

Derwent Valley Holdings plc
Report & Accounts 2003



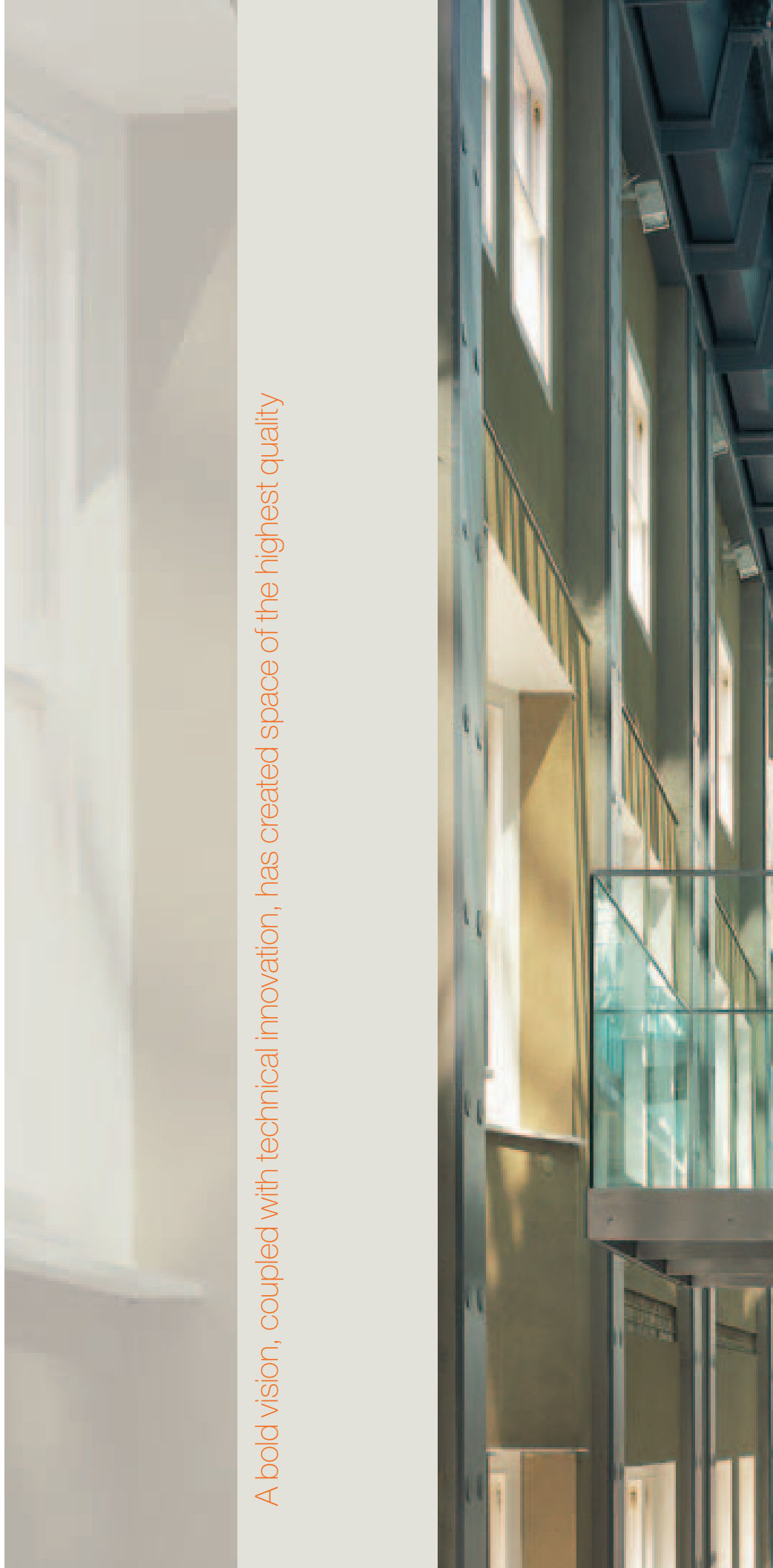
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Derwent Valley is a commercial property investor focused on Central London. The group invests not only in the West End but also in those newly improving locations where it perceives future value. The portfolio is balanced between income-generating properties, and opportunities for refurbishment and redevelopment. The board's strategy is to add value to buildings and sites through creative planning, high quality architectural design and enterprising lease management. Through this, the aim is to deliver an above average annualised total return to shareholders.



A bold vision, coupled with technical innovation, has created space of the highest quality





Financial highlights

04/05

Financial highlights/Five year review

Net revenue from properties

2003	2002	% Increase/ (decrease)
£41.5m	£41.9m	(1.0)

Profit before taxation

Adjusted*
FRS 3

£16.2m	£17.4m	(6.9)
£17.1m	£15.4m	11.0

Earnings per share

Adjusted
FRS 3

26.62p	25.50p	4.4
27.69p	21.68p	27.7

Dividend per share

11.40p	10.40p	9.6
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Net assets per share

Adjusted
Basic

920p	982p	(6.3)
898p	963p	(6.7)

Total return

(5.2%)	(2.7%)
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Gearing

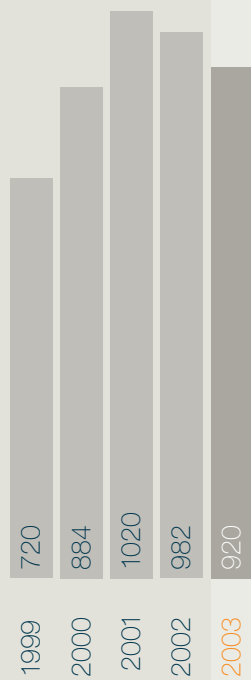
Balance sheet
Profit and loss

63.2%	58.0%
1.87	1.96

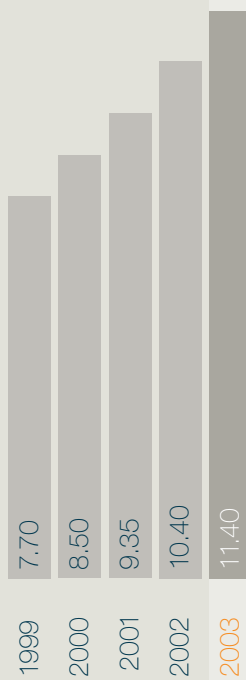
*excludes the profit or loss on disposal of investments and the exceptional cost of the possible offer for the group.

Five year review

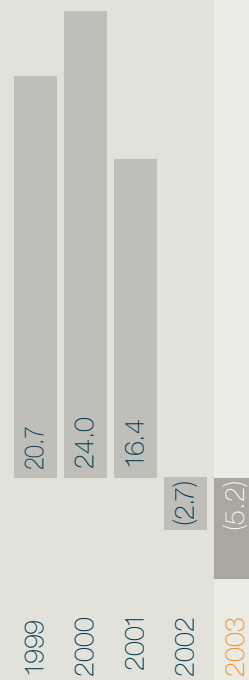
Adjusted net assets per share
pence



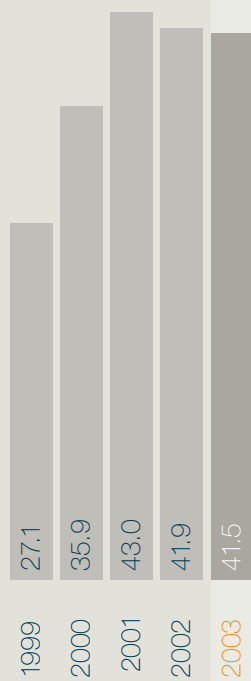
Dividend per share
pence



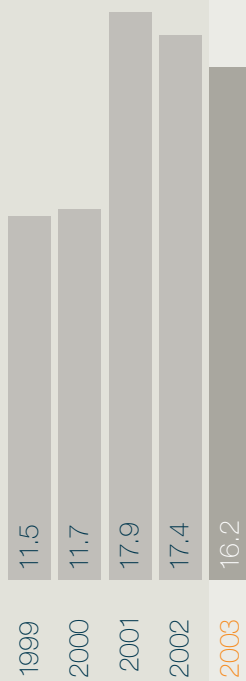
Total return
%



Net revenue from properties
£m



Adjusted profit before taxation
£m



Adjusted earnings per share
pence





Attention to detail produces inspiring, progressive architecture

Chairman's statement

Results and valuation

Excellent progress has been achieved during 2003 in reducing the group's level of vacant space. Our success in letting over 29,800m² demonstrates our ability to make lettings in a testing market and endorses the distinctive product that Derwent Valley creates.

As the year progressed, sentiment improved and demand for space increased, particularly in the West End. This underpinned rental levels and caused values to stabilise. Consequently, the adjusted net asset value per share, which declined 7.7% in the first half from 982p to 906p per share, recovered to 920p per share by the year end, an overall decrease for the year of 6.3%. Adjusted profit before tax was reduced from £17.4 million to £16.2 million as a consequence of the slower letting market in the first half and costs associated with letting transactions. However, FRS 3 profit before tax increased by £1.7 million to £17.1 million from £15.4 million last year.

At the year end, the group's investment portfolio was revalued at £812.1 million, a reduction for the full year of £34 million before the UITF 28 adjustment of £5.6 million. In the first half, the valuation decrease reflected the difficult letting market that existed during that period. However, the second half saw strong letting activity across the portfolio including in the City borders, and with rents in the West End no longer under downward pressure, there was a valuation uplift of £4.4 million after adjusting for second half disposals.

Those investment properties which were held throughout the full year fell in value by 4.7% compared to a decrease of 3.5% in the previous year. As expected, the West End and its villages were more resilient than the City and its borders. Properties in the West End, which comprise 73% of the portfolio, fell in value by 3.6%. Focusing on specific areas, there was a minimal decline

of 0.2% in the value of our Covent Garden and Soho properties which benefited from the letting activity at Tower House and the first revaluation of the Davidson Building, following completion of its redevelopment during the year. Similar results were seen with the Belgravia holdings. However, North of Oxford Street, where a number of properties were emptied as a precursor to future schemes, values declined by 6.4%.

The balance of the portfolio, mainly located in the City's borders, fell in value by 8.0% over the year. This contrasts with the 10.5% reduction in the first half, the recovery being due to the lettings made at Oliver's Yard and the Tea Building.

Dividend

The directors propose a final dividend of 8.10p per share, which would give a total for the year of 11.40p. This is an increase of 9.6% from last year's payment. The final dividend will be paid on 9th June 2004 to shareholders on the register on 14th May 2004.

Review of the year

Shareholders will be aware that, during the year, the board received and rejected an unsolicited takeover approach from Winten Limited, a private company based in Gibraltar. Winten indicated that it was interested in acquiring Derwent Valley at a price of 800p per share subject to a number of conditions, which included your board's recommendation. Its proposal was based on the group's "triple net asset value". This figure is calculated by deducting from the published net asset value both the potential capital gains tax liability and the fair value adjustment in respect of financial instruments, such as long term debt. In your board's opinion, this is a totally inappropriate method by which to value Derwent Valley. The two most apparent reasons are, firstly, that it fails to recognise the value and potential inherent within the group's property portfolio and, secondly, that in an ongoing business, neither adjustment is likely to

wholly crystallise into a real liability. In summary, your board felt this approach was an attempt to buy your company "on the cheap". On 12th January 2004, Winten announced that it would not be making a formal offer for the group.

