DERWENT VALLEY HOLDINGS PLC REPORT AND ACCOUNTS 2000

Contents

Cover photograph:
Broadwick House, Soho, London, W1

Derwent Valley commissioned one of the world's leading architects – the Richard Rogers Partnership – to design this unique building in the heart of Soho that would reflect the group's belief in good design and create a positive contribution to the architecture of the capital.

The following photographs of Broadwick House illustrate this fine example of modern design.

Photography by Peter Cook
Designed by Wordsearch
Produced by Buckley Deane Wakefield

Derwent Valley is a focused commercial property group that invests in selected parts of Central London. Its strategy is to add value to its buildings through high quality design, innovative refurbishment and rigorous lease management. Through this approach the group aims to deliver high total returns to shareholders.

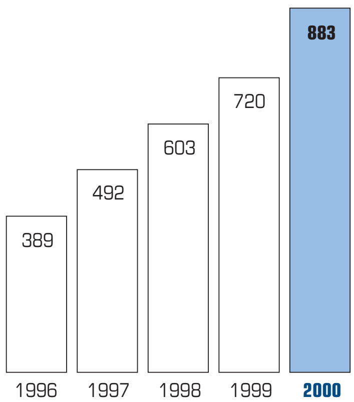
Financial calendar

Annual general meeting	17th May 2001
Payment of 2000 final dividend	6th June 2001
Announcement of 2001 interim results	September 2001
Payment of 2001 interim dividend	November 2001
Announcement of 2001 preliminary results	March 2002
Payment of debenture interest	31st January and 31st July

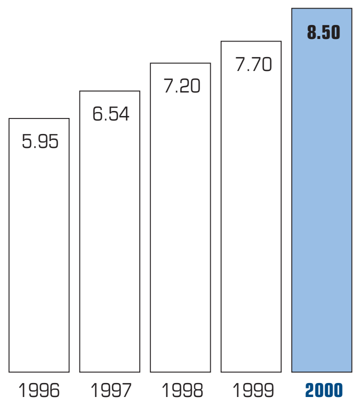
Financial highlights

		2000	1999	% Change
Net revenue from properties		**£34.9m**	£27.1m	28.8
Profit before taxation:	FRS3	**£10.7m**	£16.6m	(35.5)
	Adjusted	**£10.7m**	£11.5m	(7.0)
Earnings per share:	Basic	**18.86p**	26.89p	(29.9)
	Adjusted	**19.05p**	18.89p	0.8
Dividend per share		**8.50p**	7.70p	10.4
Net assets per share:	Basic	**883p**	720p	22.6
	Diluted	**880p**	718p	22.6
Total return		**23.8%**	20.7%	
Gearing:	Balance sheet	**60.4%**	54.8%	
	Profit and loss	**1.58**	1.97	

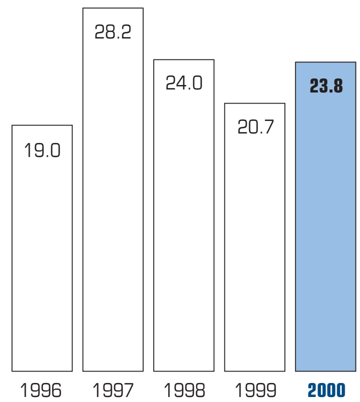
Net asset value per share (pence)



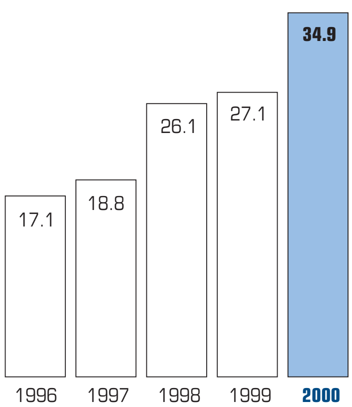
Dividend per share (pence)



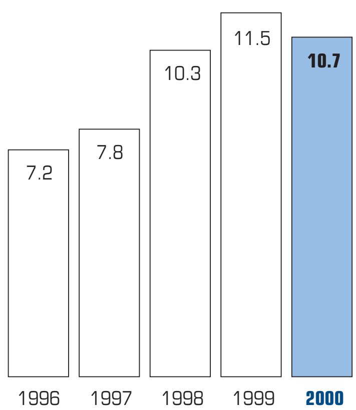
Total return (%)



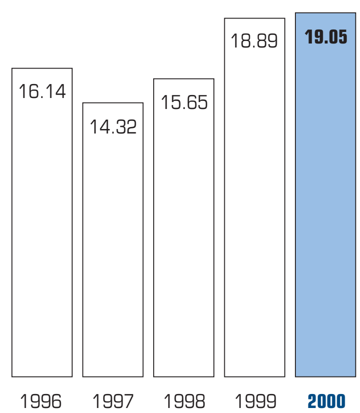
Net revenue from properties (£m)



Adjusted profit before taxation (£m)



Adjusted earnings per share (pence)



Chairman's statement

Opposite:
Broadwick House, Soho, London, W1

A 23% increase in net asset value per share to 883p maintains Derwent Valley's record of delivering substantial growth each year. A 5 year compound growth rate of 21.6% per annum clearly demonstrates this record. This level of performance has been achieved through the efforts of a skilled management team allied to the company's strategy of investing in one location – Central London.

The group's profit before tax, excluding the results of the disposal of investment properties, was £10.7 million as against £11.5 million last year. However, due to the low tax charge for the year, adjusted earnings per share increased from 18.89p to 19.05p. As with the half year's results, this profit is after making a provision in respect of an onerous lease on the group's recently vacated head office premises. This, together with the absence of trading profits, reduced pre-tax profits by £1.0 million. There is no profit on disposal of investment properties in 2000 compared to £5.1 million in 1999 and consequently the FRS3 profit has decreased from £16.6 million to £10.7 million.

The directors propose a final dividend of 6.0p per share which makes a total of 8.5p for the year. This represents an increase of 10.4% from the 7.7p paid last year and a five year compound growth rate of 9.6% per annum. The final dividend will be paid on 6th June 2001 to those shareholders on the register on 18th May 2001.

The year end valuation of the investment portfolio at £770.4 million produced an uplift of £81.9 million for the full year. The gain in the second half of £44.4 million included a surplus of £12 million on Broadwick House, Soho, W1 which was valued for the first time since its redevelopment and letting to the Ford Motor Company. The value of investment properties held throughout the year, excluding those under development, rose by 13.9% compared with 11.1% last year and 11.0% for the Central London Offices Index reported by the IPD. Development properties with a carrying value of £59.3 million, that were not re-valued at the year end, included 1 Oliver's Yard, EC2. This property has been pre-let to Globix Corporation, and is expected to be re-valued at the interim stage following completion of the scheme during the first half of 2001.

With investment yields not moving significantly over the period, the increase in values in Central London last year was driven by rental growth. Demand for business space continued to exceed the limited supply, and rents in a number of locations reached record levels. The West End remained the most popular area but, with its rigid planning policy, scope for the new development needed to meet demand was restricted. Derwent Valley's expertise in refurbishment and redevelopment enables it to benefit from this excess demand in its core area. Tired and under managed properties are revitalised to create exciting and innovative office space. Alternatively, where a building's internal configuration is obsolete, consent for development is gained, even in the most controlled areas, by satisfying the planning authorities with creative designs, such as that at


TELEPHONE

Chairman's statement

Opposite:
Broadwick House, Soho, London, W1

Broadwick House, that enhance the locality. As the group's portfolio has expanded beyond this core area, the same skills have been used to improve returns on other projects throughout Central London. In the year under review, over half of the capital expenditure of £32 million has been incurred at Broadwick House and 1 Oliver's Yard. The early letting of these schemes means that they will contribute to the group's net rental income in 2001. Concurrently, resources and management time continue to be invested in identifying future opportunities from within the portfolio. This managed progression of schemes means that £65 million is committed to capital expenditure over the next two years, with the principal projects in the current year being Tower House, Covent Garden, WC2, Leonard Street, EC2 (adjoining 1 Oliver's Yard) and Panton House, SW1. These schemes are described in more detail in the property review which follows this statement.

As West End rents have risen sharply, tenants have looked to other areas where accommodation costs are lower, such as Clerkenwell to the East, and Paddington to the West. These areas are amongst those that the board had identified for future growth, and buildings in both locations are included in the five properties acquired in the year at a total cost of £98.3 million.

The strong investment market has enabled us to continue our strategy of disposing of those properties that would restrict the group's performance. Accordingly, eight properties were sold during the year for £46.6 million. Since the year end, a further two disposals have been made which realised approximately £17.8 million, and contracts exchanged for the sale of another three properties for £34.1 million.

The year under review has been one of achievement for Derwent Valley, with a total return of 23.8% being generated for shareholders. There are, currently, some concerns about an economic slowdown. However, I am confident that the group's proven management skill of adding value from within its Central London portfolio, together with its ability to make acquisitions when the opportunity arises, will enable Derwent Valley to continue its record of delivering strong growth for shareholders.

J. C. Ivey 13th March 2001

Principal activities in 2000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1 **Broadwick House, Soho**
Scheme completion
Architect – Richard Rogers Partnership

2 **21 Grosvenor Place, Belgravia**
Acquisition

3 **6 Greencoat Place, Victoria**
Scheme completion
Architect – Michael Squire and Partners

4 **Birkbeck College, Noho**
Acquisition

5 **Savile Row, Mayfair**
New head office
Architect – Michael Squire and Partners

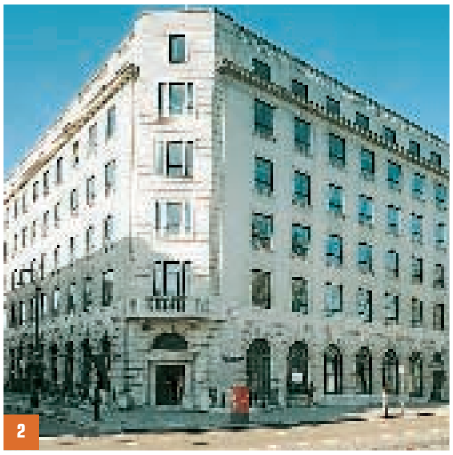
6 **New Garden House, Hatton Garden**
Acquisition

