company Financial Statements in accordance with UK GAAP and these are presented on pages 45 to 48.

(b) Basis of preparation

The financial statements are presented in sterling, 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: derivative financial instruments, investment properties, other non-current investments and current asset investments.

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.

These consolidated financial statements have been prepared on the basis of IFRSs in issue that are effective at the Group's first IFRS annual reporting date, 31 March 2006.

The preparation of the consolidated financial statements in accordance with IFRS resulted in changes to the accounting policies as compared with most recent annual financial statements prepared under previous GAAP. The accounting policies set out below, unless otherwise stated, have been applied consistently to all periods presented in these consolidated financial statements. They also have been applied in preparing an opening IFRS balance sheet at 1 April 2004 for the purposes of the transition to IFRSs, as required by IFRS 1. The impact of the transition from previous GAAP to IFRSs is explained in note 23.

The accounting policies have been applied consistently throughout the Group for purposes of these consolidated financial statements.

(c) Subsidiaries

Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Notes to the Consolidated Financial Statements *(continued)*

(d) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements includes the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

(e) 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.

(f) Income available for distribution

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

(g) 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 difference arising on retranslation are recognised directly in a separate component of equity.

(h) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to interest rate risk arising from operational and financing activities. As the derivatives do not qualify for hedge accounting, they are accounted for as trading instruments. Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated 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.

(i) Investment property

IFRS defines Investment properties as those which are held either to earn rental income or for capital appreciation or both. Investment properties are stated at fair value. External, independent valuation firms having appropriate recognised professional qualifications and recent 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.

As at 31 March 2005 and as part of the transition to IFRS the Directors in conjunction with advice received from professional valuers, valued the properties which under UK GAAP were characterised as trading properties but which under IFRS are classified as investment properties. At 31 March 2006 these properties were valued by Colliers CRE, Chartered Surveyors (see note 8).

The Group's other investment properties were valued as set out in note 8 on page 35.

The valuations are prepared by considering the aggregate of the net annual rent receivable from the properties. A yield which reflects the risks inherent in the net cash flows is then applied to the net annual rents to arrive at the property valuation. Any gains or losses arising from a change in fair value are recognised in the Income Statement.

When the Group begins to redevelop an existing investment property for continued future use as an investment property, the property remains an investment property, which is measured based on the fair value model.

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.

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

Acquisition and disposals are accounted for at the date of completion. It is Group policy to sell, as individual units, flats in residential blocks which have been held as investment but which are now considered uneconomic to retain. Occasionally there are sales of residential and commercial investment blocks. The resulting surplus based on the excess sale proceeds over valuation is included in the Income Statement and taxation applicable thereto is shown as part of the taxation charge.

(j) Other non-current investments

Other non-current investments are classified as available for sale investments and are stated at fair value with any resultant gain or loss recognised through reserves.

(k) Investment in equity securities

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

(l) Other receivables

Trade and other receivables are stated at their cost less impairment losses.

(m) Cash and cash equivalents

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

(n) Dividends

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

Notes to the Consolidated Financial Statements *(continued)*

(o) Trade and other payables

Trade and other payables are stated at their cost.

(p) 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 term of the lease. Lease incentives granted are recognised as an integral part of the total rental income. Service charge income is recognised as the services are provided. Net rental income is stated net of VAT.

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

(q) 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.

(r) Taxation

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

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

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

The Group has no intention of making material disposals of its property assets in the foreseeable future and as such no allowance has been made for the effect of indexation.

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.

(s) Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services within a particular business segment or geographic location, which is subject to risks and rewards that are different from those of other segments.

(t) Impairment

The carrying amounts of the Group's assets, other than investment property (see accounting policy (i)) and deferred tax assets (see accounting policy (r)), 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.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

Impairment losses recognised in respect of cash generating units are allocated to first reduce the carrying amount of any goodwill allocated to cash generating units (group of units) and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

(i) Calculation of recoverable amount

The recoverable amount of the Group's investments in held-to-maturity securities and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversal of impairment

An impairment loss in respect of a receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(u) Provisions

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

(v) Policy on interest bearing borrowings

The Group seeks to minimise the risk of sudden and unexpected rises in finance costs by way of financial derivative instruments while retaining the ability to take advantage of falling interest rates.

Notes to the Consolidated Financial Statements (continued)

2. Segmental Analysis

The group operates in one business segment, Investment Property, across two geographical segments, UK & USA. The geographical analysis of property income, profit and total assets and liabilities is as follows:-

| | UK | USA | 2006 | UK | USA | 2005 |
|---|-------------|-------------|--------------|-------------|-------------|--------------|
| | £000 | £000 | Total | £000 | £000 | Total |
| | | | £000 | | | £000 |
| Total rental and related income | 77,114 | 18,575 | 95,689 | 69,910 | 13,517 | 83,427 |
| Profit on disposal of investment properties | 4,884 | 1,289 | 6,173 | 7,925 | 34 | 7,959 |
| Property Income | 81,998 | 19,864 | 101,862 | 77,835 | 13,551 | 91,386 |
| Profit before financing charges | 154,248 | 16,519 | 170,767 | 77,715 | 23,621 | 101,336 |
| Financing Charges | (5,908) | (2,200) | (8,108) | (4,524) | (392) | (4,916) |
| Profit before taxation | 148,340 | 14,319 | 162,659 | 73,191 | 23,229 | 96,420 |
| Total Assets | 962,194 | 211,582 | 1,173,776 | 849,600 | 180,519 | 1,030,119 |
| Total Liabilities | 304,755 | 123,403 | 428,158 | 278,153 | 117,299 | 395,452 |
| Capital Expenditure | 1,597 | 5,209 | 6,806 | 12,792 | 17,199 | 29,991 |