The property investment market continued to be highly competitive during the year. Nevertheless, we succeeded in adding a number of properties to the portfolio. In addition to the Islington Estate, purchased for £39.4 million in the first half, we acquired Portobello Dock and Kensal House, London, W10, which is close to our existing holdings in Paddington, for £10.8 million and, south of the River Thames, we bought Wedge House, Blackfriars Road, SE1 for £9.1 million. Both properties illustrate the group's dual acquisition strategy of buying into locations early and identifying buildings where a disconnection can be seen between the property's price and the value that can be created. To preserve the group's ability to act quickly when such opportunities arise, we are consistent recyclers of capital when value has been added and mature investments created. Therefore, disposals of £76 million of such properties have been made. Capital expenditure of £23 million was incurred during the year on a number of projects, details of which are included in the property review. A further £31 million is budgeted for the current year when the principal scheme will be at New Garden House, Hatton Garden, EC1 where a decision to implement a valuable planning permission has been made. This scheme will be completed in 2006.

Prospects

There has been considerable commentary on the anticipated introduction to the United Kingdom of a tax transparent investment vehicle similar to the real estate investment trusts found in the USA, Asia and a number of European countries. This will offer prospects of lower tax and increased dividends and undoubtedly make the property sector more attractive to investors. However, it will only be possible to assess the precise impact of the new regime on Derwent Valley's business model once the full details have been published. At that time, your board will decide on the most appropriate response in order to enhance shareholder value.

After two difficult years, during which management has responded resolutely and successfully to both economic and market challenges, we are confident that a return to growth in our key West End market is close at hand. Derwent Valley owns an enviable portfolio of properties that has been strategically assembled in one of the most sought after investment locations in the world – Central London. Moreover, the portfolio contains numerous and diverse opportunities from which your management team will continue to create value for shareholders.

J.C. Ivey
18th March 2004





Overview

Derwent Valley had a busy and productive year pursuing the core activities associated with actively managing a portfolio. The key achievements in what has been a difficult Central London office market include:

- A total of 79 lettings comprising 29,800m² at an annualised rental of £7.7 million per annum.
- 26,000m² of refurbishments completed with 10,900m² of this space already let by the year end.
- 26 lease renewals concluded and 26 rent reviews settled.
- A significant planning permission obtained at New Garden House, Hatton Garden for a 15,400m² scheme.
- Completion of feasibility studies on 55–65 North Wharf Road, Paddington and the submission of a planning application for a substantial new development.
- Acquisition of 45,800m² of new investment properties with refurbishment and redevelopment potential at a cost of £59 million.
- £76 million of disposals, achieving a surplus above book value.
- £23 million spent on refurbishment and redevelopment.

Portfolio strategy and performance

Derwent Valley's business model is based on the ownership of a Central London commercial portfolio that, through active management and refurbishment, delivers rental and capital appreciation. Our operational strategy has three constituent parts:

- Acquiring properties in improving locations, which are let on short to medium term leases and characterised by low capital values and rental levels.
- Adding value through lease management, planning enhancement and refurbishment/redevelopment.
- Disposing of those properties where further opportunities for our active management approach are limited.

Over the last five years the portfolio has grown from £472 million to £812 million, and from 186,000m² to 244,200m² of floor space. During this period, as illustrated by the net investment graph on page 19, we have made £333 million of acquisitions, £290 million of sales and undertaken £144 million of capital expenditure.

We have assembled a portfolio, concentrated in the West End and its villages, with current and future opportunities for asset growth. There are approaching 500 tenancies, a varied lease length profile and a broad tenant base. The rental income is well spread, avoiding a dependence on a few principal tenants. The group's average lease length, after adjusting for potential tenant break options, is 7.7 years, which is consistent with our preference for acquiring properties with shorter lease profiles and disposing of those that have been improved and let on longer leases. During 2003 the number of properties increased from 48 to 77, principally through the purchase of 39 properties from the London Borough of Islington. A number of the smaller

properties from this acquisition have since been sold and this will continue, until we retain the core properties that have refurbishment/redevelopment potential.

Our strategy of constantly recycling capital through disposals maintains the portfolio's reversionary and growth prospects. Overall, the portfolio's average passing rent is £255 per m², rising to £275 per m² for the West End properties. Looking forward, these levels provide an excellent foundation for rental and capital growth, in what is envisaged to be an improving Central London market. At the year end, the annualised contracted rental income, net of ground rents, was £48.6 million, with a rental value, as assessed by the external valuers, of £63.3 million. This potential £14.7 million of reversion is derived from £10.8 million of income from letting vacant space and £3.9 million from the rent reviews and lease reversions due over the next few years. Based on this income, the portfolio's initial yield was 6.0% rising to 7.7% at full reversion. Even with the decline in rental values over the last couple of years, there is only a small element of over-renting within the portfolio. This equates to only £2.6 million or 5% of the contracted rental income and further illustrates our ownership of a portfolio with potential.

Portfolio statistics and performance

West End

	Valuation £m	Weighting %	Valuation performance* %	Number of properties	Floor area m ²	Vacant accommodation m ²
Central	499.5	62	(3.7)	31	109,400	15,900
Outer	91.8	11	(2.3)	18	41,700	4,700
	591.3	73	(3.6)	49	151,100	20,600

City

Central	5.0	1	(19.6)	1	2,100	800
Outer	215.8	26	(7.6)	27	91,000	26,500
	220.8	27	(8.0)	28	93,100	27,300

Total portfolio

2003	812.1	100	(4.7)	77	244,200	47,900
2002	831.9	100	(3.5)	48	220,200	56,700

*properties held throughout the year and excluding the £4.2 million development property.

West End

Central: Belgravia, Mayfair, Soho, Covent Garden, Victoria, Noho, King's Cross

Outer: Camden, Islington, Paddington

City

Central: Core

Outer: Clerkenwell, Holborn, Shoreditch, South Bank and borders

West End

	Net contractual rental income per annum £m	Average rental income £ per m ²	Vacant accommodation rental value per annum £m	Rent review and lease reversions per annum £m	Portfolio estimated rental value per annum £m	Average unexpired lease length† Years
Central	29.1	320	4.8	3.2	37.1	8.2
Outer	5.8	160	0.5	0.4	6.7	11.3
	34.9	275	5.3	3.6	43.8	8.8

City

Central	0.3	280	0.3	(0.1)	0.5	5.4
Outer	13.4	210	5.2	0.4	19.0	5.1
	13.7	210	5.5	0.3	19.5	5.1

Total portfolio

2003	48.6	255	10.8	3.9	63.3	7.7
2002	44.8	280	15.7	9.6	70.1	8.0

†lease length weighted by rental income and assuming tenants break at first opportunity.

Portfolio yields

	Rental uplift per annum £m	Rental per annum £m	Yield† %
Year end contractual rental income, net of ground rents		48.6	6.0
Letting 24,900m ² vacant accommodation available at year end	6.3		6.7
Completion and letting 23,000m ² of refurbishments	4.5		7.2
Anticipated rent review and lease renewal reversions	3.9		7.7
Portfolio reversion		14.7	
Potential portfolio rental value		63.3	7.7

†based upon the year end valuation of £812.1 million and adjusted for costs to complete commenced projects.

Portfolio management

Our major priority for 2003 was to minimise the level of vacant space. This was achieved. Over 29,800m² was let, which included 16,700m² or 72% of the space available for letting at the beginning of the year. The momentum increased during the course of the year, with 12,000m² let in the first half and 17,800m² in the second half. By comparison, lettings were 11,700m² in 2002 and 5,500m² in 2001.

Principal lettings included those at Oliver's Yard on the City borders, The Courtyard in Soho, Tower House in Covent Garden and the recently completed 8 Greencoat Place in Victoria. The success of these lettings is a consequence of the Derwent Valley design led brand and our experience in anticipating tenants' varied requirements. We continually invest in the buildings to enhance their profile, through refurbishing entrances and common areas, and infrastructure improvement.

We aim to be seen as the preferred landlord by offering good value to tenants, with well planned, stylish contemporary space at affordable rents. This reputation is enhanced through communication, marketing and tenant services. As an example, in the autumn we launched DV01, the first issue of our biannual newsletters. This source of information covers our refurbishment and development philosophy, the space we have available, and future schemes.

Additionally, DerwentXtra, a tenant-focused marketing initiative was launched in 2003. This involves fitting out suites in refurbished buildings such as Tower House and The Courtyard to show how the space planning could work to help prospective tenants in their decision making. This co-ordinated fit out service is intended to save incoming occupiers both time and cost.

A key feature of our business is managing vacant space. The average vacancy rate over the last five years was 17% of the total floor area but this falls to only 6% if space actually available for letting is measured. The group's business model is based on having a supply of schemes. Consequently, we will usually have a high vacancy level in comparison with peer companies. At the year end, there was 47,900m² of vacant space compared to 56,700m² last year, a decrease of 16%. Of this total, 24,900m² was available for letting. This included a number of schemes completed during the year such as the Davidson Building (2,850m²), a phase of the Tea Building (7,650m²) and Berkshire House (2,100m²). The available space at year end represented 10.2% of the total floor area or 9.9% of the portfolio's estimated rental value. Since the year end, 4,500m² of the available space has been let. Space under refurbishment or identified for refurbishment was 23,000m² and included 7,300m² from the recently vacated Birkbeck College and part of New Garden House. These were planned lease expiries and provide the next generation of schemes.

In addition to securing new rental income, 26 rent reviews were settled during the year, increasing an annualised income from £4.2 million to £5.6 million, an uplift of 33%. We work closely with our tenants to retain them and 26 lease renewals were concluded. Also, a number of lease restructures were completed in order to improve the investment or to enable future schemes. Progress at North Wharf Road illustrates this, with leases restructured to contain break clauses in 2008, thus allowing for future redevelopment.

Portfolio activity

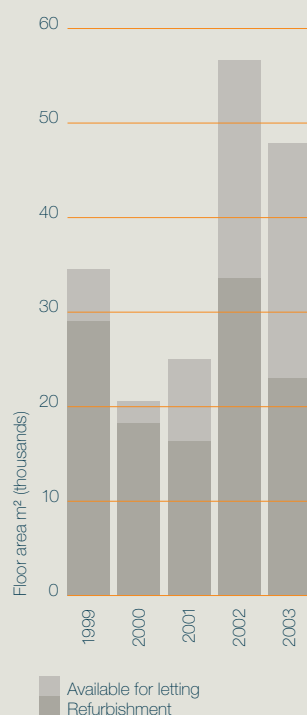
Principal lettings

	Approximate net area m ²	Rental per annum £m	Headline rental £ per m ²	Comments
1 Oliver's Yard, EC2	6,690	1.70	260	Five lettings: Sage Publications, Anshen Dyer, Skidmore Owings & Merrill, International Tanker Owners Pollution Federation and CPA Management Systems.
Tower House, WC2	2,810	1.00	375	Three lettings: Dearle & Henderson, Brake Bros and Scott Brownrigg.
The Courtyard, Sutton Row, W1	1,860	0.69	375	Two lettings: Google UK and Link Asset and Securities.
135–155 Charing Cross Road, WC2	1,000	0.44	440	Four retail lettings: Sainsbury's, Caffè Nero, William Hill and Porta Via.
Tea Building, E1	4,120	0.44	110	Three floors let to Mother on a rising rental.
Tea Building, E1	2,460	0.26	110	Various small suites let.
Greencoat and Gordon House, SW1	1,560	0.49	325	Four lettings: Scott Wilson Kirkpatrick, Powers Turner, Inco Europe and Greenwich Europe.
8 Greencoat Place, SW1	1,100	0.28	325	Two floors let to Scott Wilson Kirkpatrick.
25 Savile Row, W1	925	0.43	485	A floor and a half let to Bank Hapoalim on a rising rental.
Berkshire House, WC1	478	0.15	325	A floor let to Property Market Analysis.