7 **Panton House, Haymarket**
New scheme
Architect – ORMS

8 **Sun Court House, Islington**
New scheme
Architect – McDowell and Benedetti

9 **1 Oliver's Yard, City borders**
New scheme
Architect – ORMS

10 **Telstar House, Paddington**
Acquisition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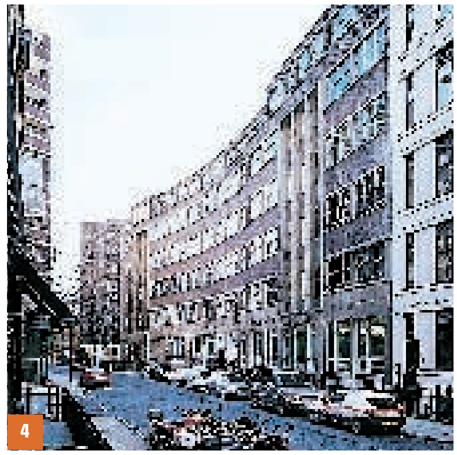
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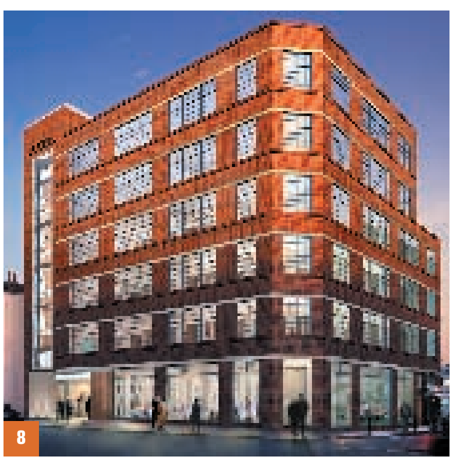
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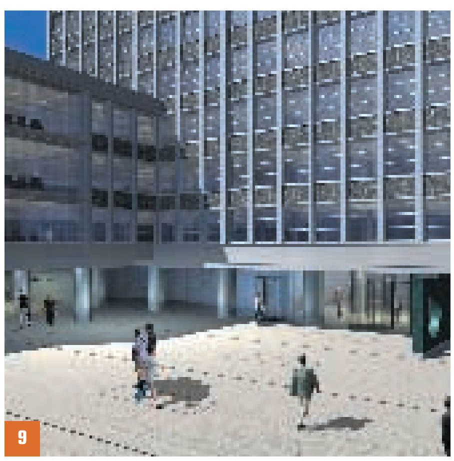
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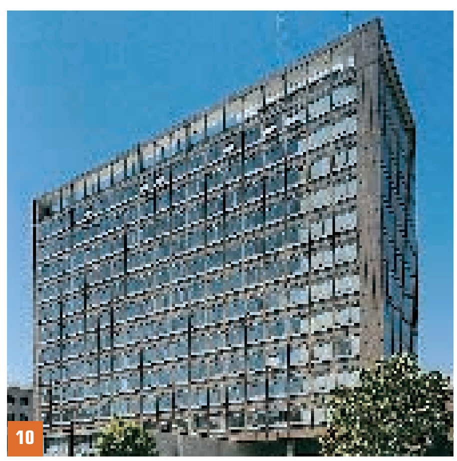
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Introduction

The group's strategy of creating and rigorously managing a Central London commercial property portfolio continues to produce good returns. This area experienced record levels of office demand and strong rental growth in 2000. Therefore, the delivery of refurbished space into the market was a key objective.

At the start of the year 34,600m², or 17%, of the portfolio was vacant and works were in progress on 29,000m² of this space. As a consequence of the refurbishment and development programme, capital expenditure increased substantially as illustrated by the net investment graph on page 19. Such expenditure falls into two categories. Firstly, that spent on development properties where buildings are either comprehensively refurbished or redeveloped with vacant possession and secondly, that on a rolling approach, where individual floors are refurbished, entrances and services improved whilst the building remains part occupied and income producing. The objective is the same for both: to promote quality architecture and design, and to deliver a product with a distinctive identity that meets tenant requirements.

"Successful development programme"
Since last year end, significant progress has been made with the three development schemes. Broadwick House, W1, a spectacular new glass and steel development of 3,000m², which has contributed to the Soho vista, has been completed and pre-let to Ford Motor Company Ltd. The rental at £592 per m² set a new level at the time, but now appears reversionary following subsequent lettings in the area. Oliver's Yard, EC2, our largest project to date, was pre-let in August to Globix Corporation. Completion of this 16,600m² development is scheduled for mid-2001, and the property is expected to be re-valued in June 2001. The third development scheme, Panton House, 25-27 Haymarket, SW1, is well underway and involves refurbishing and extending the office floors and creating a striking atrium entrance. This 2,600m² office and restaurant scheme is scheduled for completion in September 2001.

In addition to the two development schemes carried over from 2000, two further developments will commence in 2001. The first is at Tower House, Covent Garden, WC2. Since its acquisition in 1997, rental income has been maintained whilst preserving the ability to obtain vacant possession. Planning permission has been achieved for a part new build and part refurbishment office and retail scheme of 9,100m² in what is a sensitive location adjacent to the Covent Garden piazza. The scheme involves an innovative design approach, which gives volume and light by creating a full height atrium behind a retained façade. Completion is anticipated in Autumn 2002. The second is at Leonard Street, EC2, part of the original Oliver's Yard acquisition. Planning permission for a new office building of 4,500m² has been granted on this former car park site. It is expected that construction will begin in mid-2001.

The development properties, which are not revalued until practical completion, had a combined carrying value at year end of £59 million against £32 million last year.

"Rolling refurbishment programme continues"
The rolling refurbishment programme of the core multi-let properties has continued alongside the developments. A number of lettings were made during the year on these smaller, yet important projects. Following a lease surrender at Middlesex House, W1, 1050m² of space was refurbished and re-let, which achieved new rental levels of £404 per m². At 6 Greencoat Place, SW1, 2,000m² of offices have been refurbished and the building given a new identity with the conversion of a redundant loading bay into a spacious entrance. This scheme was pre-let to Channel Four Television Corporation for a twenty year term at £430 per m². Channel Four had previously taken the penthouse office floor of 1,000m² at our adjacent Greencoat House property.

A number of schemes are in progress in the current year. These include the first phase of refurbishment of the recently acquired multi-let office building at 21 Grosvenor Place, SW1 and the retail and office refurbishment of 135-155 Charing Cross Road, WC2.

Property review

"A competitive investment market but satisfactory progress made with acquisitions"

The strength of occupational demand in Central London created a competitive investment market, as investors saw the potential for rental and capital growth. The group's management team, with an in depth market knowledge of the area, and a strong financial position, was able to act swiftly on purchases. This year the group succeeded in acquiring office buildings in two new and improving locations with the purchase of New Garden House, Hatton Garden, EC1 for £29 million and Telstar House, Paddington, W2 for £22.1 million. The Hatton Garden area is being transformed from a traditional jewellery centre into a more established office location. New Garden House, which totals 11,700m², is multi-let and vacant possession can be obtained in 2003. Redevelopment and refurbishment options are under consideration. The regeneration area of Paddington had been identified for investment for some time and in June the group was able to acquire Telstar House. Whilst this 8,300m² property is let until 2018 to London Regional Transport, the rental at £194 per m² is reversionary and thus offers a good opportunity for growth at the next rent review in 2003. The under utilised site has longer term redevelopment potential.

In the more established office area of Belgravia, 21 Grosvenor Place, SW1 was acquired in October for £25 million. An immediate refurbishment opportunity arose and in December 2000 possession of 2,200m² was obtained in this 5,600m² building. The scheme includes the provision of a new, enlarged entrance. Strong interest is being shown in the space and the anticipated rental level should enhance the value of the group's other substantial holdings in Grosvenor Place.

"Continued disposal of smaller and provincial properties"

Disposals continued of the smaller properties, where scope for growth was considered limited. In total, eight properties realised nearly £47 million. These included three of the four provincial properties, the remaining one being sold in 2001.

"Considerable scope from within for future rental growth"

Derwent Valley's portfolio has been assembled to provide short and medium term refurbishment and development opportunities that will enable the group to continue to grow from within. With tenant demand in Central London at its highest for ten years, and vacancy rates at the low level of 2.8% of floor area, there is an ongoing strategy of implementing schemes to take advantage of current rental levels.

Whilst significant lettings were achieved in the year, the amount of vacant space in the investment portfolio at the year end was 20,600m², or 9.8% of the floor area, which had an estimated rental value of £8.5 million per annum. Schemes, principally Panton House, SW1, Tower House, WC2 and 21 Grosvenor Place, SW1, represent 18,300m² and £7.6 million per annum of these figures respectively. Approximately 38% of the portfolio by area has been refurbished, including these projects, and a further 45% is identified as having similar potential. In addition, with the growth of rental levels over the last few years there is considerable rental reversion to flow through from rent reviews and lease renewals. The underlying average rental on let space is a low £245 per m², against £220 per m² last year. This is illustrated in more detail in the portfolio statistics and rental graph on page 19.
At the year end, this reversionary element amounted to £20.2 million per annum, including a £2.7 million stepped rental uplift at 1 Oliver's Yard due in 2003.

Much has been reported on the move in the sector towards more flexible and shorter leases. In an actively managed portfolio like Derwent Valley's, varying lease lengths have a role to play in creating value. The group's approach on its larger, refurbished projects is to establish lease lengths, generally between 10 and 20 years, that generate unbroken income streams and facilitate financing. However, on the multi-tenanted buildings with smaller suites, or where future schemes require possession, shorter leases, often with mutual rolling breaks, are appropriate.

The following eight pages set out in more detail the portfolio, its performance and forthcoming projects.

Portfolio statistics and performance

2000

	Valuation £m	Valuation performance %	Weighting %	Number of buildings	Floor area m^2	Average rental income £ per m^2	Vacant accommodation m^2
West End							
Central	529.8	13.0	69	33	124,800	270	17,500
Outer	52.1	9.3	7	4	15,970	220	–
	581.9	12.7	76	37	140,770	260	17,500
City							
Central	22.9	0.4	3	3	7,600	270	1,100
Outer	162.5	11.4	21	11	61,310	205	2,000
	185.4	9.9	24	14	68,910	210	3,100
Central London	767.3	12.0	100	51	209,680	245	20,600
Other	3.1	(4.6)	–	1	1,500	185	–
Total portfolio	770.4	11.9	100	52	211,180	245	20,600

West End - Central: *Belgravia, Mayfair, St James's, Soho, Covent Garden, Victoria, Noho, King's Cross*
- Outer: *Camden, Islington, Hammersmith, Paddington*

City - Central: *Core* Outer: *Clerkenwell, Holborn and borders*

Yields

Based on a year end contracted rental income, net of ground rents, of £45.4 million per annum.

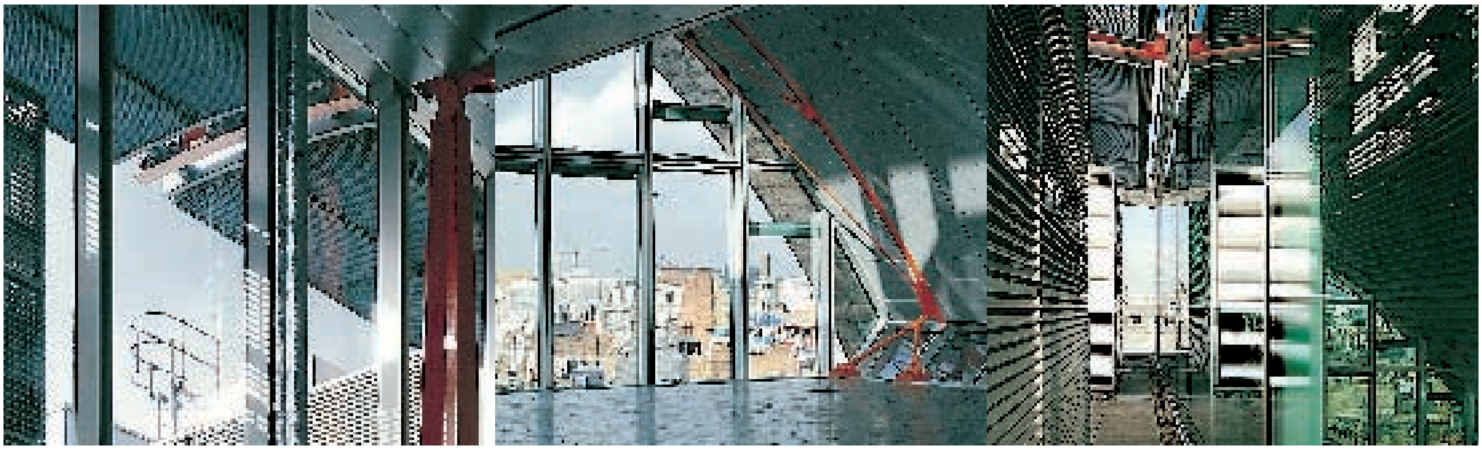
	Rent per annum £m	Uplift £m	Yield* %
Initial yield	45.4	–	5.8
On letting 2,300m^2 available at year end	46.3	0.9	5.9
On completion and letting 18,300m^2 of existing schemes	53.9	7.6	6.7
On 1 Oliver's Yard stepped rental uplift	56.6	2.7	7.0
On reversions	74.1	17.5	9.2