3. Property Operating Expenses

| | 2006 | 2005 |
|---------------------------------|-------------|-------------|
| | £000 | £000 |
| Porterage, Cleaning and Repairs | 28,944 | 25,303 |
| Insurance | 3,745 | 3,638 |
| Building Services | 11,057 | 9,187 |
| Other Management Costs | 9,234 | 8,632 |
| | 52,980 | 46,760 |

4. Administrative Expenses

| | 2006 | 2005 |
|---|--------------|-------|
| | £000 | £000 |
| Salaries | 4,387 | 4,142 |
| Directors' Remuneration | 1,079 | 995 |
| Audit and Accountancy | 551 | 506 |
| Legal and Other Administrative Expenses | 3,074 | 2,026 |
| | 9,091 | 7,669 |

Auditors' Remuneration

The Group paid £451,000 (2005 - £417,000) for Audit Services (including irrecoverable VAT) to its Auditors and £Nil (2005 - £300,000) for Taxation Services to KPMG LLP.

The Group jointly employed an average of 145 persons during the year (2005 - 140). The aggregate payroll costs were:-

| | 2006 | 2005 |
|------------------|--------------|-------|
| | £000 | £000 |
| Wages | 3,662 | 3,461 |
| NI Contributions | 305 | 287 |
| Pensions | 420 | 394 |
| | 4,387 | 4,142 |

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

5. Net Financing Costs

| | 2006 | 2005 |
|--|-----------------|---------|
| | £000 | £000 |
| Fair Value Gains on Derivative Financial Instruments | 1,298 | 2,908 |
| Fair Value (Losses)/Gains on Current Investments | (10) | 11 |
| Interest Receivable | 2,119 | 2,151 |
| Financial Income | 3,407 | 5,070 |
| Interest Payable on Loans Repayable within 5 years | (1,738) | (569) |
| Interest Payable on Loans Repayable after 5 years | (9,777) | (9,417) |
| Financial Expenses | (11,515) | (9,986) |
| | (8,108) | (4,916) |

Notes to the Consolidated Financial Statements (continued)

6. Taxation on Profit on Ordinary Activities

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

| | 2006 £000 | 2005 £000 |
|---|--------------|--------------|
| UK Corporation Tax at 30% (2005 - 30%) | 10,484 | 9,891 |
| Overseas Taxation | 462 | (394) |
| | 10,946 | 9,497 |
| Prior Years Adjustments | 79 | (31) |
| Deferred Tax | 38,522 | 19,445 |
| | 49,547 | 28,911 |
| Reconciliation of Tax Expense | | |
| Profit on Ordinary Activities before Taxation | 162,659 | 96,420 |
| Corporation Tax at the Standard Rate of 30% (2005 - 30%) | 48,798 | 28,926 |
| Expenses Disallowed | 825 | 577 |
| Adjustments in Respect of Previous Period - UK | 79 | 233 |
| Reduced Tax on Overseas Profits Not Subject to UK Corporation Tax | (343) | (52) |
| Non-taxable Income and Other Differences | 188 | (773) |
| | 49,547 | 28,911 |

The Group has a wholly owned subsidiary undertaking J2C PLC, an associate Arch Holdings Limited and an investment in Tritream Limited. The Companies have been acquired as part of the Group's financial planning strategy. They have realised tax losses of £52m (2005 - £52m). A deferred tax asset has not been recognised on the basis that these losses are still subject to agreement by HM Revenue & Customs.

7. Earnings per Share

Earnings per share is calculated on the earnings, after taxation and minority interests, of £112,460,000 (2005 - £67,413,000) and the weighted average shares in issue during the year of 16,295,357 (2005 - 16,295,357).

8. Investment Properties

| | <i>Freehold</i> £000 | <i>Long Leasehold</i> £000 | <i>Short Leasehold</i> £000 | Total 2006 £000 | <i>Total 2005</i> £000 |
|---|-------------------------|-----------------------------------|------------------------------------|-------------------------------|-------------------------------|
| Professional Valuation at 1 April 2005 | 774,047 | 174,505 | 6,605 | 955,157 | 875,522 |
| Disposals | (3,175) | (2,819) | - | (5,994) | (13,956) |
| Additions | 6,283 | - | 523 | 6,806 | 29,991 |
| Revaluation | 88,335 | 34,654 | 7,987 | 130,976 | 64,379 |
| Foreign Exchange Movements | 10,995 | 3,008 | 100 | 14,103 | (779) |
| Professional Valuation at 31 March 2006 | 876,485 | 209,348 | 15,215 | 1,101,048 | 955,157 |

Professional valuations of all the Group's United Kingdom investment properties were carried out at 31 March 2006 by Cardales, Chartered Surveyors and Colliers CRE, Chartered Surveyors. The revalued figures are based on open market values in accordance with the Practice Statements in the RICS Appraisal and Valuation Manual.