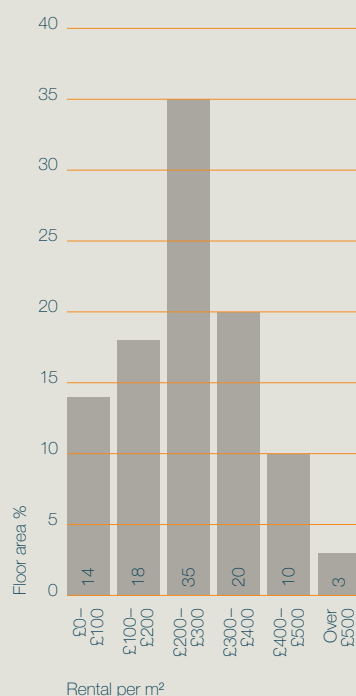
Principal rent reviews

Telstar House, W2	8,300	2.00	240	London Underground's review concluded to show a 26% uplift.
Fulcrum House, N1	3,900	0.95	260	Sema's review concluded to show an 84% uplift.
27–32 King Street, WC2	270	0.16	610	Two retail reviews settled.
Greencoat House, SW1	1,435	0.42	295	Five reviews concluded.
Middlesex House, W1	700	0.19	275	Three reviews settled.

Vacant accommodation



Profile of occupied floor area



Refurbishment and redevelopment

During 2003, the Davidson Building, a new award winning office and retail building in Covent Garden, was completed. This 3,900m² project, which is featured throughout this report and accounts, demonstrates the all round strength of our approach. We acquired the original income producing building in 1997 and subsequently restructured the leases to obtain possession in 2001. Simultaneously, we designed a new retail and office building behind a retained facade, working closely with our architects and engineers to achieve planning consent. A technically innovative design produced an architecturally distinguished, high specification building in a relatively restricted planning context. As a result, the building won the 2003 IAS/OAS Property Week award for the best Central London office development. The project has been successful with the retail unit let to Sainsbury's and three of the five office floors let since the year end.

A different approach is enabling us to progress a low cost refurbishment of the Tea Building in Shoreditch, while retaining long term redevelopment opportunities. The project illustrates an inventive and rapid response to changes in the market. An original scheme was adapted to provide lower cost, flexible offices, galleries and studio space in this prominent 20,000m² building, located on the edge of the City near Broadgate. The catalyst to establishing this building as an important media and design complex was the pre-letting of 4,100m² to cutting edge advertising agency, Mother. The balance of the space is being refurbished to provide smaller suites and letting is progressing well. Other refurbishment projects completed during 2003 included 8 Greencoat Place, Victoria and Berkshire House, Holborn.

Asset evaluation is a constant element of our refurbishment and development process, enabling us to programme

the delivery of space to the market.

The difficult market of the last two years has not deterred us from appraising our holdings and investigating future options while at the same time completing existing schemes.

During the year, an important planning consent was obtained at New Garden House, Hatton Garden. Since acquiring this 8,700m² income producing building in 2000, time has been spent improving the planning ratios and working up a redevelopment scheme to extend into the under-utilised courtyard. Permission has now been obtained for 13,700m² of offices and a 1,700m² residential building. This is a 77% increase in existing floor area. Construction is expected to start during 2004, with completion in 2006, when an improved letting market is anticipated.

At North Wharf Road in Paddington Basin, we have recently submitted a planning application to redevelop the existing 7,800m² leasehold building, which is located in the heart of this highly successful regeneration area. The application is for a significant office and residential development of approximately 34,000m². Negotiations with Westminster City Council continue and the earliest start would be in 2008. In the meantime, the building remains income producing.

As reported at half year, Telstar House, our other Paddington holding, was recently fire damaged. This 8,300m² building, which is let to London Underground until 2018, was fully insured and the rent remains payable. We are reviewing our options while the extent of the damage is being assessed. These include possible redevelopment with a more modern and efficient building of a similar size. A planning application for a new building has been submitted as part of this study.

Refurbishment and redevelopment

Current projects

	Proposed net area m ²	Expected completion	Estimated cost to complete £m	Comments
Holborn				
New Garden House, 78–83 Hatton Garden, EC1	15,400	Mar 06	29.9	Work shortly to commence on this 13,700m ² office and 1,700m ² residential project.
City borders				
Tea Building, Shoreditch High Street, E1	4,750	Apr 04	1.7	Following good letting progress at this 20,000m ² building, further space is under refurbishment to provide office/studio units.
Noho				
Birkbeck College, 7–15 Gresse Street, W1	4,100	Jul 04	3.2	Refurbishment of this self-contained educational building.
Morley House, 314–322 Regent Street, W1	800	Sep 04	0.3	Initial phase of rolling refurbishment to enlarge the office floor plates and provide a new entrance.
Soho				
135–155 Charing Cross Road, WC2	750	Apr 04	1.0	Final phase in this 5,900m ² building, which includes relocation of the office entrance to create additional retail space.
City				
27–32 Old Jewry, EC2	600	Mar 04	0.9	Rolling office refurbishment and entrance upgrade.
	26,400		37.0	

Future projects

	Existing area m ²	Comments
Paddington		
55–65 North Wharf Road, W2	7,800	Medium term redevelopment potential. Planning application submitted for an office and residential development of 34,000m ² .
Portobello Dock and Kensal House, Ladbroke Grove, W10	4,600	Feasibility studies underway to improve and extend this canal side office complex.
Holborn		
40–43 Chancery Lane, WC2 and 20–21 Took's Court, EC4	5,700	Medium term redevelopment or refurbishment opportunity.
Islington		
Balmoral Grove Buildings, N1	3,200	A predominantly single storey industrial estate. Initial planning studies indicate the potential for a substantial mixed use scheme.
Noho		
16–19 Gresse Street, W1	3,100	Planning application submitted for a 4,700m ² new office development. The building is being let short term.
Holden and Dumbarton House, 54–68 Oxford Street, W1	2,300	Final phase to include Dumbarton House office refurbishment and connection with Holden House entrance. In addition, possible retail extension.
Clerkenwell		
20–26 Rosebery Avenue, EC1	2,300	Potential to rationalise and extend existing buildings.
Kings Cross		
122–128 Pentonville Road, N1	500	Single storey industrial units with the potential for a mixed use scheme.
City borders		
20 Leonard Street, EC2	—	Site with planning permission for 4,500m ² office development. Alternative use being explored.
	29,500	



Acquisitions and disposals

Acquisitions supply our future refurbishment and redevelopment programme, while disposals ensure that management energies are directed only towards those properties with growth potential. Both activities are fundamental to owning a portfolio with a high proportion of inherent opportunities. Despite the generally weak office letting market in 2003, the investment market remained strong, which meant that making acquisitions at realistic prices was difficult. However, we were still able to make a number of purchases that were compatible with our buying criteria.

Our principal purchase during the year was a £39.4 million portfolio of 39 commercial properties from the London Borough of Islington. Our reputation as specialist property managers contributed to us winning preferred bidder status. The portfolio offered numerous opportunities for improvement and we are currently bringing the various lease structures up to date and exploring the planning potential on the many under-utilised buildings. A number of properties were identified for early sale and nine disposals were made by the year end.

Other purchases included an office complex off Ladbroke Grove and Wedge House in Southwark. Portobello Dock and Kensal House, Ladbroke Grove, are let short term and occupy two interesting sites either side of the Grand Union Canal. There are early opportunities to enhance the value inherent in this property, which has low site coverage and is in an improving location. The recent softening of rents enabled us to acquire Wedge House which is let to the Government until 2008. This property offers opportunity for lease management and possible medium term redevelopment.

The buoyant investment market has enabled us to make opportune sales of those properties that have been through the Derwent Valley refurbishment and management process, and now offer the group limited growth prospects. The sale of Panton House, Haymarket in December was a good example. Having bought the building in 1999 for £5.1 million, we undertook a comprehensive refurbishment at a cost of £7.1 million and completed the re-letting before it was sold for £17.5 million, before costs.

J.D. Burns
18th March 2004

Acquisitions and disposals

Acquisitions

£59 million of Central London acquisitions, reflecting a net initial yield of 5.7%.

	Approximate net area m ²	Comments
Islington Estate	37,600	A portfolio of 39 properties, let off low rents with active management and redevelopment opportunities.
Wedge House, 30–40 Blackfriars Road, SE1	3,600	A freehold office building let to the Government until 2008. A medium term refurbishment or redevelopment opportunity.
Portobello Dock and Kensal House, Ladbroke Grove, W10	4,600	A freehold waterfront office complex let short term to Virgin Records. Located in an improving area and occupying an under-utilised site.
	45,800	

Disposals

Thirteen properties sold for a net £76 million at an exit yield of 7.0%.

21 Grosvenor Place, SW1	5,200	Refurbishment and letting programme completed.
Exmouth House, Exmouth Market, EC1	5,000	The building was subject to a rolling refurbishment over a number of years.
20 Red Lion Street, WC1	2,700	Head lease re-gear and building refurbished and let.
Panton House, 25 Haymarket, SW1	2,700	Extensive refurbishment and extension, recently completed and the building re-let.
Islington Estate	8,700	Nine properties.
	24,300	



Portobello Dock, W10

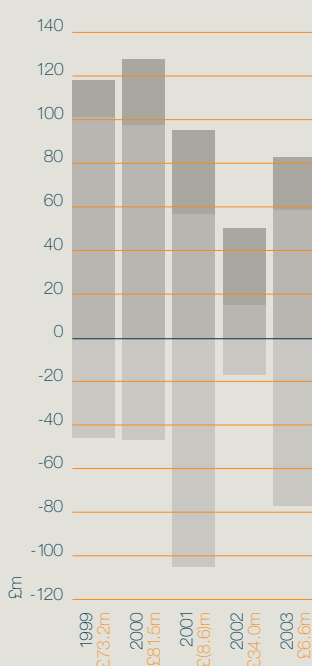


Wedge House, SE1



Rosebery Avenue, EC1

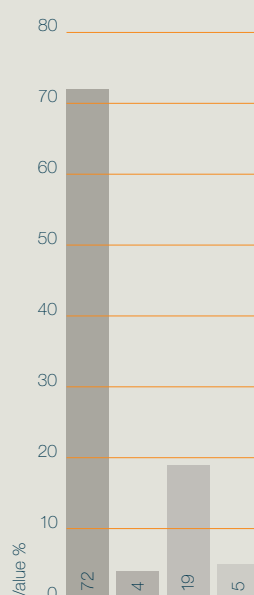
Net investment



Year/Net investment

Capital expenditure
Acquisitions
Disposals

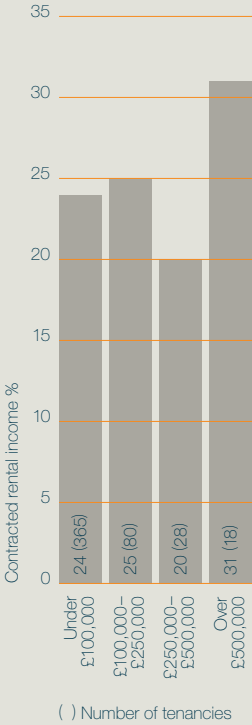
Value of portfolio by tenure



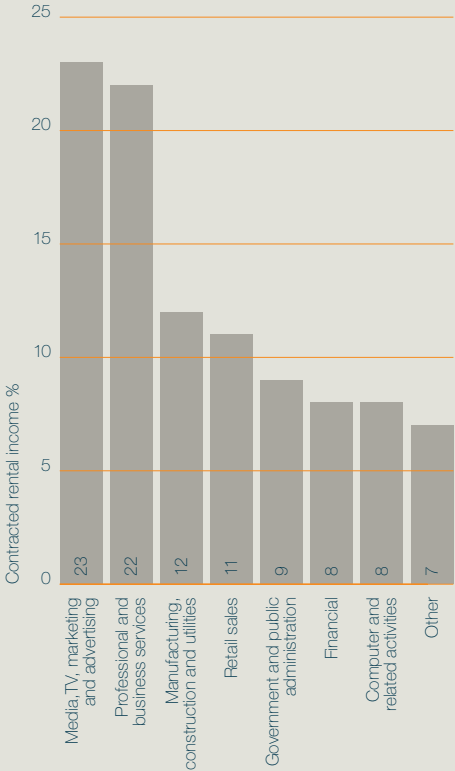
Freehold £585.9m
Leasehold over 100 years £30.1m
Leasehold over 50–100 years £158.4m
Leasehold under 50 years £37.7m
£812.1m