** adjusted for costs to complete commenced schemes.*

Property review

1999

	Valuation £m	Valuation performance %	Weighting %	Number of buildings	Floor area m²	Average rental income £ per m²	Vacant accommodation m²
West End							
Central	421.5	11.8	70	33	114,440	230	13,080
Outer	34.8	9.9	6	4	14,180	200	820
	456.3	11.6	76	37	128,620	225	13,900
City							
Central	22.7	6.4	4	3	7,610	255	1,060
Outer	105.4	5.6	17	10	50,950	195	19,640
	128.1	5.8	21	13	58,560	205	20,700
Central London	584.4	10.3	97	50	187,180	220	34,600
Other	19.7	(6.4)	3	4	11,070	145	–
Total portfolio	604.1	9.7	100	54	198,250	215	34,600



Refurbishment and development

Current developments

Property	Proposed net area m²	Expected completion date	Estimated project cost to complete including fees £m	Comments
City borders				
1 Oliver's Yard, EC2	16,600	April 2001	7.3	Office refurbishment underway. Entire project pre-let to Globix Corporation.
Haymarket				
Panton House, 25-27 Haymarket, SW1	2,600	September 2001	4.2	Office and retail/restaurant refurbishment underway.
Covent Garden				
Tower House and 3-11 Southampton Street, WC2	9,100	October 2002	19.6	Office/retail scheme, comprising 4,000m² new development and 5,100m² refurbishment.
City borders				
20 Leonard Street, EC2	4,500	December 2002	8.2	Planning permission obtained for new office development. Commencement planned for Summer 2001.
	32,800		39.3	

Current refurbishments

Property	Proposed net area m²	Expected completion date	Estimated project cost to complete including fees £m	Comments
Belgravia				
21 Grosvenor Place, SW1	2,200	December 2001	5.0	Refurbishment underway of basement to second floors and provision of a new entrance in this 5,600m² multi-let building.
Soho				
135-155 Charing Cross Road, WC2	3,200	September 2002	7.5	Planning consent received for the first phase of office/retail refurbishment to include a new 350m² floor penthouse. Due to commence May 2001.
Marylebone				
Harcourt House, 19-19A Cavendish Square, W1	500	June 2001	1.0	Entrance up-grade and refurbishment of a number of office suites in this 5,300m² multi-let building.
Islington				
Sun Court House, 18-26 Essex Road, N1	2,400	December 2001	4.2	Office refurbishment underway to include a ground floor restaurant. This is the group's only trading property.
	8,300		17.7	

Future projects

Property	Existing net area m^2	Comments
Noho		
Birkbeck College, 7-15 Gresse Street, W1	4,100	Planning application submitted for a mixed office and residential scheme in 2003. Possible linkage with adjacent holdings.
Noho		
16-19 Gresse Street, W1	3,100	Proposed office refurbishment upon lease expiry in 2003.
Noho		
Holden and Dumbarton House, 54-68 Oxford Street, W1	2,300	Second phase to include Dumbarton House office refurbishment and connection with the new Holden House entrance. In addition, possible retail extension.
Holborn		
40-43 Chancery Lane, WC2 and 20-21 Tooks Court, EC4	5,700	Rolling office refurbishment or possible redevelopment. Feasibility and massing studies underway.
Holborn		
New Garden House, 78-83 Hatton Garden, EC1	11,700	Refurbishment or redevelopment opportunity in 2003. Planning application to be submitted later this year.
Victoria		
Greencoat and Gordon House, Francis Street, SW1	2,400	Further phase to include the reconfiguration of Gordon House entrance, office refurbishment and new penthouse floor of $370m^2$.
Victoria		
6 Greencoat Place, SW1	900	Second phase to complete this refurbishment, with the first phase let to Channel Four Television Corporation.
	30,200	

Acquisitions

- £93.4 million of acquisitions, before costs, made in Central London during the year reflecting an initial yield of 7.2% after acquisition costs.
- Total net income of £7.1 million per annum at purchase.

New Garden House, 78-83 Hatton Garden, EC1 - £29 million

11,700m² - Freehold

- Four multi-occupied buildings on a 0.47 hectare site.
- Potential for possession in 2003.
- Planning studies underway exploring redevelopment.
- Improving location.

Telstar House, Eastbourne Terrace, W2 - £22.1 million

8,300m² - Freehold

- 14 storey office building located opposite Paddington Station.
- Improving location.
- Let until 2018 to London Regional Transport.
- Low passing rental at £194 per m² with next rent review in 2003.
- Long term redevelopment potential.

21 Grosvenor Place, SW1 - £25 million

5,600m² - Leasehold 151 years

- Prime location in Belgravia, and close to the group's existing ownerships.
- Multi-let with opportunities for rolling refurbishment.
- First phase of refurbishment underway following lease expiry.

Fulcrum House, 2 Killick Street, N1 - £8.7 million

3,900m² - Freehold

- Modern high specification air-conditioned office building.
- Low passing rental at £132 per m².
- Single tenant with next rent review in 2003.

Birkbeck College, 7-15 Gresse Street, W1 - £8.6 million

4,100m² - Leasehold 127 years

- Single tenant, Birkbeck College.
- Existing educational use.
- Adjacent to the group's ownership at 16-19 Gresse Street.
- Refurbishment opportunity in 2003 upon lease expiry.

Disposals

- Eight properties sold for a net £46.6 million at an exit yield of 8.0%.
- Five Central London properties for £31.1 million at a yield of 7.7% with rental income of £2.4 million per annum:
  114-118 Southampton Row, WC1
  Bedford House and Cavendish House, SW6
  12-26 Lexington Street, W1
  6-10 Whitfield Street, W1
  66 Grosvenor Street, W1

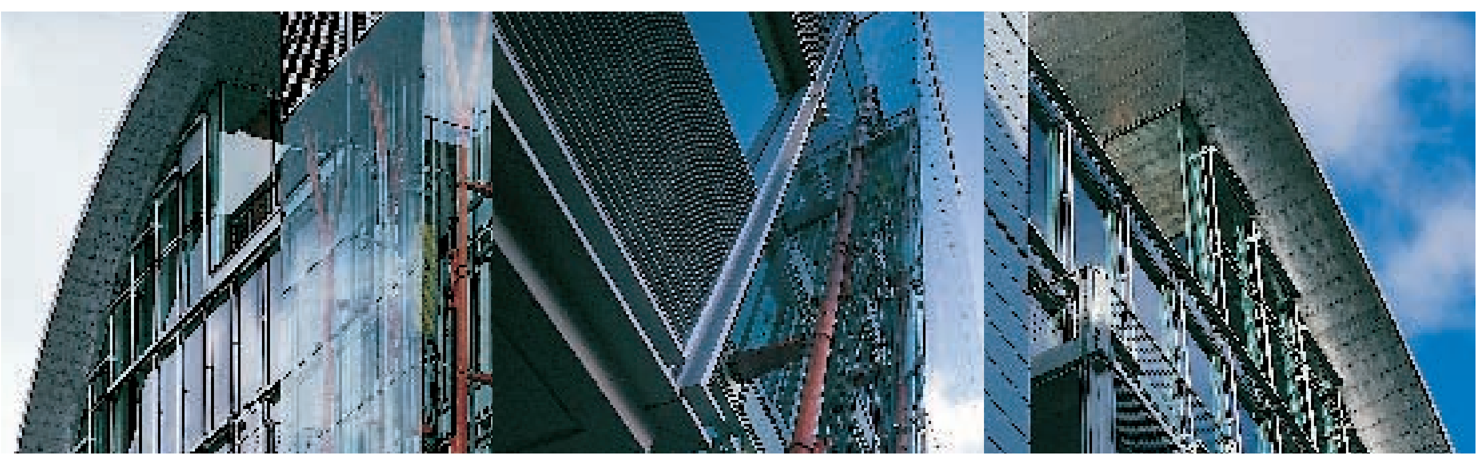
- Three provincial properties for £15.5 million at a yield of 8.6% with rental income of £1.3 million per annum:
  1-2 Bridewell Street, Bristol
  15-17 Grosvenor Road,Wrexham
  84-112 Woodcote Road, Wallington

Property review

Portfolio activity

Principal lettings

Property	Approximate net area m²	Rent per annum £m	Headline rent £ per m²	Comments
1 Oliver's Yard, EC2	16,600	5.30	340	Pre-let on a 30 year lease to Globix Corporation. Initial rental £2.6 million per annum, rising to £5.3 million per annum after 2 years. A tenant's break at year 20.
Broadwick House, Broadwick Street, W1	3,000	1.75	592	New development pre-let to Ford Motor Company Ltd on a 20 year lease.
6 Greencoat Place, SW1	2,000	0.75	404	Refurbishment pre-let to Channel Four Television Corporation on a 20 year lease at £404 per m², rising to £430 per m².
Morelands Buildings, 5-27 Old Street, EC1	2,100	0.45	270	Various suites let following rolling refurbishment.
Greencoat House, Francis Street, SW1	1,200	0.44	376	A number of suites let following refurbishment, including two converted loading bays.
Greencoat House, Francis Street, SW1	1,000	0.42	415	Penthouse development let to Channel Four Television Corporation on a 20 year lease.
Middlesex House, 34-42 Cleveland Street, W1	1,050	0.33	404	Following modernisation 5 lettings completed setting new rental levels.



Principal properties

£30 million and over – 31% of portfolio	Approximate net area m²
◆● Covent Garden Estate: 19-26 and 19A Floral Street, 26 and 27-32 King Street and 34 Rose Street, WC2	6,500
◆ Greencoat and Gordon House, Francis Street, SW1	11,200
◆ 1-3 Grosvenor Place, SW1	7,700
◆ 4 Grosvenor Place, SW1	7,300
◆● Holden and Dumbarton House, 54-68 Oxford Street, W1	8,300
◆ New Garden House, 78-83 Hatton Garden,EC1	11,700

£20 - £30 million – 37% of portfolio	Approximate net area m²
◆ Berkshire House, 168-173 High Holborn, WC1	4,900
◆● Broadwick House, Broadwick Street, W1	3,000
◆● 135-155 Charing Cross Road, WC2	5,600
◆■ Gresse Street Estate: Birkbeck College, 16-19 Gresse Street and 7-8 Rathbone Place, W1	8,300
◆ 21 Grosvenor Place, SW1	5,600
◆✚ Harcourt House, 19-19A Cavendish Square, W1	5,300
◆● Heron House, 319-325 High Holborn, WC1	5,700
◆ Hythe House, 200 Shepherds Bush Road, W6	5,300
◆ Middlesex House, 34-42 Cleveland Street, W1	6,000
◆ Premier House, 10 Greycoat Place, SW1	5,900
◆● 25 Savile Row, W1	3,800
◆ Telstar House, Eastbourne Terrace, W2	8,300

£10 - £20 million – 17% of portfolio	Approximate net area m²
◆ Argosy House, 215-227 Great Portland Street, W1	2,800
◆ 40-43 Chancery Lane, WC2 and 20-21 Tooks Court, EC4	5,700
◆● Exmouth House, Exmouth Market, EC1	5,000
◆ 6 Greencoat Place, SW1	2,800
◆● Jaeger House, 57 Broadwick Street, W1	2,300
◆● Morelands Buildings, 5-27 Old Street, EC1	7,200
◆ Steel House, 11 Tothill Street, SW1	4,000