The Group's USA investment properties were also professionally valued at 31 March 2006 by KTR Newmark, Meredith & Grew, Joseph J Blake and Associates, Inc. and Metropolitan Valuation Services Inc., USA General Certified Appraisers. The revalued figures are based on open market values.

9. Investment in Associate

Daejan Holdings PLC owns 74.9% (2005 - 74.9%) of the ordinary share capital of Arch Holdings Limited, incorporated in the UK, a holding company which owns 100% of the ordinary share capital of Arch (2004) Limited. The Company's shareholding provides 50% of the voting rights in Arch Holdings Limited and hence in Arch (2004) Limited.

Arch (2004) Limited's principal activity was underwriting, which it ceased on 31 December 2001. The company is fully indemnified by its former parent for all liabilities in excess of the company's assets and the former parent is also liable for all ongoing operating expenses of the company.

Due to this arrangement Daejan Holdings PLC has no obligation to fund any losses of Arch (2004) Limited or any excess of its liabilities over assets.

Daejan Holding PLC's interest in the net assets revenues and profits of Arch (Holdings) Limited amounted to £nil (2005 - £nil).

10. Other Investments

| | 2006 £000 | 2005 £000 |
|---|---------------------|---------------------|
| Interest in syndicates holding Industrial Buildings | 617 | 617 |

Notes to the Consolidated Financial Statements (continued)

11. Deferred Tax Assets and Liabilities

| | Assets £000 | Liabilities £000 | 2006 Net £000 | Assets £000 | Liabilities £000 | 2005 Net £000 |
|-----------------------|----------------|---------------------|---------------------|----------------|---------------------|---------------------|
| Investment Property | – | (212,167) | (212,167) | – | (174,165) | (174,165) |
| Temporary Differences | – | (6,878) | (6,878) | – | (6,747) | (6,747) |
| Fair value payables | 2,608 | – | 2,608 | 2,997 | – | 2,997 |
| | 2,608 | (219,045) | (216,437) | 2,997 | (180,912) | (177,915) |

Movement in Deferred Tax:-

| | Investment Property £000 | Temporary Differences £000 | Fair Values £000 | Total 2006 £000 | Total 2005 £000 |
|-----------------------|--------------------------------|----------------------------------|---------------------|-----------------------|-----------------------|
| Balance 1 April 2005 | (174,165) | (6,747) | 2,997 | (177,915) | (158,470) |
| Recognised in Income | (38,002) | (131) | (389) | (38,522) | (19,445) |
| Balance 31 March 2006 | (212,167) | (6,878) | 2,608 | (216,437) | (177,915) |

12. Trade and Other Receivables

| | 2006 £000 | 2005 £000 |
|---|--------------|--------------|
| Rent and Service Charges | 14,046 | 14,545 |
| Other Debtors and Prepayments | 12,083 | 10,224 |
| Mortgages granted repayable within one year | 2,105 | 801 |
| Escrow Account | 3,809 | 784 |
| | 32,043 | 26,354 |

13. Investments held as Current Assets

| | 2006 £000 | 2005 £000 |
|-------------------|--------------|--------------|
| Listed Securities | 160 | 169 |

14. Cash and Cash Equivalents

| | 2006 £000 | 2005 £000 |
|-----------------|--------------|--------------|
| Bank Balances | 27,793 | 41,340 |
| Call Deposits | 9,507 | 3,485 |
| Cash at Bank | 37,300 | 44,825 |
| Bank Overdrafts | (15) | – |
| | 37,285 | 44,825 |

Included within Bank Balances are tenants' deposits of £933,000 (2005 - £786,000) which cannot be used in the ordinary course of business.

15. Capital and Reserves

| | Number | 2006 £000 | 2005 £000 | | | |
|---------------------------------------|-----------------------|-----------------------|---------------------------|---------------|---------------------------|----------------------|
| Share Capital | | | | | | |
| Authorised: | | | | | | |
| Ordinary Shares of 25 pence per share | 18,722,596 | 4,681 | | | | 4,681 |
| Allotted, Called Up and Fully Paid: | | | | | | |
| Ordinary Shares of 25 pence per share | 16,295,357 | 4,074 | | | | 4,074 |
| | Share Capital £000 | Share Premium £000 | Retained Earnings £000 | Total £000 | Minority Interest £000 | Total Equity £000 |
| Balance at 1 April 2004 | 4,074 | 555 | 570,489 | 575,118 | 133 | 575,251 |
| Total Recognised Income and Expense | - | - | 69,283 | 69,283 | 96 | 69,379 |
| Dividends to Shareholders | - | - | (9,940) | (9,940) | (23) | (9,963) |
| Balance at 31 March 2005 | 4,074 | 555 | 629,832 | 634,461 | 206 | 634,667 |
| Balance at 1 April 2005 | 4,074 | 555 | 629,832 | 634,461 | 206 | 634,667 |
| Total Recognised Income and Expense | - | - | 120,767 | 120,767 | 652 | 121,419 |
| Dividends to Shareholders | - | - | (9,940) | (9,940) | (528) | (10,468) |
| Balance at 31 March 2006 | 4,074 | 555 | 740,659 | 745,288 | 330 | 745,618 |

Included within retained earnings is a translation reserve of (£1,879,000) (2005 - (£5,299,000)).