Rental income analysis

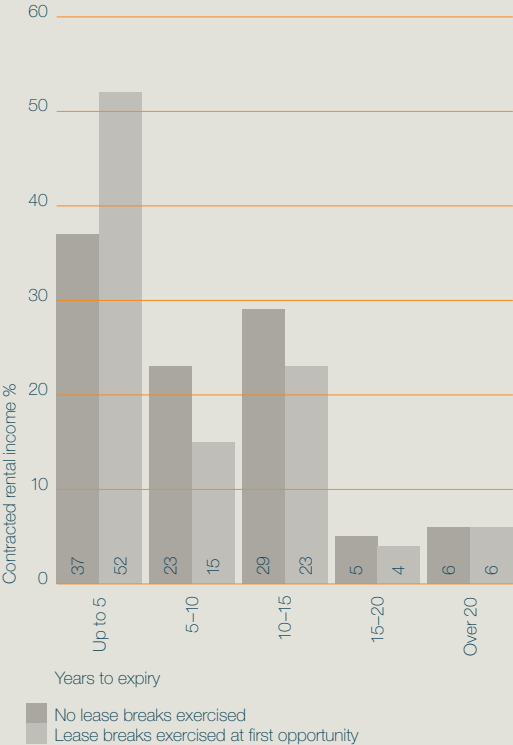
Profile of rental income bands



Profile of tenant business sector



Profile of rental income expiry



Principal properties

	Offices (O) Retail/restaurant (R) Industrial (I)	Approximate net area m²
£30 million and over – 44% of portfolio		
135–155 Charing Cross Road, WC2 and The Courtyard, Sutton Row, W1	O/R	5,900
Covent Garden Estate, WC2:	O/R	6,800
19–26 and 19a Floral Street		
26 and 27–32 King Street		
34 Rose Street		
Greencoat and Gordon House, Francis Street, SW1	O	11,100
1–3 Grosvenor Place, SW1	O	7,700
4 Grosvenor Place, SW1	O	7,300
Holden and Dumbarton House, 54–68 Oxford Street, W1	O/R	8,200
New Garden House, 78–83 Hatton Garden and 6–7 St Cross Street, EC1	O	11,700
1 Oliver's Yard, EC2	O/R	17,400
Telstar House, Eastbourne Terrace, W2	O	8,300
£20–30 million – 27% of portfolio		
Davidson Building, 5 Southampton Street, WC2	O/R	3,900
Heron House, 319–325 High Holborn, WC1	O/R	6,100
Middlesex House, 34–42 Cleveland Street, W1	O	6,000
55–65 North Wharf Road, W2	O	7,800
Premier House, 10 Greycoat Place, SW1	O	5,800
25 Savile Row, W1	O/R	3,800
Tea Building, Shoreditch High Street, E1	O	20,000
Tower House, 10 Southampton Street, WC2	O/R	4,900
£10–20 million – 17% of portfolio		
Argosy House, 215–227 Great Portland Street, W1	O	2,800
Berkshire House, 168–173 High Holborn, WC1	O	4,900
40–43 Chancery Lane, WC2 and 20–21 Toaks Court, EC4	O	5,700
6–8 Greencoat Place, SW1	O	3,100
Gresse Street Estate, W1:	O	8,300
Birkbeck College		
16–19 Gresse Street		
7–8 Rathbone Place		
Jaeger House, 57 Broadwick Street, W1	O/R	2,300
Morelands Buildings, 5–27 Old Street, EC1	O/R	7,400
Morley House, 314–322 Regent Street, W1	O/R	3,700
Portobello Dock and Kensal House, Ladbroke Grove, W10	O	4,600
Under £10 million – 11% of portfolio		
Balmoral Grove Buildings, N1	O/I	3,200
40 Bowling Green Lane, EC1	O	3,300
Broadmead and Westcombe House, 19–23 Panton Street, SW1	O/R	1,500
91–121 Caledonian Road, N1	I	5,000
37–42 Compton Street, EC1	O	2,900
28–29 Dover Street, W1	O/R	1,400
27–32 Old Jewry, EC2	O	2,100
20–26 Rosebery Avenue and 11 Warner Street, EC1	O	2,300
78 St Martin's Lane, WC2	O/R	1,500
Suncourt House, 18–26 Essex Road, N1	O/R	2,500
Wedge House, 30–40 Blackfriars Road, SE1	O	3,600
Development properties – 1% of portfolio		
20 Leonard Street, EC2		Site

Results

The letting activity referred to in the property review kept gross rental income moving ahead. Year on year this added £2.6 million with rent reviews contributing a further £1.8 million. Void space reduced income by £4.0 million compared with 2002. This was virtually all due to space that was either under refurbishment during 2003 or was vacated for schemes which will commence this year, such as the one at New Garden House. Income from acquisitions almost exactly replaced that lost due to disposals so that, in total, gross rental income rose by £1.4 million. The cost of carrying the void space increased £1.1 million over the previous year while the success in achieving lettings meant that the associated letting and legal fees increased by over £1 million. As a number of the lettings were concluded towards the end of the year, 2003 received little benefit from these while the costs were fully expensed in the year. The outcome was that with property expenditure in total rising £1.8 million, net rental income fell by £0.4 million.

A general rise in administrative costs and a small increase in interest payable, due to higher average borrowings year on year, led to profit before tax, adjusted for investment profits and the exceptional costs associated with Winten's potential bid, being reduced to £16.2 million compared with £17.4 million in 2002. The strong investment market in 2003 is reflected in the profit realised on the disposal of investment properties. This, despite the aforementioned exceptional costs, increased the FRS 3 profit before tax to £17.1 million, an uplift on the prior year of £1.7 million.

The board has proposed a final dividend of 8.10p per share. This gives a total for the year of 11.40p per share, an increase of 9.6%. The compound growth of the dividend over five years is now 9.6% which compares favourably with that of the Retail Price Index of 2.2%.

Net assets at 31st December 2003 were £477.6 million which, after adding back the deferred taxation provision of £11.5 million, gave a net asset value per share of 920p compared with that of the previous year of 982p. This fall in value inevitably gave rise to a negative total return for the year of 5.2%. However, the group has still achieved an annualised five year return of 9.9%.

Taxation

The total tax charge was £5.8 million compared with £4.5 million in 2002 due to an increase in capital gains tax payable. The profit and loss account bore £2.3 million of the total while £3.5 million was passed through the statement of total recognised gains and losses. A reconciliation of the tax charge is shown in note 8 which illustrates the extent that the group benefits from capital allowance claims. A further £1.3 million of deferred tax has been provided in accordance with FRS 19, bringing the total to £11.5 million. It is difficult to justify this provision as it is considered unlikely that the tax will ever become payable.

Cash flow

The group had a cash outflow of £5.0 million in 2003. As always, the inflow from operating activities after interest of £11.7 million was dominated by the capital cashflows of acquisitions, £59.1 million, capital expenditure, £24.0 million, and disposals £76.5 million. These bring the net investment in the portfolio over the last five years to £187 million. The investment continues with capital expenditure of £31.4 million budgeted for 2004 and £34.1 million for 2005.



Debt and gearing

The cash outflow resulted in a marginal increase in the group's debt to £302 million, compared with £297 million at the previous year end. This increase, together with the decline in net assets, resulted in balance sheet gearing rising to 63% from 58% at December 2002. The profit and loss gearing (interest cover), which is of more relevance to the group, also rose from 51% to 53% year on year. Both these measures may appear conservative but the group's average lease length of 7.7 years is probably shorter than the sector average. This itself reflects the group's strategy of buying short to medium term income for future refurbishment, and over time disposing of the completed product.

Financing

There has been no change in the group's financing strategy during the year, nor in its debt facilities with the exception of the unsecured facility used to finance the purchase of the Islington Estate, which was repaid in February 2004. After the refinancings undertaken in 2001 and 2002, there are no facilities due to expire until 2006. The group currently has £465 million of debt facilities which allows it to act swiftly when acquisition opportunities appear.

Interest rate hedging

The only derivatives used by the group are to protect it from the risks of adverse interest rate movements. Generally, the total of fixed rate debt and that fixed using derivatives moves within a range of 40% to 75% of debt, dependent on the perceived risk to the group. At the year end, 61% of borrowings were either fixed or hedged. At the same date, the weighted average cost of debt was 6.2%.

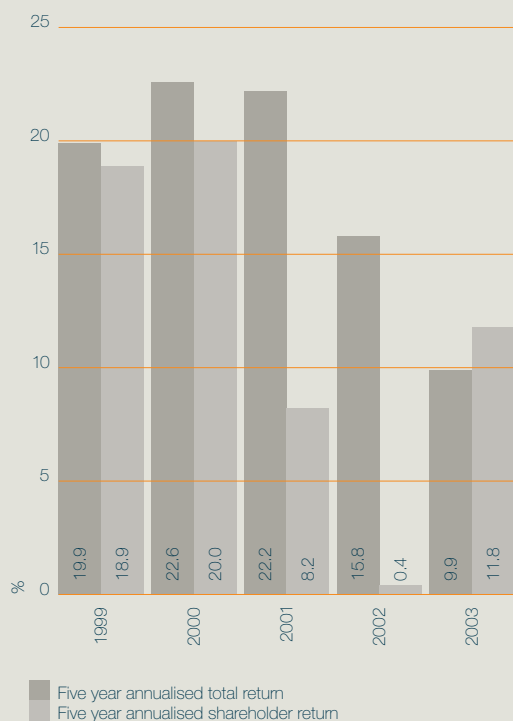
The fair value adjustment figure, arising from the valuation of fixed rate debt and derivatives in accordance with FRS 13, was a negative £13.8 million (31st December 2002: negative £17.0 million), equivalent to a reduction of 18p per share after tax (31st December 2002: 22p). There is no obligation or present intention to reduce the fixed rate debt or any of the hedging instruments other than at normal maturity. Therefore, this amount is unlikely to be realised.