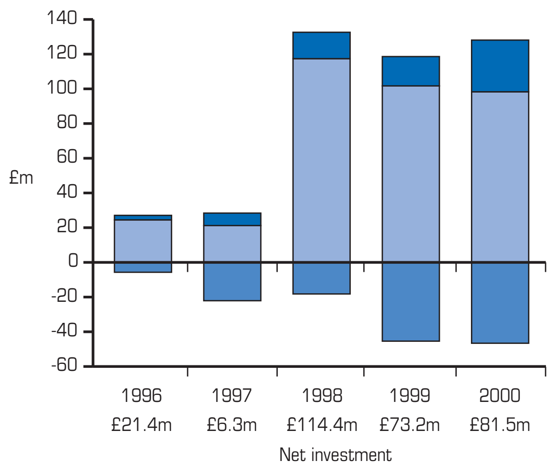
Under £10 million – 7% of portfolio	Approximate net area m²
◆● Broadmead and Westcombe House, 19-23 Panton Street, SW1	1,500
◆ Dragon Court, 27-29 Macklin Street, WC2	1,800
◆ 27-32 Old Jewry, EC2	2,100
◆● 78 St Martin's Lane, WC2	1,500

Development properties – 8% of portfolio	Approximate net area m²
◆● Panton House, 25-27 Haymarket, SW1	2,600
◆ 1 Oliver's Yard, EC2	16,600
◆● Tower House and 3-11 Southampton Street, WC2	9,100
◆ 20 Leonard Street, EC2	4,500

◆ Offices ■ Educational
● Retail / Restaurant ✚ Medical

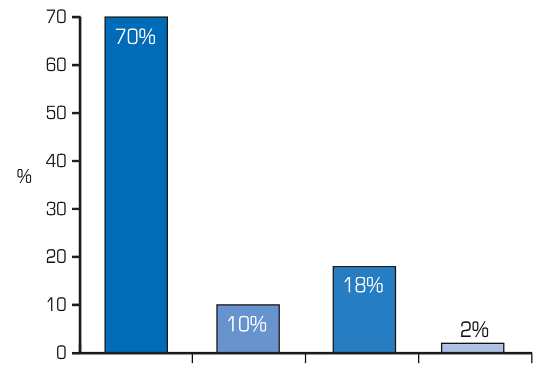
Property review

Net investment 1996-2000



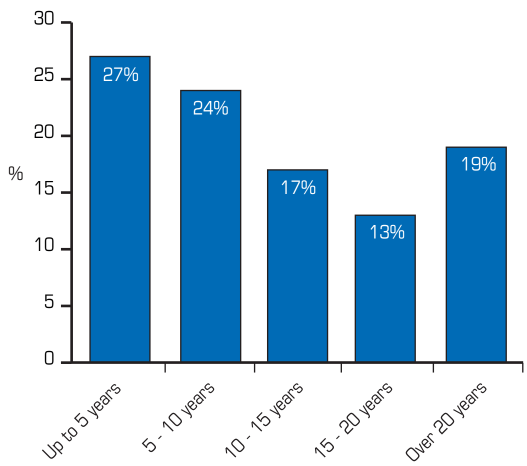
- Capital expenditure
- Acquisitions
- Disposals

Value of properties by tenure

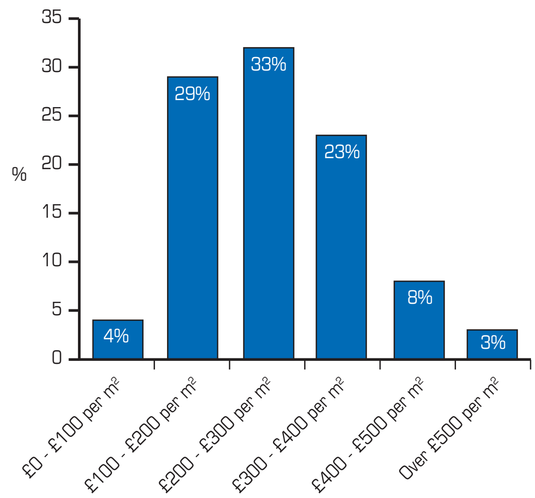


Freehold	£538.0m
Leasehold over 100 years	£79.5m
Leasehold 50-100 years	£138.0m
Leasehold under 50 years	£14.9m
	£770.4m

Contracted rental income expiry profile



Contracted rental income by floor area



Opposite:
Broadwick House, Soho, London, W1

Results

Profit before taxation, excluding the effect of investment property disposals, was reduced in 2000 from £11.5 million to £10.7 million. Without the provision of £0.8 million required under FRS12 for the onerous lease on the group's recently vacated head office, profits would have been maintained at the 1999 level. The former head office premises have now been let, and the provision should unwind over the remaining 14 years of the lease. In the absence this year of profits from investment disposals, the FRS3 profit was reduced from £16.6 million to £10.7 million.

However, net rental income showed strong growth and rose nearly 29% to £34.9 million. This increase of £7.8 million included not only £8.9 million from acquisitions but also £5.0 million from lettings and rent reviews. There will be further increases from the latter in 2001 as rent will become payable from the pre-lettings at Broadwick House and 1 Oliver's Yard. Rent lost due to disposals was £3.3 million and due to vacant space, predominantly caused by the capital expenditure programme, £1.7 million.

The acquisitions and capital expenditure were debt financed which contributed to the increase in the average level of borrowings year on year of £96 million. Consequently, there was a rise in interest payable of £7.1 million. Excluding the premium for the onerous lease, there was an increase in administrative costs of £0.4 million. This was partly attributable to employment costs which, in addition to increased bonus payments, saw a rise in the number of employees from 22 at December 1999 to 30 at December 2000.

Taxation

The effective tax charge shown in the profit and loss account for 2000 was exceptionally low at 6.5%. This was due to the ongoing programme of capital allowance claims which this year reduced the tax charge by £2.3 million compared with £1.3 million in 1999 and the release of a provision of £0.8 million after the agreement of prior years' tax liabilities with the Inland Revenue.

Cash flow

The group's cash outflow during the year totalled £74.3 million. The group generates only a small amount of its cash requirements from its ongoing operations. In 2000, the cash inflow after interest was £14.8 million which was supplemented by a further £46.6 million from property disposals. However, capital expenditure of £128.1 million exceeded this by £66.7 million which was financed by an increase in bank borrowings. Capital expenditure included £98.3 million on the acquisition of new properties while expenditure on existing buildings totalled £29.8 million.

The group has a significant capital expenditure programme planned. Over £32 million is budgeted to be spent in both 2001 and 2002 and further projects are planned from 2003 onwards. The major schemes in 2001, and the expected expenditure in that year, are at Oliver's Yard (£7.2 million), Tower House (£4.2 million), Panton House (£4.0 million) and Charing Cross Road (£3.5 million). This future expenditure is expected again to be financed by disposals and the drawdown of existing bank facilities.

Debt

At the year-end, group debt totalled £283.4 million compared with £209.3 million a year earlier. With the exception of the company's listed debenture, all of the debt was in the form of medium term, secured, revolving credit facilities from a small number of prime banks. Currently, committed but unutilised facilities amount to £38 million. The repayment profile of the borrowings is shown in note 18 on page 36 of the accounts.

Financial review

Financial review

Opposite:
Reception – Broadwick House, Soho, London, W1

Gearing

The company manages three gearing ratios:

- profit and loss gearing
- balance sheet gearing
- property gearing

The most significant of these is the profit and loss gearing. This ratio is defined as net rental income less administrative costs divided by net interest payable. For 2000, this ratio was 1.58 compared with 1.97 in 1999. Much of the reduction in this ratio can be accounted for by the dual effect of the substantial increase in the group's development programme – the loss of rent from properties under refurbishment and, as the group does not capitalise interest, an increased interest charge on development expenditure. The balance sheet gearing at the year-end was 60.4% which compared with 54.8% a year earlier and reflected the cash outflow on acquisitions and capital expenditure. Finally, property gearing was 36.8% compared with 34.6% in 1999 and still shows a comfortable borrowing capability.

Interest rate hedging

Interest rate hedging is used to protect the group from the risk of adverse interest rate movements. The policy remains to vary the total of fixed rate debt and that fixed using derivatives within a range of approximately 40% to 75% of borrowings, depending on the perceived risk to the group. During the year, advantage was taken of the inverted interest rate yield curve and a total of £60 million of swaps were undertaken. Currently, 51% of debt is either fixed or hedged and the weighted average cost of borrowing is 7.38%. Details of the company's hedging are given in note 18 on page 36 of the accounts. This note also shows the information required by FRS13, Financial Instruments. Under this reporting standard the company is required to disclose the effect of revaluing fixed rate debt and interest rate hedging instruments based on today's economic conditions as against those which prevailed at the point of commitment. The fair value adjustment arising as a result of this revaluation was a negative £16.1 million (31st December 1999: negative £13.3 million) equivalent to a reduction in the group's net asset value per share of 30p (31st December 1999: 25p). After taking account of tax relief, these figures would be 21p and 17p respectively. If these figures were included in the balance sheet, the effect would be to increase the group's balance sheet gearing. However, there is no obligation or present intention to redeem the debenture or any of the hedging instruments other than at maturity when their redemption will be made at par.

Group profit and loss account

for the year ended 31st December 2000

	Note	2000 £m	1999 £m
Gross rental income:			
Group and share of joint ventures		**38.8**	30.0
Less: Share of joint ventures		**0.3**	0.2
Group gross rental income		**38.5**	29.8
Property outgoings net of recoveries	2	**3.6**	2.7
Net revenue from properties		**34.9**	27.1
Profit from property trading	3	**–**	0.2
		34.9	27.3
Administrative costs		**5.5**	4.3
Operating profit		**29.4**	23.0
Share of operating results of joint ventures		**0.3**	0.3
Profit on disposal of investment properties	4	**–**	5.1
		29.7	28.4
Interest receivable		**–**	0.1
Interest payable	5	**19.0**	11.9
Profit on ordinary activities before taxation	6	**10.7**	16.6
Taxation on profit on ordinary activities	9	**0.7**	2.3
Profit on ordinary activities after taxation	10	**10.0**	14.3
Dividend	11	**4.5**	4.1
Retained profit	21	**5.5**	10.2

All amounts relate to continuing activities.

	Note	2000	1999
Adjusted earnings per share	12	**19.05p**	18.89p
Adjustment for disposal of investment properties		**(0.19p)**	8.00p
Basic earnings per share	12	**18.86p**	26.89p
Adjustment for dilutive share options		**(0.02p)**	(0.05p)
Diluted earnings per share	12	**18.84p**	26.84p
Dividend per share		**8.50p**	7.70p
Total return		**23.8%**	20.7%

The notes on pages 28 to 39 form part of these accounts.