16. Trade and Other Payables

| | 2006 £000 | 2005 £000 |
|---|--------------|--------------|
| Rent and Service Charges charged in advance | 14,127 | 13,578 |
| Other Creditors and Accruals | 19,422 | 17,138 |
| Fair Value Payables | 8,660 | 9,948 |
| | 42,209 | 40,664 |

Notes to the Consolidated Financial Statements (continued)

17. Interest Bearing Loans and Borrowings

| Non-current Liabilities | | 2006 | 2005 |
|--|-----------------|----------------|-------------|
| | | £000 | £000 |
| Mortgage Advances | | 86,907 | 77,385 |
| Secured Bank Loans | | 53,305 | 76,789 |
| | | 140,212 | 154,174 |
| Analysis of creditors falling due after more than one year:- | | | |
| | Interest Rate % | 2006 | 2005 |
| | | £000 | £000 |
| Amounts Repayable After 1 April 2011 | | | |
| Instalment Mortgages | 4.46-7.89 | 78,688 | 65,844 |
| Secured Bank Loans | 5.23-8.55 | 49,306 | 65,361 |
| | | 127,994 | 131,205 |
| Amounts Repayable Between 1 April 2008 and 31 March 2011 | | | |
| Instalment Mortgages | 4.375-5.89 | 4,586 | 5,665 |
| Secured Bank Loans | 5.23-8.55 | 3,000 | 8,663 |
| | | 7,586 | 14,328 |
| Amounts Repayable Between 1 April 2007 and 31 March 2008 | | | |
| Instalment Mortgages | 4.5-6.76 | 3,632 | 5,876 |
| Secured Bank Loans | 5.23-8.55 | 1,000 | 2,765 |
| | | 4,632 | 8,641 |
| Total Amount of Long Term Loans | | 140,212 | 154,174 |
| Amount of Long Term Loans secured on certain of the Group's properties | | 140,212 | 154,174 |
| Current Liabilities | | 2006 | 2005 |
| | | £000 | £000 |
| Bank Loans | | 7,148 | 6,565 |
| Mortgage Advances | | 1,300 | 2,596 |
| | | 8,448 | 9,161 |

18. Financial Instruments

| Financial Assets | 2006 | 2005 |
|-------------------------------|---------------|---------------|
| | £000 | £000 |
| Cash – Sterling denominated | 21,450 | 30,293 |
| Cash – USA dollar denominated | 15,850 | 14,532 |
| | 37,300 | 44,825 |

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

The Group has trade and other receivables of £8,386,000 (2005 – £6,428,000) and trade and other payables of £7,873,000 (2005 – £8,373,000) denominated in USA dollars. Current asset investments and other non-current asset investments are denominated in Sterling.

Current and non-current asset investments, trade and other receivables and payables are included in these accounts at fair value.

Financial Liabilities

Liquidity risk – profile

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

| | 2006 | 2005 |
|--------------------------------------|----------------|----------------|
| | £000 | £000 |
| Within one year or less or on demand | 8,463 | 9,161 |
| Between one and two years | 4,632 | 8,641 |
| Between two and five years | 7,586 | 14,328 |
| After five years | 127,994 | 131,205 |
| | 148,675 | 163,335 |

The Group has undrawn borrowing facilities of £115m (2005 – £88.5m) expiring within one year and £29m (2005 – £5m) expiring after five years.

Interest rate risk – profile

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

| | 2006 | 2005 |
|--|----------------|----------------|
| | £000 | £000 |
| Floating rate liabilities – Sterling denominated | 18,265 | 18,753 |
| Floating rate liabilities – USA dollar denominated | 7,149 | 6,562 |
| Fixed rate liabilities – Sterling denominated | 45,005 | 69,585 |
| Fixed rate liabilities – USA dollar denominated | 78,256 | 68,435 |
| | 148,675 | 163,335 |

The floating rate financial liabilities comprise Sterling denominated bank borrowings bearing rates based on LIBOR and USA dollar denominated bank borrowings bearing rates based on USA Prime rate.

Hedge profile – type and maturity of protection

The weighted average interest rate on the fixed rate debt was 6.71% (2005 – 6.77%) and the weighted average period for which the borrowing is fixed at 31 March 2006 was 9 years (2005 – 10 years).

All of the £59,039,000 (2005 – £60,335,000) of fixed rate swaps mature after five years.

Details of Financial Risk Management are set out in the Directors Report.

Notes to the Consolidated Financial Statements (continued)

Fair value of financial liabilities

The table below sets out by category the book values and fair value of the Group's financial liabilities. The disclosures exclude short term trade and other receivables and payables as the carrying value is a reasonable approximation of fair value.

| | Book Value £000 | Notional Principle £000 | 2005 Fair Value adjustment £000 | Fair Value £000 |
|---|---------------------------|---|---|---------------------------|
| Financial instruments held or issued to finance the Group's operations | | | | |
| <i>Liabilities:</i> | | | | |
| Floating rate debt | (25,315) | - | - | (25,315) |
| Fixed rate debt | (138,020) | - | (9,990) | (148,010) |
| Fair value adjustment | | | (9,990) | |
| | | | | |
| | Book Value £000 | Notional Principle £000 | 2006 Fair Value adjustment £000 | Fair Value £000 |
| Financial instruments held or issued to finance the Group's operations | | | | |
| <i>Liabilities:</i> | | | | |
| Floating rate debt | (25,414) | - | - | (25,414) |
| Fixed rate debt | (123,261) | - | (8,692) | (131,953) |
| Fair value adjustment | | | (8,692) | |