Financial reporting under new accounting standards

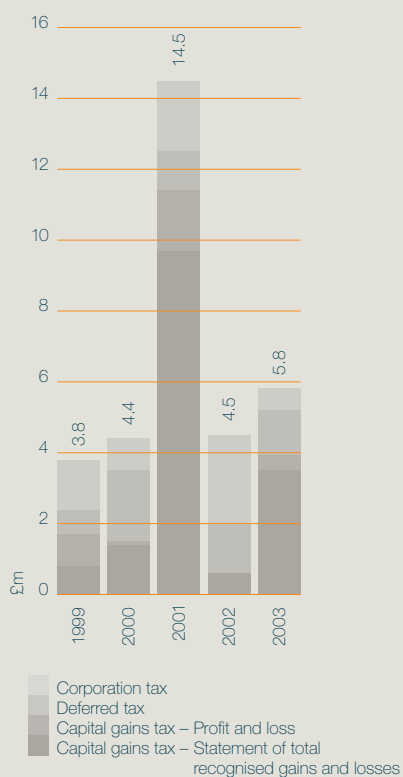
All listed companies in the European Union are required to prepare consolidated accounts under International Financial Reporting Standards (IFRS) from 1st January 2005 with comparative figures for 2004. While many of these new IFRS are similar to existing UK standards, there will be fundamental changes. Some of these will impact particularly property companies, for example, in the treatment of leasehold property and capital gains taxation, while others, such as those dealing with financial instruments, will affect companies generally. The new standards are likely to make company results more volatile. Therefore, it will be more difficult to identify underlying business trends and to value a business. It is perhaps ironic that when so many stakeholders are calling for the annual accounts to be more transparent, the implementation of IFRS are likely to make them more opaque for the majority of readers.

Financial statistics and performance

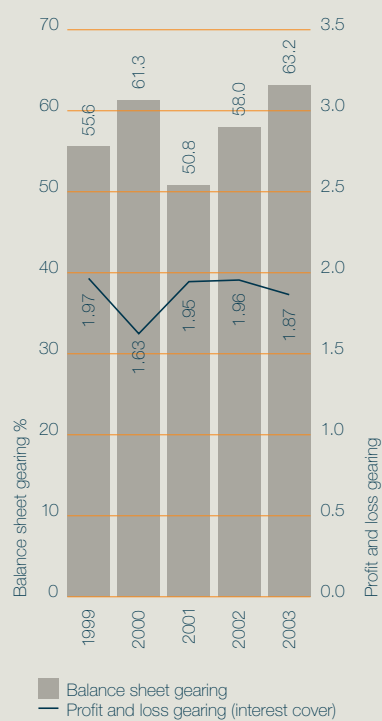
Five year annualised returns



Total taxation charge



Gearing



Group profit and loss account

for the year ended 31st December 2003

26/27

Accounts

	Note	2003 £m	2002 £m
Gross rental income			
Group and share of joint ventures		48.2	46.8
Less share of joint ventures		0.3	0.3
Group gross rental income		47.9	46.5
Property outgoings net of recoveries	2	6.4	4.6
Net revenue from properties		41.5	41.9
Administrative costs			
Exceptional cost of possible offer for the group		0.7	—
Other administrative costs		6.9	6.3
Operating profit		33.9	35.6
Share of operating results of joint ventures		0.3	0.3
Profit/(loss) on disposal of investments	3	1.6	(2.0)
		35.8	33.9
Interest receivable		0.3	—
Interest payable	4	19.0	18.5
Profit on ordinary activities before taxation	5	17.1	15.4
Taxation on profit on ordinary activities	8	2.3	3.9
Profit on ordinary activities after taxation	9	14.8	11.5
Dividend	10	6.1	5.5
Retained profit	23	8.7	6.0
All amounts relate to continuing activities.			
Adjusted earnings per share	11	26.62p	25.50p
Adjustment for cost of possible offer for the group		(1.29p)	—
Adjustment for disposal of investments		2.36p	(3.82p)
Basic earnings per share	11	27.69p	21.68p
Adjustment for dilutive share options		(0.06p)	(0.04p)
Diluted earnings per share	11	27.63p	21.64p
Dividend per share	10	11.40p	10.40p
Total return	12	(5.2%)	(2.7%)

The notes on pages 30 to 39 form part of these accounts.

Balance sheets

at 31st December 2003

	Note	Group 2003 £m	2002 £m	Company 2003 £m	2002 £m
Fixed assets					
Tangible assets	14	807.1	832.7	0.6	0.8
Investments	15	—	—	185.5	185.5
Investments in joint ventures					
Share of gross assets		3.1	3.1	—	—
Share of gross liabilities		(2.9)	(2.9)	—	—
		0.2	0.2	—	—
Current assets					
Properties held for resale		—	6.6	—	—
Debtors	16	15.8	14.1	365.5	340.8
Cash and deposits		4.5	—	—	—
		20.3	20.7	365.5	340.8
Creditors falling due within one year	17	65.3	33.4	74.6	29.3
Net current (liabilities)/assets		(45.0)	(12.7)	290.9	311.5
Total assets less current liabilities		762.3	820.2	477.0	497.8
Creditors falling due after more than one year	18	272.1	297.0	270.9	295.4
Provisions for liabilities and charges					
Deferred tax	20	11.5	10.2	—	—
Other provisions	21	1.1	1.0	1.1	1.0
		477.6	512.0	205.0	201.4
Capital and reserves – equity					
Called up share capital	22	2.6	2.6	2.6	2.6
Share premium account	23	153.7	153.7	153.7	153.7
Revaluation reserve	23	208.7	262.9	—	—
Profit and loss account	23	112.6	92.8	48.7	45.1
		477.6	512.0	205.0	201.4
Adjusted net asset value per share	24	920p	982p		
Net asset value per share	24	898p	963p		

J.D. Burns, Director
C.J. Odom, Director
18th March 2004

The notes on pages 30 to 39 form part of these accounts.

Other group primary statements

for the year ended 31st December 2003

28/29

Accounts

Statement of total recognised gains and losses

	2003 £m	2002 £m
Profit for financial year	14.8	11.5
Unrealised deficit on revaluation of investment properties	(39.6)	(27.1)
Taxation on realisation of property revaluation gains of previous years	8 (3.5)	(0.6)
Total recognised gains and losses relating to the year	(28.3)	(16.2)

Note of historical cost profit and loss

	2003 £m	2002 £m
Reported profit on ordinary activities before taxation	17.1	15.4
Realisation of property revaluation surplus of previous years	14.6	4.0
Historical cost profit on ordinary activities before taxation	31.7	19.4
Historical cost profit retained after taxation and dividends	19.8	9.4

Reconciliation of movements in shareholders' funds

	2003 £m	2002 £m
Profit for financial year	14.8	11.5
Other gains and losses relating to the year	(43.1)	(27.7)
	(28.3)	(16.2)
Dividend	(6.1)	(5.5)
	(34.4)	(21.7)
Opening shareholders' funds	512.0	533.7
Closing shareholders' funds	477.6	512.0

Group cash flow statement

for the year ended 31st December 2003

	Note	£m	2003 £m	£m	2002 £m
Net cash inflow from operating activities	25		30.2		41.6
Return on investments and servicing of finance					
Interest received		0.2		—	
Interest paid		(18.7)		(18.1)	
Net cash outflow from return on investments and servicing of finance			(18.5)		(18.1)
Taxation					
Corporation tax paid			(4.2)		(9.8)
Capital expenditure and financial investment					
Additions to properties		(83.1)		(50.9)	
Disposal of properties		76.5		16.9	
Purchase of other fixed assets		(0.2)		(0.3)	
Net cash outflow from capital expenditure and financial investment			(6.8)		(34.3)
Equity dividends paid			(5.7)		(5.2)
Cash outflow before management of liquid resources and financing			(5.0)		(25.8)
Management of liquid resources					
Increase in cash on deposit			(4.5)		—
Financing					
Movement in bank loans	28		8.9		26.0
(Decrease)/increase in cash in the year	28		(0.6)		0.2

The notes on pages 30 to 39 form part of these accounts.

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 SSAP 19 "Accounting for Investment Properties" requires a departure from the requirements of the Companies Act 1985 and an explanation of this departure can be found under the heading for depreciation and amortisation. 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. Rent receivable under the terms of the leases is adjusted, in accordance with UITF 28 "Operating Lease Incentives", for the effect of any incentives given, which are spread on a straight line basis up to the time when the prevailing market rent will be payable. Void costs associated with major refurbishment schemes together with the initial letting costs of a development are capitalised in accordance with FRS 15 "Tangible Fixed Assets". 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. On disposal, any gain or loss is calculated by reference to the valuation at the last year end plus subsequent additions in the year.

Surrender premiums

Reverse premiums, after having first allocated an appropriate part of the premium to reinstate the premises to a lettable condition, are recognised in net revenue from properties at a rate equal to the gross rental income under the surrendered lease together with any associated void costs whilst the surrendered space remains vacant. Following reletting, or subject to there being no further significant costs as a result of the surrender, 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 SSAP 19, are revalued annually by independent valuers in accordance with the Appraisal and Valuation Manual published by the Royal Institution of Chartered Surveyors and are included in the balance sheet on the basis of market value less the UITF 28 lease incentive debtor. 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.

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.

1 Accounting policies (continued)

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 FRS 9 "Associates and Joint Ventures".

Depreciation and amortisation

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 is 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 lives.

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 19.

Deferred tax

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date. Deferred tax is not recognised on revalued properties unless these are subject to a binding sale agreement. Deferred tax balances are not discounted.

Liquid resources

For the purpose of the cash flow statement, liquid resources are defined as current asset investments and short term deposits.

2 Property outgoings net of recoveries

Ground rents
Other property outgoings net of recoveries

2003 £m	2002 £m
1.1	1.1
5.3	3.5
6.4	4.6

3 Profit/(loss) on disposal of investments

Investment properties
Disposals
Cost/valuation
Profit on disposal of investment properties
Permanent diminution in value of investment properties

2003 £m	2002 £m
76.1	16.9
(74.5)	(16.7)
1.6	0.2
–	(2.2)
1.6	(2.0)

The permanent diminution in value in 2002 related to a valuation deficit realised on the disposal of an investment property in 2003.

Notes to the accounts

	2003 £m	2002 £m
4 Interest payable		
Bank loans and overdraft wholly repayable within five years	8.1	8.3
Bank loans not wholly repayable within five years	7.0	6.3
Debenture stock	3.6	3.6
Group interest payable	18.7	18.2
Share of joint ventures' interest payable	0.3	0.3
	19.0	18.5

	2003 £m	2002 £m
5 Profit on ordinary activities before taxation		
This is arrived at after charging:		
Exceptional item – cost of possible offer for the group	0.7	–
Depreciation and amortisation	0.3	0.1
Rent payable under property leases	1.1	1.1
Auditors' remuneration		
Audit	0.1	0.1
Other services	0.1	0.1

The exceptional item of £0.7m (2002: £nil), together with the other administrative costs of £6.9m (2002: £6.3m), resulted in total administrative costs of £7.6m (2002: £6.3m).

	2003 £m	2002 £m
6 Directors' emoluments		
Remuneration for management services	1.4	1.5
Non-executive directors' remuneration	0.1	0.1
Pension contributions	0.4	0.3
	1.9	1.9

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 48 to 51.

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 £1.0m (2002: £0.7m), excluding value added tax. This amount included management fees which were rechargeable to tenants of £0.6m (2002: £0.5m). Pilcher Hershman and Partners occupy offices owned by the group for which they paid a commercial rent in the year of £0.1m (2002: £0.1m).