Balance sheets

at 31st December 2000

	Note	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Fixed assets					
Tangible assets	13	**771.0**	604.3	**0.6**	0.2
Investments	14	**–**	–	**185.4**	185.9
Investment in joint ventures					
Share of gross assets		**3.1**	2.8	**–**	–
Share of gross liabilities		**(3.0)**	(3.0)	**–**	–
		0.1	(0.2)	**–**	–
Current assets					
Properties held for resale		**2.6**	2.2	**–**	–
Debtors	15	**8.8**	8.5	**317.2**	245.5
		11.4	10.7	**317.2**	245.5
Creditors: Amounts falling due within one year	16	**79.1**	25.3	**82.9**	35.5
Net current (liabilities)/assets		**(67.7)**	(14.6)	**234.3**	210.0
Total assets less current liabilities		**703.4**	589.5	**420.3**	396.1
Creditors: Amounts falling due after more than one year	17	**233.3**	207.3	**233.3**	207.3
Provision for liabilities and charges	19	**0.8**	–	**0.8**	–
		469.3	382.2	**186.2**	188.8
Capital and reserves – equity					
Called up share capital	20	**2.6**	2.6	**2.6**	2.6
Share premium account	21	**153.8**	153.6	**153.8**	153.6
Revaluation reserve	21	**260.3**	186.4	**–**	–
Other reserves	21	**0.7**	0.7	**–**	–
Profit and loss account	21	**51.9**	38.9	**29.8**	32.6
		469.3	382.2	**186.2**	188.8
Net asset value per share		**883p**	720p		

J. D. Burns, Director   C. J. Odom, Director   13th March 2001

The notes on pages 28 to 39 form part of these accounts.

Other primary statements

for the year ended 31st December 2000

Statement of total recognised gains and losses	2000 £m	1999 £m
Profit for financial year	**10.0**	14.3
Unrealised surplus on revaluation of investment properties	**82.5**	53.5
Unrealised surplus on revaluation of joint venture's investment property	**0.3**	–
Taxation on realisation of property revaluation gains of previous years	**(1.4)**	(0.8)
	91.4	67.0

Note of historical cost profit and loss	2000 £m	1999 £m
Reported profit on ordinary activities before taxation	**10.7**	16.6
Realisation of property revaluation surplus of previous years	**8.9**	5.2
Historical cost profit on ordinary activities before taxation	**19.6**	21.8
Historical cost profit retained after taxation and dividends	**13.0**	14.6

Reconciliation of movements in shareholders' funds	2000 £m	1999 £m
Profit for financial year	**10.0**	14.3
Other gains and losses relating to the year	**81.4**	52.7
Net proceeds of share issue	**0.2**	0.4
	91.6	67.4
Dividend	**(4.5)**	(4.1)
	87.1	63.3
Shareholders' funds at 1st January 2000	**382.2**	318.9
Shareholders' funds at 31st December 2000	**469.3**	382.2

The notes on pages 28 to 39 form part of these accounts.

Group cash flow statement

for the year ended 31st December 2000

	Note	2000 £m	2000 £m	1999 £m	1999 £m
Operating activities					
Cash received from:					
Tenants		**40.1**		29.4	
Trading activities		**0.1**		1.9	
Cash payments in respect of:					
Direct property expenses		**(3.4)**		(3.4)	
Wages and salaries		**(2.7)**		(2.0)	
Administrative costs		**(1.4)**		(1.5)	
Properties held for resale		**(0.6)**		(1.3)	
Net cash inflow from operating activities	22		**32.1**		23.1
Return on investments and servicing of finance					
Interest received		**–**		0.1	
Interest paid		**(17.3)**		(10.1)	
Net cash outflow from return on investments and servicing of finance			**(17.3)**		(10.0)
Taxation					
Corporation tax paid		**(2.9)**		(2.2)	
Taxation paid			**(2.9)**		(2.2)
Capital expenditure and financial investment					
Additions to properties		**(128.1)**		(118.6)	
Disposal of properties		**46.6**		45.4	
Purchase of other fixed assets		**(0.6)**		(0.1)	
Net cash outflow from capital expenditure and financial investment			**(82.1)**		(73.3)
Equity dividends paid			**(4.1)**		(4.0)
Cash outflow before management of liquid resources and financing			**(74.3)**		(66.4)
Financing					
Net proceeds of share issue		**0.2**		0.4	
Movement in bank loans	24	**76.0**		64.5	
Net cash inflow from financing			**76.2**		64.9
Increase/(decrease) in cash in the period			**1.9**		(1.5)

The notes on pages 28 to 39 form part of these accounts.

Notes

1. Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets, and in accordance with applicable financial reporting standards. Compliance with SSAP19 "Accounting for Investment Properties" requires a departure from the requirements of the Companies Act 1985 relating to depreciation and amortisation and an explanation of this departure can be found under the heading for depreciation. The principal accounting policies are described below.

Basis of consolidation

The group accounts incorporate the accounts of Derwent Valley Holdings plc and all of its subsidiary undertakings made up to 31st December, together with the group's share of the results of its joint ventures, incorporating such adjustments as are appropriate, made up to a date no earlier than six months before 31st December. As permitted by section 230(3) of the Companies Act 1985, no profit and loss account is presented for the holding company.

Net revenue from properties

Gross rental income arises from operating leases and is recognised as it becomes receivable under the terms of the leases.
Void costs associated with major refurbishment schemes together with the initial letting costs of a development are capitalised in accordance with FRS15. All other costs incurred under operating leases are charged to the profit and loss account as they become payable.

Disposal of properties

The disposal of both investment and trading properties is accounted for on completion of contract.

Surrender premiums

Reverse premiums are recognised in the profit and loss account at a rate equal to the passing rent under the surrendered lease together with any associated void costs having first allocated an appropriate part of the premium to reinstate the premises to a lettable condition. Following reletting, once rent is receivable, any residual premium is immediately released to the profit and loss account. Premiums paid are capitalised.

Properties

(i) Investment properties

Investment properties, as defined by SSAP19, are revalued annually by independent valuers in accordance with the Statements of Asset Valuation Practice and Guidance Notes issued by the Royal Institution of Chartered Surveyors and are included in the balance sheet on the basis of open market value. The aggregate surplus or deficit arising from such revaluation is transferred to the revaluation reserve. However, if on an individual property, a deficit arising from a valuation below cost is expected to be permanent, it is charged to the profit and loss account with any subsequent reversal being credited to the same.

1. Accounting policies

A property in the course of development is stated at its value at the time it was so designated, plus subsequent development costs less any permanent diminution in value. All outgoings, excluding interest, which can be fairly attributed to a development are considered development costs. The property is revalued once the certificate of practical completion has been issued.

(ii) Properties held for resale

Properties held for resale, including those under development, are stated at the lower of cost and net realisable value.

Investments

Investments in joint ventures are included in the group balance sheet at cost together with the appropriate share of post acquisition reserves and are presented in accordance with FRS9 "Associates and Joint Ventures".

Depreciation

No depreciation is provided in respect of freehold investment properties or leasehold investment properties with over 20 years of the lease remaining. This is a departure from the Companies Act 1985 but the directors consider that this accounting policy results in the financial statements giving a true and fair view. Depreciation and amortisation are only one of the many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

Leasehold investment properties with under 20 years of the lease remaining and leasehold improvements are amortised over the outstanding term of the lease. Other tangible fixed assets are depreciated at a rate between 10% and 25% per annum which is calculated to write off the cost, less estimated residual value of the assets, over their expected useful life.

Financial instruments

Financial instruments are used to manage the interest rate risk associated with the group's business and the financing thereof. No trading in financial instruments is undertaken. Short term debtors and creditors are excluded from the analysis of financial instruments given in note 18.

Deferred taxation

Provision is made for taxation on timing differences between the treatment of certain items for taxation and accounting purposes to the extent that a liability or asset is expected to arise in the foreseeable future. No provision is made in respect of capital allowances claimed on assets that are not depreciated, nor is any provision made in respect of capital gains tax which would arise if the sale of the group's investment properties was effected at the valuation at which they are included in the balance sheet.

Notes

2. Property outgoings net of recoveries	2000 £m	1999 £m
Ground rents	**0.8**	0.8
Other property outgoings net of recoveries	**2.8**	1.9
	3.6	2.7

3. Profit from property trading	2000 £m	1999 £m
Sales	**0.1**	1.9
Cost of sales	**(0.1)**	(1.7)
	–	0.2

4. Profit on disposal of investment properties	2000 £m	1999 £m
Disposals	**46.6**	45.4
Cost/valuation	**(46.0)**	(40.1)
Group profit on disposal of investment properties	**0.6**	5.3
Permanent diminution in value of investment properties	**(0.6)**	(0.2)
	–	5.1

The permanent diminution relates to losses that were expected to be realised on the disposal of investment properties in 2001.

5. Interest payable	2000 £m	1999 £m
Bank loans and overdrafts wholly repayable within five years	**15.1**	8.0
Debenture stock	**3.6**	3.6
Group interest payable	**18.7**	11.6
Share of joint ventures' interest payable	**0.3**	0.3
	19.0	11.9

6. Profit on ordinary activities before taxation	2000 £'000	1999 £'000
This is arrived at after charging:		
Depreciation and amortisation	**225**	573
Rent payable under property leases	**826**	815
Auditors' remuneration		
Audit	**63**	54
Other services	**43**	67

7. Directors' emoluments	2000 £'000	1999 £'000
Remuneration for management services	**1,573**	1,226
Non executive directors' remuneration	**65**	73
Gain on exercise of share options	**267**	456
Pension contributions	**293**	253
Total emoluments	**2,198**	2,008

Details of the directors' remuneration and of options granted to the directors under the group share option schemes are given in the report on directors' remuneration on pages 44 to 46.

Messrs J. D. Burns and S. P. Silver are partners in Pilcher Hershman and Partners, estate agents, who have received fees at a commercial rate, in respect of the management, letting, acquisition and disposal of certain properties owned by the company's subsidiary undertakings amounting to £1.1m (1999 – £0.8m), excluding value added tax. This amount included management fees which were rechargeable to tenants of £0.6m (1999 – £0.5m). During the year Pilcher Hershman and Partners paid a premium to the group to surrender their lease at the group's previous head office prior to signing a lease on offices within 25 Savile Row, the group's new head office. The premium, together with the commercial rent paid on the offices, amounted to £0.1m.

8. Employees	2000 £m	1999 £m
Staff costs, including those of directors:		
Wages and salaries	**2.2**	1.8
Social security costs	**0.3**	0.2
Pension costs	**0.3**	0.3
	2.8	2.3
The average number of employees during the year, excluding directors, was as follows:	**Number**	Number
Administration	**17**	14

Notes

9. Taxation on profit on ordinary activities	2000 £m	1999 £m
UK corporation tax on profit, adjusted for the surplus on disposal of investment properties, taxed at 30% (1999 – 31%)	**3.2**	3.5
Capital allowances	**(2.3)**	(1.3)
Other differences	**0.5**	(0.4)
	1.4	1.8
Tax on profit on disposal of investment properties	**0.1**	0.9
Tax charge in respect of current year's profits	**1.5**	2.7
Adjustment in respect of prior years	**(0.8)**	(0.4)
	0.7	2.3
Taxation on realised gains and losses:		
UK corporation tax at 30% (1999 – 31%)	**1.4**	0.8

10. Profit for year attributable to members of Derwent Valley Holdings plc

Profit after tax includes £1.7m (1999 – £13.0m) which has been dealt with in the accounts of the holding company.

11. Dividend	2000 £m	1999 £m
Ordinary shares of 5p each:		
Paid – interim dividend of 2.50p (1999 – 2.35p) per share	**1.3**	1.3
Proposed – final dividend of 6.00p (1999 – 5.35p) per share	**3.2**	2.8
	4.5	4.1

12. Earnings per share

Earnings per ordinary share have been computed on the basis of a profit after taxation of £10,017,000 (1999 – £14,251,000) and the weighted average number of ordinary shares in issue during the year of 53,101,000 (1999 – 53,005,000). An adjusted earnings per share has been calculated using a profit of £10,115,000 (1999 – £10,015,000). This figure excludes the loss after tax arising from the disposal of investment properties in order to show the recurring element of the group's profit. The diluted earnings per share has been calculated using 53,181,000 (1999 – 53,087,000) ordinary shares which includes the number of dilutive share options outstanding at the year end.