19. Net Cash from Operating Activities

| | 2006 £000 | 2005 £000 |
|---|---------------------|---------------------|
| Profit for the Year | 113,112 | 67,509 |
| Adjustments for:- | | |
| Valuation Gains on Investment Properties | (130,976) | (64,379) |
| Fair Value Gains | (1,288) | (2,919) |
| Gain on Sale of Investment Properties | (6,173) | (7,959) |
| Interest Income | (2,119) | (2,151) |
| Interest Expense | 11,515 | 9,986 |
| Income Tax Expense | 49,547 | 28,911 |
| Operating Profit Before Changes in Working Capital and Provisions | 33,618 | 28,998 |
| Increase in Debtors | (4,772) | (2,136) |
| Increase/(Decrease) in Creditors | 1,652 | (787) |
| Decrease in Investments held as Current Assets | 1 | 9 |
| Cash Generated from Operations | 30,499 | 26,084 |
| Interest Received | 2,119 | 2,151 |
| Interest Paid | (11,543) | (10,223) |
| Drawings by Minority Interest in USA partnership | (528) | (23) |
| UK Corporation Tax Paid | (3,352) | (9,152) |
| Overseas Tax Paid | (83) | (171) |
| Net Cash from Operating Activities | 17,112 | 8,666 |

20. Dividends

| | £000 |
|--|-------|
| Final dividend for the year to 31 March 2004 Paid 1 November 2004 @ 36p per share | 5,866 |
| Interim dividend for the year to 31 March 2005 Paid 11 March 2005 @ 25p per share | 4,074 |
| Final dividend for the year to 31 March 2005 Paid 1 November 2005 @ 36p per share | 5,866 |
| Interim dividend for the year to 31 March 2006 Paid 10 March 2006 @ 25p per share | 4,074 |

21. Related party transactions

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

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

The net amounts paid for the provision of various management services charged by the Group's managing agents Highdorn Co. Limited and Freshwater Property Management Limited were £3.9m (2005 - £3.8m).

At 31 March 2006 £3.8m was due to Highdorn Co. Limited and Freshwater Property Management Ltd. (2005 - £2.3m).

The Directors interests in the Company and the principal shareholders are described on pages 11 and 12.

22. Contingent liabilities

The Company has guaranteed bank and mortgage indebtedness of certain subsidiary undertakings which at 31 March 2006 amounted to £25m (2005 - £50m).

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

Notes to the Consolidated Financial Statements (continued)

23. Explanation of Transition to IFRS

Reconciliation of Equity at 1 April 2004

| | £000 |
|--|-----------|
| UK GAAP Balance 1 April 2004 | 504,638 |
| Revaluation of Trading Properties | 232,803 |
| Deferred Tax on Revaluation Reserve | (159,049) |
| Dividend | 5,866 |
| Fair Value of Derivative Financial Instruments | (12,898) |
| Deferred Tax on Derivative Financial Instruments | 3,869 |
| Fair Value of Listed Investments | 31 |
| Deferred Tax on Listed Investments | (9) |
| | 575,251 |

| | Notes | UK GAAP | | Adjustments | | IFRS | |
|--|---------|----------|----------|-------------|----------|----------|----------|
| | | Year to | Year to | Year to | Year to | Year to | Year to |
| | | 31 March | 31 March | 31 March | 31 March | 31 March | 31 March |
| | | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| | | £000 | £000 | £000 | £000 | £000 | £000 |
| Gross Rental Income | i | 77,110 | 65,829 | 416 | 156 | 77,526 | 65,985 |
| Service Charge Income | | 18,163 | 17,442 | 0 | 0 | 18,163 | 17,442 |
| Property Operating Expenses | | (52,980) | (46,760) | 0 | 0 | (52,980) | (46,760) |
| Net Rental and Related Income | | 42,293 | 36,511 | 416 | 156 | 42,709 | 36,667 |
| Surplus on Sale of Trading Properties | a | 9,365 | 5,210 | (9,365) | (5,210) | 0 | 0 |
| Other Income | i | 416 | 156 | (416) | (156) | 0 | 0 |
| Profit on Disposal of Investment Properties | a,b | 1,040 | 4,896 | 5,133 | 3,063 | 6,173 | 7,959 |
| Valuation Gains on Investment Properties | | 0 | 0 | 149,728 | 70,586 | 149,728 | 70,586 |
| Valuation Losses on Investment Properties | | 0 | 0 | (18,752) | (6,207) | (18,752) | (6,207) |
| Net Valuation Gains on Investment Properties | g | 0 | 0 | 130,976 | 64,379 | 130,976 | 64,379 |
| Administrative Expenses | | (9,091) | (7,669) | 0 | 0 | (9,091) | (7,669) |
| Operating Profit before Net Financing Costs | | 44,023 | 39,104 | 126,744 | 62,232 | 170,767 | 101,336 |
| Fair Value Gains on Financial Instruments | d | 0 | 0 | 1,298 | 2,908 | 1,298 | 2,908 |
| Fair Value (Losses)/Gains on Current Investments | | 0 | 0 | (10) | 11 | (10) | 11 |
| Financial Income | | 2,119 | 2,151 | 0 | 0 | 2,119 | 2,151 |
| Financial Expenses | | (11,515) | (9,986) | 0 | 0 | (11,515) | (9,986) |
| Net Financing Costs | | (9,396) | (7,835) | 1,288 | 2,919 | (8,108) | (4,916) |
| Profit Before Taxation | | 34,627 | 31,269 | 128,032 | 65,151 | 162,659 | 96,420 |
| Income Tax Expense | b,d,f,g | (9,868) | (9,365) | (39,679) | (19,546) | (49,547) | (28,911) |
| Profit for the Year | | 24,759 | 21,904 | 88,353 | 45,605 | 113,112 | 67,509 |
| Attributable to: | | | | | | | |
| Equity holders of the parent | | 24,107 | 21,808 | 88,353 | 45,605 | 112,460 | 67,413 |
| Minority Interest | | 652 | 96 | 0 | 0 | 652 | 96 |
| Profit for the Year | | 24,759 | 21,904 | 88,353 | 45,605 | 113,112 | 67,509 |
| Basic and Diluted Earnings per Share | | 147.9p | 133.8p | 542.2p | 279.9p | 690.1p | 413.7p |