	2003 £m	2002 £m
7 Employees		
Staff costs, including those of directors:		
Wages and salaries	2.5	2.3
Social security costs	0.3	0.3
Pension costs	0.5	0.5
	3.3	3.1

The average number of employees during the year, excluding directors, was 24 (2002: 23), all of whom were employed in administrative roles.

	2003 £m	2002 £m
8 Taxation on profit on ordinary activities		
UK corporation tax on profit, adjusted for the disposal of investments, at 30% (2002: 30%)	4.6	5.2
Capital allowances	(2.7)	(2.5)
Tax on disposal of investments	3.9	0.6
Other reconciling items	(0.9)	0.1
Corporation tax payable on current year's profit	4.9	3.4
Less amount allocated to the statement of total recognised gains and losses	(3.5)	(0.6)
Corporation tax charge in respect of current year's profit	1.4	2.8
Adjustment in respect of prior years' corporation tax	(0.4)	(0.3)
Corporation tax charge	1.0	2.5
Deferred tax charge	1.3	1.4
	<u>2.3</u>	<u>3.9</u>

9 Profit for year attributable to members of Derwent Valley Holdings plc

Profit on ordinary activities after taxation includes £9.7m (2002: £8.5m) which has been dealt with in the accounts of the holding company.

	2003 £m	2002 £m
10 Dividend		
Ordinary shares of 5p each:		
Paid – interim dividend of 3.30p (2002: 3.05p) per share	1.8	1.6
Proposed – final dividend of 8.10p (2002: 7.35p) per share	4.3	3.9
	<u>6.1</u>	<u>5.5</u>

11 Earnings per share

Earnings per ordinary share have been computed on the basis of a profit after taxation of £14,721,000 (2002: £11,525,000) and the weighted average number of ordinary shares in issue during the year of 53,166,000 (2002: 53,158,000). An adjusted earnings per share has been calculated using a profit of £14,154,000 (2002: £13,557,000). This figure excludes the profit or loss after tax arising from the disposal of investments and the exceptional item in order to show the recurring element of the group's profit. The diluted earnings per share has been calculated using 53,270,000 (2002: 53,268,000) ordinary shares which includes the number of dilutive share options outstanding at the year end.

12 Total return

Total return is defined as the annual movement in adjusted net asset value per share plus the dividend per share expressed as a percentage of the adjusted net asset value per share at the beginning of the year.

13 Gearing

Balance sheet gearing is defined as net debt divided by net assets.

Profit and loss gearing is defined as net rental income less administrative costs divided by group net interest payable. The administrative costs exclude the exceptional item in order to show only the recurring element of the group's activity.

Notes to the accounts

14 Tangible assets

Cost or valuation:

At 1st January 2003

Additions

Appropriation from trading stock

Disposals

Revaluation

At 31st December 2003

Amortisation and depreciation:

At 1st January 2003

Provision for year

At 31st December 2003

Net book value:

At 31st December 2003

At 31st December 2002

Assets stated at cost or valuation:

31st December 2003 valuation

Prior years' valuation plus subsequent costs

Cost

Adjustment for UITF 28 – lease incentive debtors

	Freehold land and buildings £m	Group Leasehold property £m	Other fixed assets £m	Total £m	Company Other fixed assets £m
At 1st January 2003	548.5	283.4	1.2	833.1	1.2
Additions	73.4	8.6	0.2	82.2	0.2
Appropriation from trading stock	6.7	–	–	6.7	–
Disposals	(21.7)	(52.8)	(0.1)	(74.6)	(0.1)
Revaluation	(26.3)	(13.3)	–	(39.6)	–
At 31st December 2003	580.6	225.9	1.3	807.8	1.3
At 1st January 2003	–	–	0.4	0.4	0.4
Provision for year	–	–	0.3	0.3	0.3
At 31st December 2003	–	–	0.7	0.7	0.7
At 31st December 2003	580.6	225.9	0.6	807.1	0.6
At 31st December 2002	548.5	283.4	0.8	832.7	0.8
31st December 2003 valuation	581.7	226.2	–	807.9	–
Prior years' valuation plus subsequent costs	4.2	–	–	4.2	–
Cost	–	–	0.6	0.6	0.6
	585.9	226.2	0.6	812.7	0.6
Adjustment for UITF 28 – lease incentive debtors	(5.3)	(0.3)	–	(5.6)	–
	580.6	225.9	0.6	807.1	0.6

Short leasehold property with a value of £37.7m (2002: £16.5m) is included in leasehold property above. Investment property in the course of development with a carrying value of £4.2m (2002: £24.7m) 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 at 31st December 2003 by either CB Richard Ellis Limited or Keith Cardale Groves (Commercial) Limited, as external valuers, on the basis of market value as defined by the Appraisal and Valuation Manual published by the Royal Institution of Chartered Surveyors.

At 31st December 2003 the historical cost of the freehold land and buildings and leasehold property owned by the group was £598.5m (2002: £572.0m).

15 Investments

Shares in subsidiary undertakings:

At 1st January 2003 and 31st December 2003

Loans:

At 1st January 2003 and 31st December 2003

At 31st December 2003

At 31st December 2002

	Subsidiary undertakings £m	Company Joint ventures £m	Total £m
At 1st January 2003 and 31st December 2003	185.4	–	185.4
At 1st January 2003 and 31st December 2003	–	0.1	0.1
At 31st December 2003	185.4	0.1	185.5
At 31st December 2002	185.4	0.1	185.5

16 Debtors

	Group 2003 £m	2002 £m	Company 2003 £m	2002 £m
Trade debtors	8.2	9.1	–	–
Amounts owed by subsidiary undertakings	–	–	362.3	338.1
Other debtors	0.3	0.4	–	0.1
Prepayments and accrued income	7.3	4.6	0.8	0.8
Corporation tax	–	–	2.4	1.8
	<u>15.8</u>	<u>14.1</u>	<u>365.5</u>	<u>340.8</u>

Group prepayments and accrued income includes £4.3m (2002: £2.2m) which falls due for payment after more than one year.

17 Creditors falling due within one year

	Group 2003 £m	2002 £m	Company 2003 £m	2002 £m
Bank loans and overdraft	35.4	1.4	33.7	0.8
Amounts owed to subsidiary undertakings	–	–	30.5	18.9
Trade creditors	3.1	3.3	0.2	0.3
Other creditors	0.1	4.4	–	–
Other taxation and social security	0.7	0.7	0.1	0.1
Dividend payable	4.3	3.9	4.3	3.9
Corporation tax	2.7	2.4	–	–
Accruals and deferred income	19.0	17.3	5.8	5.3
	<u>65.3</u>	<u>33.4</u>	<u>74.6</u>	<u>29.3</u>

Other creditors at 31st December 2002 included an amount of £4.0m in respect of the balance of an assignment inducement received during 2002. This was fully utilised during 2003 and was accounted for in accordance with the group's accounting policy for reverse premiums.

18 Creditors falling due after more than one year

	Group 2003 £m	2002 £m	Company 2003 £m	2002 £m
Accruals and deferred income	1.2	1.6	–	–
Bank loans	236.5	261.0	236.5	261.0
10½% First Mortgage Debenture Stock 2019	34.4	34.4	34.4	34.4
	<u>272.1</u>	<u>297.0</u>	<u>270.9</u>	<u>295.4</u>

In accordance with FRS 4, "Capital Instruments", the £35,000,000 10½% First Mortgage Debenture Stock 2019 is shown net of the unamortised discount and costs on issue of £0.6m (2002: £0.6m).

Notes to the accounts

19 Net debt

Secured

Bank loans wholly repayable:

between 2–5 years

more than 5 years

10½% First Mortgage Debenture Stock 2019

Unsecured

Bank loans and overdraft wholly repayable:

less than 1 year

Gross debt

Cash and short term deposits

Net debt

	Group 2003 £m	2002 £m	Company 2003 £m	2002 £m
	94.5	30.0	94.5	30.0
	142.0	231.0	142.0	231.0
	34.4	34.4	34.4	34.4
	270.9	295.4	270.9	295.4
	35.4	1.4	33.7	0.8
	306.3	296.8	304.6	296.2
	(4.5)	–	–	–
	301.8	296.8	304.6	296.2

Certain of the group's properties are charged against the secured bank loans. The debenture is secured by charges on certain of the group's properties and short term deposits whilst a substitution for properties taken out of charge is organised.

The undrawn committed bank facilities were:

Maturity dates:

between 2–5 years

more than 5 years

	Group 2003 £m	2002 £m	Company 2003 £m	2002 £m
	105.5	70.0	105.5	70.0
	83.0	94.0	83.0	94.0
	188.5	164.0	188.5	164.0

After taking into account the various interest rate hedging instruments entered into by the group, the interest rate exposure of the group's gross debt was:

	Floating rate £m	Hedged £m	Fixed rate £m	Gross debt £m	Weighted average cost of debt %	Weighted average life Years
At 31st December 2003	121.9	150.0	34.4	306.3	6.24	6.14
At 31st December 2002	142.4	120.0	34.4	296.8	6.33	7.44

Details of the group's fixed rate debt, which comprise the Debenture Stock 2019 and the instruments used to hedge its floating rate debt, are summarised below:

	Principal £m	Weighted average interest rate %	Weighted average life Years	Fair value £m	Fair value adjustment £m
10½% First Mortgage Debenture Stock 2019	35.0	10.125	15.59	46.1	(11.1)
Interest rate swaps	150.0	5.756	2.75	2.7	(2.7)
At 31st December 2003				48.8	(13.8)
10½% First Mortgage Debenture Stock 2019	35.0	10.125	16.59	46.3	(11.3)
Interest rate swaps	120.0	6.05	3.31	5.7	(5.7)
At 31st December 2002				52.0	(17.0)

19 Net debt (continued)

10¼% First Mortgage Debenture Stock 2019

The market price for the debenture at 31st December 2003 was £131.775 (2002: £132.375) which gave rise to a value of £46,121,000 (2002: £46,331,000). At this price, the gross redemption yield on the debenture was 6.79% (2002: 6.83%) implying a margin of 2.0% (2002: 2.4%) 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 plus the implied margin at 31st December 2003.

Interest rate swaps

The fair value represents the net present value of the difference between the contracted fixed rates and the fixed rates payable if the swaps were to be replaced on 31st December 2003 for the period to the contracted expiry dates.

Further details on financial instruments are given in the financial review on page 24.

20 Deferred tax

	Group £m
At 1st January 2003	10.2
Provided during the year	1.3
At 31st December 2003	11.5

The provision for deferred tax relates to timing differences on accelerated capital allowances and other reversing timing differences. No such liability exists for the company (2002: £nil).

A taxation liability of approximately £52.7m (2002: £62.8m) would arise on the disposal of land and buildings at the valuation shown in the balance sheet. This is equivalent to 99p per share (2002: 118p). In accordance with FRS 19 "Deferred Tax", no provision has been made for this. No such liability exists for the company (2002: £nil).

21 Other provisions

	Group and company £m
At 1st January 2003	1.0
Released during the year	(0.4)
Provided during the year	0.5
At 31st December 2003	1.1

The provision relates to an onerous lease which expires in 2014 and reflects the discounted present value of future net payments under that lease.