13. Tangible assets	Group: Freehold land and buildings £m	Group: Leasehold property £m	Group: Other fixed assets £m	Group: Total £m	Company: Other fixed assets £m
Cost or valuation:					
At 1st January 2000	431.1	173.1	1.1	605.3	1.1
Additions	91.6	38.9	0.6	131.1	0.6
Disposals	(43.0)	(3.2)	(0.1)	(46.3)	(0.1)
Revaluation	58.3	23.6	–	81.9	–
At 31st December 2000	538.0	232.4	1.6	772.0	1.6
Amortisation and depreciation:					
At 1st January 2000	–	0.1	0.9	1.0	0.9
Disposals	–	(0.2)	–	(0.2)	–
Provision for year	–	0.1	0.1	0.2	0.1
At 31st December 2000	–	–	1.0	1.0	1.0
Net book value:					
At 31st December 2000	**538.0**	**232.4**	**0.6**	**771.0**	**0.6**
At 31st December 1999	431.1	173.0	0.2	604.3	0.2
Assets stated at cost or valuation:					
31st December 2000 valuation	478.7	232.4	–	711.1	–
Prior years' valuation plus subsequent costs	52.5	–	–	52.5	–
Cost	6.8	–	0.6	7.4	0.6
	538.0	232.4	0.6	771.0	0.6

Group

Short leasehold property with a value of £14.9m (1999 – £17.1m) is included in leasehold property above. Investment property in the course of development with a carrying value of £59.3m (1999 – £32.3m) is included in freehold land and buildings above.

The freehold land and buildings and leasehold property, other than those in the course of development, were revalued by Keith Cardale Groves (Commercial) Limited and CB Hillier Parker Limited, chartered surveyors, at open market value on 31st December 2000. At 31st December 2000 the historical cost of the freehold land and buildings and leasehold property owned by the group was £510.5m (1999 – £417.6m).

Notes

14. Investments	Company £m
Shares in subsidiary undertakings:	
At 1st January 2000	185.9
Movement in provisions	(0.5)
At 31st December 2000	**185.4**

The principal operating companies within the group are as follows:

	Class of shares	Principal activity
Subsidiary undertakings		
Colebrook Estates Limited	Ordinary	Property investment
Wilmar Estates Limited	Ordinary	Property investment
Derwent Valley Property Investments Limited	Ordinary	Property investment
Derwent Valley Property Developments Limited	Ordinary	Property investment
Derwent Valley Property Trading Limited	Ordinary	Property trading

Each of the above companies' share capital is wholly owned by the group.

Joint ventures		
Primister Limited	Ordinary	Property investment
Dorrington Derwent Holdings Limited	Ordinary	Holding company

The company owns 50% of the ordinary shares of each of the joint ventures which are accounted for and disclosed in accordance with FRS9, "Associates and Joint Ventures".

All of the above companies are registered and operate in England and Wales.

Financial statements

15. Debtors	Group 2000 £m	1999 £m	Company 2000 £m	1999 £m
Trade debtors	**7.3**	7.2	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**315.6**	243.9
Other debtors	**0.5**	0.3	**0.2**	0.1
Prepayments and accrued income	**1.0**	0.9	**0.4**	0.6
Corporation tax	**–**	0.1	**1.0**	0.9
	8.8	8.5	**317.2**	245.5

The amounts shown above fall due for payment within one year.

16. Creditors falling due within one year	Group 2000 £m	1999 £m	Company 2000 £m	1999 £m
Bank loans and overdraft	**50.1**	2.0	**51.0**	2.2
Amounts owed to subsidiary undertakings	**–**	–	**22.1**	25.6
Taxation and social security	**0.6**	0.3	**0.1**	0.1
Corporation tax	**1.8**	2.7	**–**	–
Other creditors	**3.2**	2.5	**0.2**	0.1
Dividend payable	**3.2**	2.8	**3.2**	2.8
Accruals and deferred income	**20.2**	15.0	**6.3**	4.7
	79.1	25.3	**82.9**	35.5

The bank loans and overdraft are secured by first charges on certain of the group's properties.

17. Creditors falling due after more than one year	Group 2000 £m	1999 £m	Company 2000 £m	1999 £m
Bank loans	**199.0**	173.0	**199.0**	173.0
10⅛% First Mortgage Debenture Stock 2019	**34.3**	34.3	**34.3**	34.3
	233.3	207.3	**233.3**	207.3

The bank loans and debenture are secured by first charges on certain of the group's properties. In accordance with FRS4, "Capital Instruments", the £35,000,000 10⅛% First Mortgage Debenture Stock 2019 is shown net of the unamortised discount and costs on issue of £0.7m (1999 – £0.7m). Further details of the group's borrowings are given in note 18.

Notes

18. Borrowings	Group 2000 £m	1999 £m	Company 2000 £m	1999 £m
Bank loans wholly repayable:				
less than 1 year	**50.0**	–	**50.0**	–
between 1-2 years	**107.5**	80.0	**107.5**	80.0
between 2-5 years	**91.5**	93.0	**91.5**	93.0
10⅛% First Mortgage Debenture Stock 2019	**34.3**	34.3	**34.3**	34.3
	283.3	207.3	**283.3**	207.3

	Group 2000 £m	1999 £m
Undrawn committed bank facilities were:		
expiring in less than 1 year	**14.9**	3.0
expiring between 1-2 years	**10.0**	50.0
expiring beyond 2 years	**1.0**	17.0
	25.9	70.0

After taking into account the various interest rate hedging instruments entered into by the group, the interest rate exposure of the group's borrowings at 31st December 2000 was:

Floating rate borrowings £m	Hedged borrowings £m	Fixed rate borrowings £m	Total £m	Weighted average cost of borrowing %	Weighted average life Years
134.0	115.0	34.3	283.3	7.71	4.09

The fixed rate borrowings comprise the 10⅛% First Mortgage Debenture Stock 2019.

Details of the group's fixed rate debt and the instruments used to hedge its floating rate borrowings are discussed in the financial review on page 23 and summarised below:

Instrument	Principal £m	Weighted average interest rate %	Weighted average life Years	Fair value £m	Fair value adjustment £m
10⅛% First Mortgage Debenture Stock 2019	35.0	10.125	18.59	49.1	(14.1)
Interest rate swaps	95.0	6.359	4.88	1.9	(1.9)
Interest rate collars	20.0	cap 8.500	0.49	0.1	(0.1)
		floor 7.000			
				51.1	(16.1)

18. Borrowings

10⅛% First Mortgage Debenture Stock 2019

The market price for the debenture at 31st December 2000 was £140.5 which gave rise to a value of £49,175,000. At this price, the gross redemption yield on the debenture was 6.38% implying a margin of 1.66% over the 8% Treasury 2015 gilt. The fair value adjustment effectively represents the net present value of the difference between the contracted fixed rate of the debenture and the gross redemption yield on the benchmark gilt at 31st December 2000.

Interest rate swaps

The fair values represent the net present value of the difference between the contracted fixed rates and the fixed rates payable were the swaps to be replaced on 31st December 2000 for the period to the contracted expiry dates.

Interest rate collars

Interest rate collars comprise interest rate caps purchased and interest rate floors sold. The fair values represent the net cost of replacement on identical terms at prices prevailing on 31st December 2000.

	Group and company
19. Provision for liabilities and charges	£m
At 1st January 2000	–
Provided during year	0.8
At 31st December 2000	**0.8**

The provision relates to an onerous lease at the group's previous head office which expires in 2014 and reflects the discounted present value of future payments under that lease. This exceptional item is included in administrative costs.

The group has not implemented FRS19, "Deferred Taxation" at 31st December 2000. The adoption of this standard is obligatory from January 2002. In accordance with the group's existing accounting policy, no deferred taxation provision has been made in respect of either capital allowances claimed in excess of depreciation or other short term timing differences which are not expected to reverse in the foreseeable future. At 31st December 2000 the net amount in respect of the group for which no provision has been made amounted to £7.7m (1999 – £5.7m). This is equivalent to 14p per share (1999 – 11p). No liability arises in the company in respect of such short term timing differences (1999 – £nil).

A taxation liability of approximately £65.6m (1999 – £47.9m) would arise on the disposal of land and buildings at the valuation shown in the group balance sheet. This is equivalent to 123p per share (1999 – 90p). No provision has been made in the accounts for this as the directors do not intend to reduce the investment in land and buildings in the foreseeable future. No such liability exists for the company (1999 – £nil).

	Authorised	Issued and fully paid
20. Share capital	£m	£m
At 1st January 2000 and 31st December 2000	3.55	**2.6**

On 11th May 2000, 33,306 ordinary shares of 5p were issued following the exercise of options under the group's share option schemes and on 3rd November 2000, 51,708 ordinary shares of 5p were issued following the exercise of further options. Details of the schemes are given in the report of the remuneration committee on pages 44 to 46. The number of shares in issue at the year end was 53,156,972.

Notes

21. Reserves

	Share premium account £m	Revaluation reserve £m	Other reserves £m	Profit and loss account £m
Group				
At 1st January 2000	153.6	186.4	0.7	38.9
Premium on issue of shares	0.2	–	–	–
Surplus on property revaluation	–	82.5	–	–
Surplus on joint venture's property revaluation	–	0.3	–	–
Profit realised on disposal of investment properties	–	(8.9)	–	8.9
Tax attributable to revaluation surplus realised on disposal of investment properties	–	–	–	(1.4)
Retained profit for the year	–	–	–	5.5
At 31st December 2000	**153.8**	**260.3**	**0.7**	**51.9**
Company				
At 1st January 2000	153.6	–	–	32.6
Premium on issue of shares	0.2	–	–	–
Retained loss for the year	–	–	–	(2.8)
At 31st December 2000	**153.8**	**–**	**–**	**29.8**

22. Reconciliation of operating profit to net cash inflow from operating activities

	2000 £m	1999 £m
Operating profit	**29.4**	23.0
Depreciation charge	**0.2**	0.5
Increase in debtors	**(0.4)**	(1.8)
Increase in creditors	**7.0**	3.1
(Increase)/decrease in properties held for resale	**(0.4)**	0.4
Effect of other deferrals and accruals on operating activity cash flow	**(3.7)**	(2.1)
Net cash inflow from operating activities	**32.1**	23.1

23. Reconciliation of net cash flow to movement in net debt

	2000 £m	1999 £m
(Increase)/decrease in cash in the period	**(1.9)**	1.5
Cash inflow from movement in debt financing	**76.0**	64.5
Movement in net debt in the year	**74.1**	66.0
Net debt at 1st January 2000	**209.3**	143.3
Net debt at 31st December 2000	**283.4**	209.3

24. Movement in net debt	1st January 2000 £m	Cash flow £m	Reclassification £m	**31st December 2000 £m**
Overdraft	2.0	(1.9)	–	**0.1**
Bank loans wholly repayable:				
less than one year	–	–	50.0	**50.0**
between 1 – 2 years	80.0	65.0	(37.5)	**107.5**
between 2 – 5 years	93.0	11.0	(12.5)	**91.5**
	173.0	76.0	–	**249.0**
10⅛% First Mortgage Debenture Stock 2019	34.3	–	–	**34.3**
Total	209.3	74.1	–	**283.4**

25. Capital commitments

Contracts for capital expenditure entered into by the group at 31st December 2000 and not provided for in the accounts amounted to £13.5m (1999 – £6.6m).

26. Lease commitments

At 31st December 2000 annual commitments under property leases expiring in more than 5 years were £1.1m (1999 – £1.0m).

27. Pension commitments

The company operates a defined contribution pension scheme. The contributions payable to the pension scheme are charged to the profit and loss account in respect of the accounting period to which they relate.