| | Notes | UK GAAP | | Adjustments | | IFRS | |
|--|---------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | | 31 March 2006 £000 | 31 March 2005 £000 | 31 March 2006 £000 | 31 March 2005 £000 | 31 March 2006 £000 | 31 March 2005 £000 |
| Assets | | | | | | | |
| Investment Properties | a | 737,912 | 660,512 | 363,136 | 294,645 | 1,101,048 | 955,157 |
| Investment in Associate | | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Investments | | 617 | 617 | 0 | 0 | 617 | 617 |
| Deferred Tax Assets | d | 0 | 0 | 2,608 | 2,997 | 2,608 | 2,997 |
| Total Non-Current Assets | | 738,529 | 661,129 | 365,744 | 297,642 | 1,104,273 | 958,771 |
| Properties held for Trading | a | 63,048 | 57,147 | (63,048) | (57,147) | 0 | 0 |
| Trade and Other Receivables | | 31,998 | 26,309 | 45 | 45 | 32,043 | 26,354 |
| Investments | | 148 | 149 | 12 | 20 | 160 | 169 |
| Cash at Bank | | 37,300 | 44,825 | 0 | 0 | 37,300 | 44,825 |
| Total Current Assets | | 132,494 | 128,430 | (62,991) | (57,082) | 69,503 | 71,348 |
| Total Assets | | 871,023 | 789,559 | 302,753 | 240,560 | 1,173,776 | 1,030,119 |
| Equity | | | | | | | |
| Issued Capital | | 4,074 | 4,074 | 0 | 0 | 4,074 | 4,074 |
| Share Premium | | 555 | 555 | 0 | 0 | 555 | 555 |
| Revaluation Reserve | a,c,g,h | 386,424 | 315,594 | (386,424) | (315,594) | 0 | 0 |
| Other Reserves | h | 6,784 | 6,784 | (6,784) | (6,784) | 0 | 0 |
| Retained Earnings | a,b,c,d,e,f,g | 266,870 | 245,206 | 473,789 | 384,626 | 740,659 | 629,832 |
| Total Equity Attributable to Equity Holders of the Parent | | 664,707 | 572,213 | 80,581 | 62,248 | 745,288 | 634,461 |
| Minority Interest | | 330 | 206 | 0 | 0 | 330 | 206 |
| Total Equity | | 665,037 | 572,419 | 80,581 | 62,248 | 745,618 | 634,667 |
| Liabilities | | | | | | | |
| Interest Bearing Loans and Borrowings | | 140,212 | 154,174 | 0 | 0 | 140,212 | 154,174 |
| Deferred Tax Liabilities | f,g | 6,878 | 6,747 | 212,167 | 174,165 | 219,045 | 180,912 |
| Total Non-Current Liabilities | | 147,090 | 160,921 | 212,167 | 174,165 | 359,257 | 335,086 |
| Bank Overdrafts | | 15 | 0 | 0 | 0 | 15 | 0 |
| Interest Bearing Loans and Borrowings | | 8,448 | 9,161 | 0 | 0 | 8,448 | 9,161 |
| Trade and Other Payables | d,e | 32,204 | 36,517 | 10,005 | 4,147 | 42,209 | 40,664 |
| Taxation | | 18,229 | 10,541 | 0 | 0 | 18,229 | 10,541 |
| Total Current Liabilities | | 58,896 | 56,219 | 10,005 | 4,147 | 68,901 | 60,366 |
| Total Liabilities | | 205,986 | 217,140 | 222,172 | 178,312 | 428,158 | 395,452 |
| Total Equity and Liabilities | | 871,023 | 789,559 | 302,753 | 240,560 | 1,173,776 | 1,030,119 |

- Properties previously classed as held for trading have been reclassified as Investment Properties to comply with IFRS and are held at valuation. All profits on disposals are now shown as Profit on Disposal of Investment Properties
- On the sale of investment properties previously held as trading assets only the surplus over valuation is treated as Profit on Disposal. Any revaluation surplus is realised in retained earnings. Taxation arising is shown on the Income Statement and is offset by the release of the deferred taxation liability previously booked on the revaluation.
- All foreign exchange differences on translation of foreign operations are now transferred to Retained Earnings.
- All movements on the marking to fair value of financial instruments are now shown on the face of the Consolidated Income Statement.
- Dividends are disclosed as a liability in the period in which they are declared and paid rather than on an accruals basis.
- Full provision is made for deferred tax on the revaluation surplus of Investment Properties and fair value of financial instruments.
- Surpluses and deficits arising on the revaluation of Investment Properties are recognised as part of the profit and loss for the year.
- Revaluation Reserves and Other Reserves have been reclassified as Retained Earnings.
- Other Income is now shown with Net Rental and Related Income.