22 Share capital

	Authorised £m	Issued and fully paid £m
At 1st January 2003 and 31st December 2003	3.55	2.6

The number of shares in issue at the year end was 53,167,150 (2002: 53,160,972). During the year, 6,178 shares were issued as a result of the exercise of share options.

Notes to the accounts

23 Reserves

Group

	Share premium account £m	Revaluation reserve £m	Profit and loss account £m
At 1st January 2003	153.7	262.9	92.8
Deficit on property revaluation	–	(39.6)	–
Profit realised on disposal of investment properties	–	(14.6)	14.6
Tax attributable to revaluation surplus realised on disposal of investments	–	–	(3.5)
Retained profit for the year	–	–	8.7
At 31st December 2003	153.7	208.7	112.6

Company

At 1st January 2003	153.7	–	45.1
Retained profit for the year	–	–	3.6
At 31st December 2003	153.7	–	48.7

24 Net asset value per share

Net asset value per share has been calculated on the basis of net assets at 31st December 2003 of £477,589,000 (2002: £512,003,000) and the number of ordinary shares in issue at the year end of 53,167,000 (2002: 53,161,000). An adjusted net asset value per share has been calculated using net assets of £489,092,000 (2002: £522,138,000). This figure excludes the deferred tax provided in accordance with FRS 19 on the basis that it is unlikely that this liability will crystallise.

25 Net cash inflow from operating activities

	2003 £m	2002 £m
Cash received from:		
Tenants	43.9	53.8
Cash payments in respect of:		
Direct property expenses	(6.9)	(4.7)
Wages and salaries	(3.4)	(3.6)
Administrative costs	(3.2)	(2.8)
Properties held for resale	(0.2)	(1.1)
	30.2	41.6

26 Reconciliation of operating profit to net cash inflow from operating activities

	2003 £m	2002 £m
Operating profit	33.9	35.6
Depreciation charge	0.3	0.1
Increase in debtors	(1.7)	(4.1)
(Decrease)/increase in creditors	(3.1)	4.8
Increase in properties held for resale	–	(1.2)
Effect of other deferrals and accruals on operating activity cash flow	0.8	6.4
Net cash inflow from operating activities	30.2	41.6

27 Reconciliation of net cash flow to movement in net debt

	2003 £m	2002 £m
Decrease/(increase) in cash in the year	0.6	(0.2)
Increase in cash on deposit	(4.5)	–
Cash inflow from movement in bank loans	8.9	26.0
Movement in net debt in the year	5.0	25.8
Opening net debt	296.8	271.0
Closing net debt	301.8	296.8

	1st January 2003 £m	Cash flow £m	Other £m	31st December 2003 £m
28 Movement in net debt				
Overdraft	1.4	0.6	–	2.0
Bank loans wholly repayable:				
less than 1 year	–	33.4	–	33.4
between 2–5 years	30.0	–	64.5	94.5
more than 5 years	231.0	(24.5)	(64.5)	142.0
	261.0	8.9	–	269.9
10¼% First Mortgage Debenture Stock 2019	34.4	–	–	34.4
Gross debt	296.8	9.5	–	306.3
Cash and short term deposits	–	(4.5)	–	(4.5)
Net debt	296.8	5.0	–	301.8

29 Principal operating companies

The principal operating companies within the group are as follows:

	Class of shares	Principal activity
Subsidiary undertakings		
Derwent Valley Central Limited	Ordinary	Property investment
Derwent Valley London Limited	Ordinary	Property investment
Derwent Valley Property Investments Limited	Ordinary	Property investment
Derwent Valley Property Developments Limited	Ordinary	Property investment

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 FRS 9, "Associates and Joint Ventures". All of the above companies are registered and operate in England and Wales.

30 Capital commitments

Contracts for capital expenditure entered into by the group at 31st December 2003 and not provided for in the accounts amounted to £6.5m (2002: £6.4m).

31 Lease commitments

At 31st December 2003, annual commitments under property leases expiring in more than 5 years were £1.4m (2002: £1.4m).

32 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 the accounting period to which they relate.

33 Post balance sheet events

On 20th February 2004, the group sold a property for a consideration of £28.3m before costs.

34 Contingent liabilities

The company and its subsidiary undertakings are party to cross guarantees securing the overdraft and certain bank loans. At 31st December 2003 the maximum liability that could arise for the company from the cross guarantees amounted to £1.7m (2002: £0.6m). The company has guaranteed its share of a loan to Primister Limited, the contingent liability for which at 31st December 2003 amounted to £2.8m (2002: £2.8m). In addition, the company guarantees its share of interest payable on this loan which amounts to £0.3m per annum (2002: £0.3m).

The directors present their report and the financial statements for the year ended 31st December 2003.

Results and dividend

Profit before taxation from ordinary activities was £17.1m (2002: £15.4m) and profit after taxation amounted to £14.8m (2002: £11.5m). The directors recommend a final dividend of 8.10p per ordinary share. This, when taken with the interim dividend of 3.30p per share, paid on 3rd November 2003, gives a total dividend of 11.40p (2002: 10.40p) per ordinary share for the year ended 31st December 2003, amounting to £6.1m. After ordinary dividends, £8.7m (2002: £6.0m) 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. A review of the business and comments on the future outlook for the group can be found within the chairman's statement, property review and financial review on pages 7 to 25.

Directors

The directors of the company during the year and their interests in the share capital of the company, including shares over which options have been granted, are shown below. All of these interests are held beneficially.

	Ordinary shares of 5p each		Options	
	31st December 2003	31st December 2002	31st December 2003	31st December 2002
J.C. Ivey	79,072	79,072	—	—
J.D. Burns	691,536	686,998	203,257	161,257
S.P. Silver	301,359	272,675	171,181	136,181
C.J. Odom	12,650	12,650	131,521	105,521
N.Q. George	4,153	—	100,895	82,951
P.M. Williams	5,622	2,000	107,988	89,110
I. Yeatman	—	—	—	—
S.J. Neathercoat	1,000	1,000	—	—
R.A. Farnes	3,066	—*	—	—*

*As at date of appointment

There have been no changes in directors' shareholdings between the year end and 18th March 2004. During the year, directors exercised options over 6,178 shares at an exercise price of 191p. Further options over 146,000 shares were granted to the directors at an exercise price of 426.5p. Full details of the directors' options are given in the report on directors' remuneration which commences on page 48.

In accordance with the articles of association, Messrs N.Q. George, P.M. Williams and S.J. Neathercoat, 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 6, the directors have no interest in any material contracts of the group.

Fixed assets

The group's freehold and leasehold investment properties were professionally revalued at 31st December 2003, resulting in a deficit of £39.6m. The freehold and leasehold investment properties are included in the group balance sheet at a carrying value of £806.5m.

Charitable donations

During the year, the group made charitable donations amounting to £42,000.

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 18th March 2004.

	Number of shares	Percentage of issued share capital
Standard Life Investments Limited	3,727,554	7.01
Stichting Pensioenfonds ABP	3,440,818	6.47
ISIS Asset Management	3,352,127	6.30
Scottish Widows Investment Partnership	2,070,822	3.89
Prudential plc	1,985,896	3.74
Winten Limited	1,951,987	3.67
Morley Fund Management Limited	1,917,815	3.61
Legal & General Investment Management Limited	1,627,195	3.06

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 2003, the average payment period for trade creditors was 21 days (2002: 18 days).

Corporate governance

In July 2003, the revised Combined Code was published following the recommendations made in the "Review of the Role and Effectiveness of Non-Executive Directors" (the Higgs Report) and the "Audit Committees Combined Code Guidance" (the Smith Report). The revised guidance applies to periods commencing on or after 1st November 2003, and therefore the company continues to report under "The Combined Code – Principles of Good Governance and Code of Best Practice". However, since the revised guidance was published, the board has reviewed its procedures and identified a number of changes that need to be made to reflect the new code's recommendations. Some of these have already been implemented and it is planned to introduce the rest during 2004.

Compliance

The board supports the principles of good governance and believes that the company has complied with the Provisions of the Code of Best Practice set out in Section 1 of the Combined Code, which is appended to the Listing Rules of the Financial Services Authority, throughout the period. It has set out below how the 14 principles of good governance in the Combined Code have been applied.

The board

Throughout 2003, the board comprised Mr Ivey, the non-executive chairman, five executive directors, Messrs Burns, Silver, Odom, George and Williams and two independent non-executive directors, Messrs Yeatman and Neathercoat. Mr Farnes, a further non-executive director, considered by the board to be independent, joined the board on 1st April 2003.

There is a clear division of responsibilities between the chairman, who is responsible for the effectiveness of the board and the chief executive who is responsible for the day to day operations of the business. Mr Yeatman was the senior non-executive director until 11th December 2003 when Mr Neathercoat was appointed to the role. Biographies of the directors are given on page 47.

Four meetings of the full board are scheduled each year with additional meetings arranged if necessary. One additional meeting was held in 2003 and all the meetings were fully attended. A formal list of matters is reserved for the board's approval. 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.

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.

- **Remuneration committee**
Mr Yeatman and Mr Neathercoat served on this committee throughout the year with Mr Farnes joining on 8th May 2003. Mr Farnes took over the chairmanship of the committee from Mr Yeatman on 11th December 2003. The committee is responsible for establishing the company's remuneration policy and individual remuneration packages for the executive directors. There were five meetings of the committee in 2003. The report on directors' remuneration is set out on pages 48 to 51.
- **Audit committee**
At the start of the year the committee consisted of Messrs Yeatman, Ivey and Neathercoat. Mr Farnes joined on 8th May 2003. Mr Ivey left the committee and Mr Neathercoat became chairman on 11th December 2003. 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. The committee also considers the adequacy of the statement of independence issued by the group's auditors having particular regard to the extent of non-audit services. The committee met three times during 2003.
- **Nomination committee**
Mr Ivey is chairman of this committee which consisted of the non-executive directors and Mr Burns until 11th December 2003 when Mr Burns resigned from the committee. 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 an appointment to the board from within the company.

In accordance with the guidance contained in the revised Combined Code, the terms of reference of all the committees are being reviewed. Once these have been approved by the board they will be posted on the company's website.

Directors

Appointment of a director from outside the company is on the recommendation of the nomination committee, whilst internal promotion is a matter decided by the board unless it is considered appropriate for a recommendation to be requested from the nomination committee. All new directors must stand for 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 quoted public company.

Any director 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. The annual report, which is sent to all shareholders, reinforces this communication. 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

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. Such a system 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 material risks and problems are identified and appropriate remedial measures taken on a timely basis.

The board performs an annual review of the effectiveness of the group's system of internal control and believes that an ongoing process for identifying, evaluating and managing the significant risks faced by the group has been in place from 1st January 2003 to 18th March 2004. During the period, the board has continued to monitor the operation of the system with a view to further integrating it into the business processes where possible and to address any areas for improvement as they are identified. The board has considered the need for an internal audit function but continues to believe that this would not be appropriate.

Going concern

Having made due enquiries, the directors have reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Therefore, the board continues to adopt the going concern basis in preparing the accounts.

Corporate social responsibility

The board recognises the importance of the group's relationship with the economy, community and environment within which it operates and considers matters relating thereto to be the responsibility of the whole board. Potential risks arising from the many matters covered by corporate social responsibility are monitored by the group's system of internal control. In assessing the risks to the group from such matters, the board gave due consideration to the fact that the group's business of managing, refurbishing and redeveloping a portfolio of London properties is conducted by 27 people, all located in one Central London office. Accordingly, it concluded that, in order to adequately control the risks to the group, formal policies were only required concerning the environment and health and safety. Details of the measures taken by the group in these areas, together with the informal policies adopted in other areas, are given below.