28. Post balance sheet events

Since the year end, the group has completed the disposal of two properties for a total consideration of £18.2 million before costs and exchanged contracts for the disposal of a further three properties for a total consideration of £34.3 million before costs.

29. Contingent liabilities

The company and its subsidiary undertakings are party to cross guarantees securing the overdraft and certain bank loans. At 31st December 2000 the maximum liability that could arise for the company from the cross guarantees amounted to £nil (1999 – £nil). The company has given guarantees in respect of certain loans of its joint ventures, the contingent liability for which at 31st December 2000 amounted to £2.8m (1999 – £2.8m). In addition, the company guarantees its share of interest payable on certain loans of its joint ventures which at current interest rates amounts to £0.3m per annum (1999 – £0.3m).

Directors' report

The directors present their report and the financial statements for the year ended 31st December 2000.

Results and dividend

Profit before taxation from ordinary activities was £10.7m (1999 – £16.6m) and profit after taxation amounted to £10.0m (1999 – £14.3m).

The directors recommend a final dividend of 6.0p per ordinary share. This, when taken with the interim dividend of 2.5p per share, paid on 6th November 2000, gives a total dividend of 8.5p (1999 – 7.7p) per ordinary share for the year ended 31st December 2000, amounting to £4.5m.

After ordinary dividends, £5.5m (1999 – £10.2m) was transferred to revenue reserves.

Principal activities, trading review and future developments

The principal activities of the group are those of property investment, refurbishment and redevelopment, and trading. A review of the business and comments on the future outlook for the group can be found within the chairman's statement and property review on pages 4 to 19.

Directors

The directors of the company during the year and their interests, all of which are beneficial, in the share capital of the company, including shares over which options have been granted under the terms of the group share option schemes, were:

	Ordinary shares of 5p each		Options	
	31st December 2000	31st December 1999	**31st December 2000**	31st December 1999
J. C. Ivey	**79,072**	79,072	**–**	–
J. D. Burns	**679,013**	671,913	**95,257**	65,257
S. P. Silver	**269,589**	269,589	**80,931**	55,931
C. J. Odom	**12,650**	12,650	**64,021**	96,729
N. Q. George	**–**	–	**57,201**	46,201
P. M. Williams	**2,000**	2,000	**58,860**	45,860
I. Yeatman	**–**	–	**–**	–
S. J. Neathercoat	**–**	–	**–**	–

There have been no changes in directors' shareholdings between the year end and 13th March 2001.

During the year, a director exercised options over 51,708 shares at an exercise price of 748p. Further options over 98,000 shares were granted to the directors at an exercise price of 501.5p. Full details of the directors' options are given in the report on directors' remuneration which commences on page 44.

In accordance with the articles of association, Messrs N. Q. George and P. M. Williams retire by rotation and being eligible, offer themselves for re-election.

Biographies of all the directors are given on page 47.

Other than as disclosed in note 7, the directors have no interest in any material contracts of the company.

Fixed assets

The group's freehold and leasehold investment properties were professionally revalued at 31st December 2000, resulting in an unrealised surplus of £82.5m being taken to the revaluation reserve. The freehold and leasehold investment properties are included in the group balance sheet at a total value of £770.4m.

Directors' report

Substantial shareholders

In addition to those of the directors disclosed above, the company has been notified of the following interests in the issued ordinary share capital as at 13th March 2001:

	Percentage of issued share capital
Standard Life Assurance Company	5.50
Royal & SunAlliance Insurance Group plc	4.10
Scottish Widows Investment Partnership	4.16
Aegon Asset Management UK plc	3.99

Creditor payment policy

It is the group's policy to agree terms of business with suppliers prior to the supply of goods or services. In the absence of any dispute, the group pays in accordance with these agreed terms. For the year ended 31st December 2000, the average payment period for trade creditors was 20 days (1999 – 20 days).

Charitable donations

During the year, the group made charitable donations amounting to £1,800.

Corporate governance

The company is required to comply with "The Combined Code – Principles of Good Governance and Code of Best Practice" ("the Combined Code") which was appended to the Listing Rules of the London Stock Exchange during 1998. The Combined Code contains 14 principles of good governance and in the following section the board sets out how it has complied with these principles.

Compliance

The board believes that the company has complied with the provisions set out in Section 1 of the Combined Code throughout the period.

The board

Throughout 2000, the board comprised Mr. Ivey, the non executive chairman, five executive directors, Messrs. Burns, Silver, Odom, George and Williams and two further independent non executive directors, Mr. Yeatman and Mr. Neathercoat. Mr. Yeatman was the senior non executive director throughout the year. Biographies of the directors are given on page 47.

The full board meets five times a year and a formal list of matters is reserved to it. The board is provided with comprehensive papers in a timely manner to ensure that the directors are fully briefed on matters to be discussed by the board. Additional meetings are arranged when necessary.

Since 1993, the board has maintained a number of board committees. Set out below are details of the membership and duties of the three principal committees.

Directors' report

▪ Remuneration committee

During 2000, the committee consisted of Mr. Yeatman as chairman and Mr. Neathercoat. The committee is responsible for recommending to the board the company's remuneration policy and individual remuneration packages for the executive directors. The report on directors' remuneration is set out on pages 44 to 46.

▪ Audit committee

Messrs. Yeatman, Ivey and Neathercoat served on this committee under the chairmanship of Mr. Yeatman throughout 2000. The committee is responsible for the appointment of the external auditors, reviewing the scope of the audit, discussing the results thereof and any control issues arising therefrom, and reviewing the interim and annual financial statements.

▪ Nominations committee

Mr. Ivey is chairman of this committee which, during the year, consisted of the non executive directors and Mr. Burns. The committee is responsible for identifying external candidates for appointment as directors and, subsequently, recommending their appointment to the board. The committee may also be requested by the board to make a recommendation concerning the appointment to the board from within the company.

Directors

Appointment of a director from outside the company is on the recommendation of the nominations committee, whilst internal promotion is a matter decided by the board unless it is considered appropriate for a recommendation to be requested from the nominations committee. All new directors must stand for re-election at the first annual general meeting following their appointment. Existing directors must submit themselves for re-election at least once every three years.

If considered appropriate, new directors are sent on an external training course addressing their role and duties as a director of a public company.

All directors may instigate an agreed procedure whereby independent professional advice may be sought at the company's expense.

Communication with shareholders

The company has always recognised the importance of clear communication with shareholders and has maintained a regular dialogue with institutional shareholders and fund managers. This is aided by the annual report which is sent to all shareholders. The annual general meeting provides an opportunity for shareholders to question the directors and, in particular, the chairman of each of the board committees.

Internal control

In applying Principle D2 of the Combined Code, the directors recognise that they have overall responsibility for ensuring that the group maintains a sound system of internal control that provides the board with reasonable assurance regarding effective and efficient operations, internal financial control and compliance with laws and regulations.

The directors are aware that a system of internal control can only manage business risk, not eliminate it, and cannot provide absolute assurance against material misstatement or loss. Accordingly, the system is designed to provide reasonable assurance that problems are identified and appropriate remedial measures taken on a timely basis.

Last year, the board reported that it had reviewed its system of internal control and established those procedures that were identified as necessary to comply with the requirements of the Turnbull Guidelines throughout 2000. Having reviewed the operation of these procedures during the year, the board believes that the ongoing process for identyfying, evaluating and managing the significant risks faced by the group, has been in place from 1st January 2000 to 13th March 2001. During the year, two reviews of the group's internal control system were undertaken, one by external consultants and a second by the audit committee that followed on from that undertaken in November 1999. Neither review identified any significant risks that were not subject to appropriate controls.

Directors' report

Going concern

Having made due enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Annual general meeting

The notice of meeting includes three resolutions to be considered as special business.

Resolution 6 renews the authority for the directors under Section 80 of the Companies Act 1985 to allot shares up to an aggregate nominal amount of £885,949.50 representing about one third of the issued share capital at the date of the notice of meeting. The directors have no present intention of issuing shares except on the exercise of options under the company's share option schemes. The authority will expire at the conclusion of the next annual general meeting after the passing of the resolution.

Resolution 7 is a special resolution proposed annually, renewing the directors' authority under Section 95 of the Companies Act 1985. The resolution empowers the directors to allot shares for cash in connection with pre-emptive offers with modifications to the requirements set out in Section 89 of the Companies Act 1985. The resolution further empowers the directors to allot shares for cash, otherwise than on a pre-emptive basis, up to an aggregate nominal value of £132,892.40 which is equivalent to 5% of the issued share capital at the date of the notice of meeting. The authority will expire at the conclusion of the next annual general meeting after the passing of the resolution.

Resolution 8 is proposed to renew the authority enabling the company to purchase its own shares. The directors have no immediate plans to make such purchases, but would like to act quickly if circumstances arose in which they considered such purchases to be desirable.The resolution gives the directors authority to purchase up to 10% of the company's ordinary shares and specifies the maximum and minimum prices at which shares may be bought. No purchases will be made unless the directors believe, in the light of market conditions prevailing at the time, that the effect will be in the interests of shareholders generally. The total number of options to subscribe for ordinary shares outstanding at 13th March 2001 was 388,520, which represented 0.73% of the issued share capital at that date. If the company was to purchase the maximum number of ordinary shares permitted by this resolution, the options outstanding at 13th March 2001 would represent 0.81% of the issued share capital.

Auditors

BDO Stoy Hayward have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the board
T. J. Kite, ACA
Secretary 13th March 2001

Report on directors' remuneration

Remuneration committee

The committee consisted of Mr. Yeatman and Mr. Neathercoat. Neither member has any personal interest in the matters to be decided by the committee, nor any day to day involvement in the running of the business and are therefore considered to be independent.

Policy

In determining an appropriate remuneration policy for the executive directors, the committee's objective is to ensure that the company is able to attract, retain and motivate executives capable of making a significant contribution to the success of the group whilst having due regard to the interests of shareholders and the financial and commercial health of the company.

To implement this policy, the committee uses published data and market research, together with the services of remuneration advisers, when appropriate, to ensure that the total remuneration received by the executive directors is competitive both within the property sector and with companies of a similar size in other industries. Details of the components of the directors' remuneration follow.

Service contracts

All executive directors have contracts requiring 12 months' notice of termination. The remuneration committee reviews the service contracts annually. Non executive directors do not have service contracts.

Basic salary and benefits

Details of directors' remuneration are given below:

	Salary and fees £'000	Gain on exercise of share options £'000	Estimated bonus £'000	Benefits in kind £'000	**2000 Total £'000**	**2000 Pension £'000**	1999 Total £'000	1999 Pension £'000
Executive								
J. D. Burns	310	–	155	34	**499**	**91**	570	76
S. P. Silver	260	–	124	19	**403**	**86**	501	74
C. J. Odom	195	267	76	8	**546**	**57**	237	51
N. Q. George	112	–	56	11	**179**	**27**	131	23
P. M. Williams	134	–	67	12	**213**	**32**	243	29
Non executive								
J. C. Ivey	25	–	–	–	**25**	**–**	25	–
I. Yeatman	20	–	–	–	**20**	**–**	20	–
S. J. Neathercoat	20	–	–	–	**20**	**–**	17	–
J. E. Dixon	–	–	–	–	**–**	**–**	11	–
	1,076	267	478	84	**1,905**	**293**	1,755	253

Fees in respect of Mr S. J. Neathercoat are paid to Dresdner Kleinwort Wasserstein.

Remuneration report

Basic salaries for executive directors are reviewed annually by the remuneration committee having regard to the remuneration policy set out above. Pension contributions for the five executive directors are based solely on basic salaries and paid into a defined contribution scheme. Benefits, principally, comprise a company car and medical insurance. Fees for non executive directors are set by the whole board.