Notes to the Consolidated Financial Statements (continued)

24. Principal Subsidiary Undertakings

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

Incorporated in the UK and registered in England

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

* Indirectly owned.

Company Balance Sheet

| <i>as at 31 March 2006</i> | <i>Notes</i> | 2006 | Restated⁽¹⁾ |
|---|--------------|-----------------|-------------------------------|
| | | £000 | 2005 |
| | | £000 | £000 |
| Fixed Assets | | | |
| Investment in subsidiary undertakings | 3 | 698,621 | 590,737 |
| Current Assets | | | |
| Debtors: Due within one year | 4 | 3,812 | 784 |
| Cash at Bank | | 7,775 | 9,433 |
| | | 11,587 | 10,217 |
| Creditors: Amounts falling due within one year | 5 | (15,729) | (8,488) |
| Net Current Liabilities | | (4,142) | 1,729 |
| Total Assets Less Current Liabilities | | 694,479 | 592,466 |
| Creditors: Amounts falling due after more than one year | 6 | (37,250) | (37,750) |
| Net Assets | | 657,229 | 554,716 |
| Capital and Reserves | | | |
| Called up Share Capital | 7 | 4,074 | 4,074 |
| Share Premium Account | 8 | 555 | 555 |
| Revaluation Reserve | 8 | 418,479 | 335,642 |
| Other Reserves | 8 | 893 | 893 |
| Profit and Loss Account | 8 | 233,228 | 213,552 |
| | | 657,229 | 554,716 |

The Financial Statements on pages 45 to 48 were approved by the Board of Directors on 9 August 2006 and were signed on its behalf by:-

B S E Freshwater Director
D Davis Director

(1) See Note 1 accounting policies

The notes on pages 46 to 48 form part of these Financial Statements.

Notes to the Company Financial Statements

1. Accounting Policies

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

Basis of Preparation

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of investments in subsidiaries, and in accordance with applicable UK accounting standards. As permitted by section 230(4) of the Companies Act 1985, a separate profit and loss account dealing with the results of the Company has not been presented. The Company's profit for the year after taxation is £20,242,000 (2005 - £20,757,000). During the year the Company adopted FRS 21 "Events after the balance sheet date" which superseded SSAP 17. Under the new standard final dividends payable and receivable are recognised only in the period in which they are declared and therefore become a liability and interim dividends are recognised in the period in which they are paid, whereas under SSAP 17 dividends were accrued for when proposed. This has resulted in a decrease of £17,497,000 in retained profit for the year ended 31 March 2005.

Cash Flow Statement

Under FRS 1 *Cash Flow Statements* the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is consolidated within the consolidated financial statements of the Group.

Investments in Subsidiary undertakings

The historical cost of shares in subsidiary undertakings is £17,876,000 (2005 - £17,876,000).

Shares in subsidiary undertakings have been valued by the Directors at 31 March 2006 based on the net asset values of the subsidiary undertakings.

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

Profit on ordinary activities before taxation is stated after charging Auditors Remuneration (including unrecoverable VAT) of £20,000 (2005 - £20,000). The company has no staff other than its Directors and their remuneration is set out on page 14.

3. Investments in subsidiary undertakings

| | <i>Shares at Valuation £000</i> | <i>Loans £000</i> | <i>Total £000</i> |
|--|---|-----------------------|-----------------------|
| At 1 April 2005 | 353,424 | 237,313 | 590,737 |
| Loans | - | 25,047 | 25,047 |
| Revaluation | 81,604 | - | 81,604 |
| Effect of Foreign Exchange Differences | 1,233 | - | 1,233 |
| At 31 March 2006 | 436,261 | 262,360 | 698,621 |

4. Debtors: Due within on year

| | 2006 | 2005 |
|-------------------------------|--------------|-------------|
| | £000 | £000 |
| Escrow account | 3,809 | 784 |
| Other debtors and prepayments | 3 | - |
| | 3,812 | 784 |

5. Creditors: Amounts falling due within one year

| | 2006 | 2005 |
|------------------------------|---------------|--------------|
| | £000 | £000 |
| Bank loans and overdrafts | 8,149 | 7,565 |
| Other creditors and accruals | 832 | 816 |
| Taxation | 6,748 | 107 |
| | 15,729 | 8,488 |

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

| | 2006 | 2005 |
|--------------------|-------------|-------------|
| | £000 | £000 |
| Secured bank loans | 37,250 | 37,750 |

7. Share Capital

| | <i>Number</i> | 2006 | 2005 |
|---------------------------------------|---------------|-------------|-------------|
| | | £000 | £000 |
| Authorised: | | | |
| Ordinary Shares of 25 pence per share | 18,722,596 | 4,681 | 4,681 |
| Allotted, called up and fully paid: | | | |
| Ordinary Shares of 25 pence per share | 16,295,357 | 4,074 | 4,074 |