Bonus scheme and long term incentive plan

Following its introduction in 1999, the committee reviewed the operation of the all employee, performance related bonus scheme having regard to developments in both the property sector and industry practice. As a result of this review, the committee made the following recommendations that were accepted by the board.

i) That it would be appropriate for a discretionary element to be added to the existing bonus scheme. As stated in last year's annual report, the performance related bonus is capped at 34% of basic salary. The level of discretionary bonus will not exceed the maximum receivable under the performance related scheme and will be set by the committee based upon an assessment of both an individual's performance and that of the company.

ii) The performance related bonus is calculated by reference to a comparator group consisting of U.K. quoted property companies with characteristics close to those of Derwent Valley. In view of the fact that a number of such comparable companies have left the sector, a new, broader comparator group will be established to lessen the possibility of the comparator group becoming unacceptably small.

No long-term incentive plan operated during the year.

Share option schemes

The Derwent Valley Holdings 1997 Executive Share Option Scheme which contains long term performance criteria over both the grant and exercise of options was approved by shareholders at the annual general meeting of the company held on 3rd June 1997. All options granted under this scheme have yet to be measured against the exercise criteria.

It is intended by the remuneration committee that the share option scheme will form a coherent part of an overall remuneration policy.

Report on directors' remuneration

At 31st December 2000, directors and employees held options over 388,520 ordinary shares of 5p each under the share option schemes.

Exercise price £	Date from which exercisable	Expiry date	Directors: J.D. Burns	S.P. Silver	C.J. Odom	N.Q. George	P.M. Williams	Employees	Total number of shares
1.910	5/5/96	4/5/03	–	–	5,327	2,556	3,622	2,556	14,061
2.370	12/4/98	11/4/05	–	–	46,381	18,450	14,350	20,500	99,681
3.450	26/4/99	25/4/06	8,507	7,431	7,021	5,945	3,638	10,250	42,792
5.690	15/4/01	14/4/08	31,500	27,000	21,500	10,500	13,500	11,500	115,500
5.530	16/4/02	15/4/09	25,250	21,500	16,500	8,750	10,750	13,750	96,500
Outstanding at 1st January 2000			65,257	55,931	96,729	46,201	45,860	58,556	368,534
Options granted during the year									
5.015	14/4/03	13/4/10	30,000	25,000	19,000	11,000	13,000	13,000	111,000

Options exercised or lapsed during the year

Exercise price £	Market price at date of exercise £	J.D. Burns	S.P. Silver	C.J. Odom	N.Q. George	P.M. Williams	Employees	Total number of shares
1.910	5.720	–	–	–	–	–	(2,556)	(2,556)
2.370	5.720	–	–	–	–	–	(20,500)	(20,500)
3.450	5.720	–	–	–	–	–	(10,250)	(10,250)
1.910	7.480	–	–	(5,327)	–	–	–	(5,327)
2.370	7.480	–	–	(46,381)	–	–	–	(46,381)
5.690	–	–	–	–	–	–	(3,000)	(3,000)
5.530	–	–	–	–	–	–	(3,000)	(3,000)
		95,257	80,931	64,021	57,201	58,860	32,250	388,520

Options that are exercisable on or after 15th April 2001 were granted under the 1997 Executive Share Option Scheme.

The market price of the 5p ordinary shares at 31st December 2000 was £7.365. During the year they traded in a range between £4.965 and £7.515.

On behalf of the board

I. Yeatman

Chairman of the remuneration committee

13th March 2001

Directors and advisers

J.C. Ivey
Non executive chairman

A chartered accountant, Mr Ivey is 59 years old and chief executive of The Davis Service Group plc. He is a member of the audit committee and chairs the nominations committee.

J.D. Burns
Managing director

Mr Burns is 56 years old and has overall responsibility for group strategy, business development and day to day operations. He is a non executive director of The Davis Service Group plc and a consultant partner at Pilcher Hershman & Partners, estate agents. A member of the nominations committee.

S.P. Silver

Aged 50, Mr Silver has overall responsibility for acquisitions, design and development projects. He is also a consultant partner in Pilcher Hershman & Partners, estate agents.

C.J. Odom

Mr Odom is a chartered accountant. Aged 50, he joined the board in 1988, and has overall responsibility for financial strategy, treasury and financial reporting.

N.Q. George

A chartered surveyor, Mr George joined the group in 1988 and was appointed to the board in June 1998. Aged 37, he has responsibility for acquisitions and investment analysis.

P.M. Williams

Mr Williams is a chartered surveyor who joined the group in 1987. He is 41 years old and was appointed to the board in June 1998. His responsibilities include asset management and supervision of refurbishment and development projects.

I. Yeatman
Senior non executive director

Mr Yeatman is 63 years old and a chartered surveyor. He joined the group in 1995 and is chairman of both the audit and remuneration committees. He is also a member of the nominations committee. Until March 1999, he was managing director of CIN LaSalle Investment Management.

S.J. Neathercoat
Non executive director

Mr Neathercoat, aged 52, is a chartered accountant and a managing director of UK investment banking at Dresdner Kleinwort Wasserstein. He joined the board in March 1999 and is a member of the audit, remuneration and nominations committees.

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Auditors
BDO Stoy Hayward

Solicitors
Slaughter and May

Stockbrokers
UBS Warburg

Clearing bankers
HSBC Bank plc

Registrars
Lloyds TSB Registrars

Debenture stock trustee
Royal Exchange Trust Company Ltd

Auditors' report to the members of Derwent Valley Holdings plc

We have audited the financial statements on pages 24 to 39 which have been prepared under the historical cost convention and the accounting policies set out on pages 28 and 29.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report, including as described on page 49, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. 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 or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the corporate governance statement on pages 41 to 43 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

Auditors' report

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 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the company and the group as at 31st December 2000 and of the profit for the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward
Chartered Accountants and Registered Auditors,
London. 13th March 2001

Statement of directors' responsibilities

The following statement, which should be read in conjunction with the report of the auditors on pages 48 and 49, is made in order to clarify the respective responsibilities of the directors and the auditors in the preparation of the accounts.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group as at the end of the financial year and of the profit or loss for that period. In preparing these financial statements, appropriate accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made.

The accounts have been prepared on a going concern basis and all applicable accounting standards have been followed. The directors are responsible for maintaining adequate accounting records, for safeguarding the assets of the group and for the prevention and detection of fraud and other irregularities.

Notice of annual general meeting

Notice is hereby given that the seventeenth annual general meeting of Derwent Valley Holdings plc will be held at The Westbury Hotel, Bond Street, London, W1A 4UH on 17th May 2001 at 10.30 a.m. for the following purposes, namely:

Ordinary business

1. To receive the report of the directors and the accounts for the year ended 31st December 2000 and the auditors' report thereon;

2. To declare a final dividend of 6.00p per ordinary share for the year ended 31st December 2000;

3. To re-elect Mr. N. Q. George as a director;

4. To re-elect Mr. P. M. Williams as a director;

5. To re-appoint BDO Stoy Hayward as auditors of the company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the company and to authorise the directors to determine their remuneration.

Special business

To consider and, if thought fit, pass the following resolutions, resolution 6 as an ordinary resolution and resolutions 7 and 8 as special resolutions.

6. That the directors be and they are hereby generally and unconditionally authorised to exercise all the powers of the company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £885,949.50 provided that this authority shall expire at the conclusion of the next annual general meeting of the company after the passing of this resolution except that the company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred hereby had not expired;

7. That the directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (as defined in Section 94 of the said Act) for cash pursuant to the authority conferred upon them by the previous resolution as if Section 89 of the said Act did not apply to such allotment PROVIDED THAT the power conferred by this resolution shall be limited to:

(i) the allotment of equity securities in connection with a rights issue, open offer or any other pre-emptive offer in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all such shareholders on a fixed record date are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them, subject to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal or practical difficulties arising in any overseas territory, or by virtue of the requirements of any regulatory body or stock exchange or any other matter whatsoever; and

(ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal amount of £132,892.40,

and shall expire at the conclusion of the next annual general meeting of the company after the passing of this resolution except that the company may before the expiry of the power conferred by this resolution make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired;

Notice of AGM

8. That the company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of ordinary shares of 5p each in the capital of the company provided that:

(i) the maximum number of ordinary shares hereby authorised to be purchased is 5,315,697;

(ii) the minimum price (exclusive of expenses) which may be paid for any such ordinary share is 5p;

(iii) the maximum price (exclusive of expenses) at which any such ordinary share may be purchased is an amount equal to 105% of the average of the middle market prices shown in the quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased; and

(iv) the authority to purchase hereby conferred shall expire at the conclusion of the next annual general meeting of the company after the passing of this resolution save that the company may before such expiry enter into a contract of purchase under which such purchase may be completed or executed wholly or partly after the expiration of this authority and a purchase of shares may be made in pursuance of any such contract.

By order of the board
T. J. Kite, ACA
Secretary

25 Savile Row
London
W1S 2ER

11th April 2001

Notes:

The company, pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, specifies that only those shareholders registered in the register of members of the company as at 6 pm on 15th May 2001 shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6 pm on 15th May 2001 shall be disregarded in determining the rights of any person to attend or vote at the meeting. Every member entitled to attend and vote at the meeting may appoint a proxy or proxies to attend and, on a poll, vote instead of him. The proxy need not himself be a member. A form of appointment of a proxy is enclosed.

Copies of contracts of service relating to Messrs. J. D. Burns, S. P. Silver, C. J. Odom, N. Q. George and P. M. Williams will be available for inspection by members at the company's registered office during usual business hours on any weekday (Saturdays and public holidays excluded) from the date of this notice to the date of the annual general meeting. These documents will also be available for inspection during the annual general meeting and for at least fifteen minutes prior to the meeting. The register of directors' (and their families') interests in the ordinary shares of the company will also be available for inspection during the fifteen minutes prior to the meeting and throughout the meeting.

Five year summary

	2000	1999	1998	1997	1996
	£m	£m	£m	£m	£m
Group gross rental income	**38.5**	29.8	28.7	20.8	19.1
Net revenue from properties	**34.9**	27.1	26.1	18.8	17.1
Profit from property trading	**–**	0.2	–	0.1	0.3
Net interest – including joint ventures	**19.0**	11.8	12.8	9.1	8.6
Adjusted profit before taxation	**10.7**	11.5	10.3	7.8	7.2
Profit on disposal of investment properties	**–**	5.1	0.3	1.6	0.3
Profit before taxation	**10.7**	16.6	10.6	9.4	7.5
Surplus on revaluation of investment properties	**81.9**	53.3	46.7	38.1	18.5
Investment property	**770.4**	604.1	471.7	309.6	264.1
Net borrowings	**283.4**	209.3	143.3	90.2	104.9
Net assets	**469.3**	382.2	318.9	213.6	155.4
Net cash inflow from operating activities less interest	**14.8**	13.1	12.0	8.8	10.4
Acquisitions	**98.3**	101.7	117.4	21.2	24.5
Other capital expenditure	**29.8**	16.9	15.2	7.2	2.6
Disposals	**46.6**	45.4	18.2	22.1	5.7
Adjusted earnings per share (p)	**19.05**	18.89	15.65	14.32	16.14
Dividend per share (p)	**8.50**	7.70	7.20	6.54	5.95
Net assets per share (p)	**883**	720	603	492	389
Total return (%)	**23.8**	20.7	24.0	28.2	19.0
Gearing – Balance sheet (%)	**60.4**	54.8	44.9	42.2	67.5
– Profit and loss	**1.58**	1.97	1.83	1.97	1.88