Notes to the Company Financial Statements *(continued)*

8. Reserves

| | £000 |
|-----------------------------------|----------|
| Share Premium Account: | |
| At 1 April 2005 and 31 March 2006 | 555 |
| Revaluation Reserve: | |
| At 1 April 2005 | 335,642 |
| Foreign exchange movements | 1,233 |
| Fixed asset revaluation | 81,604 |
| At 31 March 2006 | 418,479 |
| Other Non-Distributable Reserves: | |
| At 1 April 2005 and 31 March 2006 | 893 |
| Profit and Loss Account: | |
| At 1 April 2005 | 231,049 |
| Prior Year Adjustments | (17,497) |
| Restated | 213,552 |
| Foreign Exchange Movements | (566) |
| Retained profit for the Year | 20,242 |
| At 31 March 2006 | 233,228 |

*Five-Year Record***PREPARED UNDER UK GAAP**

| | 2002 £000 | 2003 £000 | 2004 £000 |
|---|--------------|--------------|--------------|
| Turnover | 85,823 | 84,132 | 90,007 |
| Net Rental Income | 40,972 | 37,723 | 37,138 |
| Surplus on Sale of Trading Properties | 5,591 | 6,587 | 7,002 |
| Other Income | 143 | 159 | 196 |
| Gross profit | 46,706 | 44,469 | 44,336 |
| Group Profit before Taxation | 30,081 | 30,692 | 30,442 |
| Taxation | 9,262 | 10,057 | 7,522 |
| Minority Interests | 53 | 51 | 1 |
| Available Surplus | 20,766 | 20,584 | 22,919 |
| Earnings: p. per Share | 127.4 | 126.3 | 140.6 |
| Dividends: p. per Share | 52.0 | 55.0 | 58.0 |
| Gross Assets | 669,600 | 704,425 | 713,782 |
| Equity Shareholders' Funds | 442,775 | 469,506 | 504,505 |
| Equity Shareholders' Funds: £ per Share (based on balance sheet figures) | 27.17 | 28.81 | 30.96 |
| Represented by: | | | |
| Share Capital | 4,074 | 4,074 | 4,074 |
| Reserves and Retained Profit | 438,701 | 465,432 | 500,431 |
| Equity Shareholders' Funds | 442,775 | 469,506 | 504,505 |

PREPARED UNDER IFRS

| | 2005 £000 | 2006 £000 |
|---|--------------|--------------|
| Total Rental and Related Income | 83,427 | 95,689 |
| Property Operating Expenses | (46,760) | (52,980) |
| Net Rental and Related Income | 36,667 | 42,709 |
| Profit on Disposal of Properties | 7,959 | 6,173 |
| Net Valuation Gains | 64,379 | 130,976 |
| Administrative Expenses | (7,669) | (9,091) |
| Net Operating Profit Before Financing Costs | 101,336 | 170,767 |
| Profit before Taxation | 96,420 | 162,659 |
| Income Tax Expense | (28,911) | (49,547) |
| Profit for the Year | 67,509 | 113,112 |
| Earnings per Share | 413.7p | 690.1p |
| Total Assets | 1,030,119 | 1,173,776 |
| Equity Shareholders Funds | 634,461 | 745,288 |
| Equity Shareholders Funds £ per Share | 38.94 | 45.74 |
| Issued Share Capital | 4,074 | 4,074 |
| Reserves and Retained Earnings | 630,387 | 741,214 |
| Equity Shareholders' Funds | 634,461 | 745,288 |

Directors & Advisers

Directors

B S E Freshwater
(Chairman and Managing Director)
D Davis (non executive)
S I Freshwater

Secretary

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

Registered & Head Office

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

Registrars

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

Auditors

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

Consulting Accountants

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

Principal Bankers

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

Stockbrokers

Brewin Dolphin Securities Limited
7 Drumsheugh Gardens
Edinburgh EH3 7QH

Notice of Meeting

Notice is hereby given that the Seventy First Annual General Meeting of Daejan Holdings PLC will be held at The Methven Room, CBI, 1st Floor, Centre Point, New Oxford Street, London WC1, on Friday 27 October 2006 at 12 noon, 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 2006 together with the Reports of the Directors and the Auditors. (Resolution 1.)
2. To approve the Remuneration Report. (Resolution 2.)
3. To declare a final dividend. (Resolution 3.)
4. To re-elect Mr D Davis who retires in accordance with the requirements of the Combined Code. (Resolution 4.)
5. To re-elect Mr BSE Freshwater who retires by rotation. (Resolution 5.)
6. To re-appoint KPMG Audit Plc as Auditors, and to authorise the Directors to agree their remuneration. (Resolution 6.)

By Order of the Board,

M R M Jenner

Secretary

9 August 2006

A Member entitled to attend and vote may appoint one or more proxies to attend, and on a poll, to vote instead of him. A proxy need not be a Member of the Company. Only those Members registered in the Register of Members of the Company as at 6.00 pm on 25 October 2006 shall be entitled to attend or vote at the aforesaid Annual General Meeting in respect of the number of shares registered in their name at that time. To be valid, forms of proxy must be received by the Company's Registrars at least 48 hours before the time fixed for the Meeting.

The recommended final dividend will, if approved, be paid on 1 November 2006 to Shareholders registered at the close of business on 6 October 2006.

No Director has a service contract.