- Environmental awareness

The group is a constituent member of the FTSE4Good Index Series. This organisation has assessed the group's environmental impact as low.

During the year, the group commissioned an update of its environmental policy document, which is issued to all appropriate professional advisers and members of staff, and this now includes a requirement for a full environmental audit to be carried out prior to any acquisition or redevelopment.

The group continues to seek meaningful and measurable targets for the following areas where its impact on the environment is considered most significant:

- Timber

The group aims to eliminate the use of hard woods from its refurbishments. However, where such use is unavoidable, certification that the wood came from sustainable sources is sought.

- Ozone depleters

Following an audit of the group's portfolio to identify such materials, removal is proceeding in accordance with the Government's timetable.

- Energy

Where possible, energy efficient plant and equipment is specified when undertaking a redevelopment or refurbishment and due regard is given to Part L of the planning regulations. Such plant often benefits from favourable tax treatment. At new developments, the group works with the local authority to promote the Green Travel Plan.

- Waste

At refurbishment and redevelopment schemes, all waste is sorted and recycled where appropriate. Throughout the portfolio, recycling points for paper and plastic are provided to encourage recycling by the tenants.

- Water

The group aims to have water meters installed throughout the portfolio so as to promote reduced usage.

Following the introduction of the Disability Discrimination Act, the group's portfolio was audited and an action plan prepared reflecting its results to ensure that the group is compliant. New schemes are all audited to ensure that they comply with the requirements of the Act.

A copy of the group's environmental policy is available to the public on request and a summary can be found on the group's website.

- Health and safety
A formal health and safety policy has been adopted by the board and this has been embedded in the management regime for the group's refurbishment and redevelopment sites. An executive is assigned to each scheme to ensure that the main contractor complies with the policy and that they in turn ensure compliance by the subcontractors. The board regularly reviews reports from each site which comment on the level of compliance and describe the action taken by the executive to remedy any situations that were considered unacceptable. The board also receives notification of any accidents that require reporting under the Health and Safety regulations.

The policy is reviewed at regular intervals and revised as necessary.

- Community/society
No formal policy has been adopted concerning this aspect of corporate responsibility. However, the board is aware of the benefits to the group of London's status as a centre of business and that through sensitive planning and involvement with local initiatives it can contribute to preserving and enhancing this status. Accordingly, the company is represented in both the New West End Company and The Westminster Property Owners Association, both of which address some of the key problems facing London, namely security, planning and transport. The group also contributes to the Paddington Waterside Partnership.

The group maintained its sponsorship of the Royal Academy's annual architectural lecture and architectural forums and, during 2003, it continued to support Teenage Cancer Trust by providing coordinated advice for the trust's development programme.

Annual general meeting

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

Resolutions 8 and 9 are proposed to provide the company with the authority to introduce the Derwent Valley Holdings plc Performance Share Plan 2004 and the Derwent Valley Holdings plc Employee Trust, details of which are set out in the appendices to the circular dated 14th April 2004 which accompanies this report and accounts. The existing long-term incentive arrangement for senior executives is a share option scheme introduced in 1997. The remuneration committee is aware that this scheme no longer accords with best practice and following consultations with its advisers, New Bridge Street Consultants LLP, considers that the proposed performance share plan is the most appropriate way by which the interests of senior executives and shareholders can be aligned. Shareholder approval for the Derwent Valley Holdings plc Performance Share Plan 2004 and its associated Employee Trust is therefore being sought at the annual general meeting.

Resolution 10 renews the authority under Section 80 of the Companies Act 1985 for the directors to allot shares up to an aggregate nominal amount of £886,119.20 representing about one third of the issued share capital (excluding treasury shares) 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 scheme. The authority will expire at the conclusion of the next annual general meeting after the passing of the resolution.

Resolution 11 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 or, now that the company may hold shares as treasury shares (as further described below), sell 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 or, in the case of treasury shares, sell shares for cash, otherwise than on a pre-emptive basis, up to an aggregate nominal value of £132,917.90 which is equivalent to approximately 5% of the issued share capital at 31st December 2003 and also 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 12, a special resolution, is proposed to renew the authority enabling the company to purchase its own shares. This authority enables the directors to act quickly, if, having taken account of all major factors such as the effect on earnings and net asset value per share, gearing levels and alternative investment opportunities, such purchases are considered to be in the company's and shareholders' best interest while maintaining an efficient capital structure. 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. The Companies Act 1985 now permits the company to hold any such bought back shares in treasury, with a view to possible re-issue at a future date, as an alternative to immediately cancelling them (as had previously been required by the legislation). Accordingly, if the company purchases any of its shares pursuant to resolution 12, the company may cancel those shares or hold them in treasury. Such decision will be made by the directors at the time of purchase on the basis of the company's and shareholders' best interest. As at 18th March 2004, the company held no shares in treasury. The total number of options to subscribe for ordinary shares outstanding at 18th March 2004 was 782,592, which represented 1.47% of the issued share capital (excluding treasury shares) at that date. If the company was to purchase the maximum number of ordinary shares permitted by this resolution, the options outstanding at 18th March 2004 would represent 1.64% of the issued share capital (excluding treasury shares). That percentage would be 1.82% if the existing authority for the company to purchase its own shares (as approved by shareholders at the company's last annual general meeting) was to be used in full prior to this year's annual general meeting. The directors have no current intention of making any purchases of shares under that authority before the forthcoming annual general meeting when that authority will lapse.

Auditors

Following the conversion of the company's auditors, BDO Stoy Hayward, to a limited liability partnership with effect from 1st January 2004, BDO Stoy Hayward resigned as the company's auditors on 31st December 2003 and the directors appointed its successor, BDO Stoy Hayward LLP, as auditors until the end of the forthcoming annual general meeting. BDO Stoy Hayward LLP has expressed its willingness to continue in office and, accordingly, a resolution to re-appoint it and to authorise the directors to determine its remuneration will be proposed at the annual general meeting. This is resolution 7 set out in the notice of meeting. Special notice of the resolution proposing the reappointment of BDO Stoy Hayward LLP has been received by the company as required by the Companies Act 1985.

By order of the board

T.J. Kite, ACA
Secretary
18th March 2004

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial statements are published on the group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors

J.C. Ivey, 62

Non-executive chairman

A chartered accountant, Mr Ivey is chief executive of The Davis Service Group plc and has served on the board since 1984. He chairs the nomination committee and was a member of the audit committee until 11th December 2003.

J.D. Burns, 59

Managing director

Mr Burns has been a director of the company since 1984 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 partner in Pilcher Hershman & Partners, estate agents. He was a member of the nomination committee until 11th December 2003.

S.P. Silver, 53

Mr Silver has overall responsibility for acquisitions, design and development projects. He became a director in 1986 and is also a partner in Pilcher Hershman & Partners.

C.J. Odom, 53

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

N.Q. George, 40

A chartered surveyor, Mr George was appointed to the board in 1998. He has responsibility for acquisitions and investment analysis and appraisal.

P.M. Williams, 44

Mr Williams is a chartered surveyor and was appointed to the board in 1998. His responsibilities include asset management and supervision of refurbishment and development projects.

I. Yeatman, 66

Senior non-executive director until 11th December 2003

Mr Yeatman is a chartered surveyor. He joined the board in 1995 and is a member of the audit, remuneration and nomination committees. He chaired both the audit and remuneration committees until 11th December 2003.

S.J. Neathercoat, 55

Senior non-executive director from 11th December 2003

Mr Neathercoat is a chartered accountant. He joined the board in March 1999 and is a member of the audit, remuneration and nomination committees. On 11th December 2003, he took over the chairmanship of the audit committee.

R.A. Farnes, 58

Non-executive director

Mr Farnes is a chartered surveyor. He was previously the chairman of CB Hillier Parker and joined the board on 1st April 2003. On 8th May 2003 he was appointed to the audit, remuneration and nomination committees and became chairman of the remuneration committee on 11th December 2003.

Report on directors' remuneration

Remuneration committee

Until 8th May 2003, when Mr Farnes joined the committee, it consisted of Mr Yeatman and Mr Neathercoat. Mr Yeatman chaired the committee until 11th December 2003 when Mr Farnes took over the role. None of the members has any personal interest in the matters decided by the committee, nor any day to day involvement in the running of the business and, therefore, are considered to be independent. The committee meets at least three times a year to consider the terms and conditions of employment of the executive directors, to set remuneration levels and to operate the group's performance related bonus and share option schemes. However, during 2003, extra meetings were arranged to consider the group's long term incentive arrangements.

During the year, New Bridge Street Consultants LLP provided the performance statistics required to operate the share option scheme and were also appointed to advise the committee with regard to long term incentives. They provide no other services to the company. No director had any involvement in determining his own remuneration although some of the matters considered by the committee were discussed with Mr Burns.

Policy

The committee's objective in formulating the remuneration policy for the executive directors is to ensure that the company attracts, employs and motivates executives with the skills and experience necessary to make a significant contribution to the delivery of the group's objectives.

When setting the level of remuneration, the committee aims to achieve broad comparability with other FTSE 250 companies that have delivered similar long term returns to shareholders whilst having particular regard to the levels of remuneration prevailing in the property sector.

The committee recognises the importance of aligning, as far as possible, the interests of the directors with those of the shareholders. To this end, a combination of basic salary, annual bonus and long term incentive arrangement is used, by which the committee aims to provide a significant proportion of the directors' total remuneration through performance related elements.

Service contracts

The service contracts of Messrs Burns, Silver and Odom are dated 20th May 1997 whilst those of Messrs George and Williams are dated 31st March 1999. The contracts have no stated termination date but require 12 months' notice of termination and include provision for the company to pay, by way of liquidated damages, a cash amount equivalent to 12 months salary and benefits in kind plus a pension contribution of at least 20% of basic salary. The remuneration committee reviews the service contracts periodically. The non-executive directors do not have service contracts and are appointed for three year terms which expire as follows: Mr Ivey, 12th December 2005; Mr Yeatman, 30th November 2004; Mr Neathercoat, 28th February 2005 and Mr Farnes, 28th March 2006.

Basic salary and benefits

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 are paid into a defined contribution scheme. The principal benefits in kind comprise a company car and medical insurance.

The remuneration for non-executive directors, which consists of fees for their services in connection with board and board committee meetings and, where relevant, for additional services such as chairing a board committee, is set by the whole board. Non-executive directors are not eligible for pension scheme membership and do not participate in the company's bonus or share option schemes.

Details of directors' remuneration are given in table 1 below:

Table 1

	Salary and fees £000	Estimated bonus £000	Benefits in kind £000	2003 Total £000	2003 Pension and life assurance £000	(Over)/under provision of 2002 bonus £000	Revised 2002 Total £000	2002 Pension and life assurance £000
Executive								
J.D. Burns	360	18	35	413	97	(8)	397	103
S.P. Silver	300	15	30	345	105	(7)	329	99
C.J. Odom	225	11	9	245	65	(5)	237	62
N.Q. George	175	9	11	195	44	(4)	181	37
P.M. Williams	195	10	12	217	50	4	207	42
Non-executive								
J.C. Ivey	40	—	—	40	—	—	25	—
I. Yeatman	25	—	—	25	—	—	20	—
S.J. Neathercoat	25	—	—	25	—	—	20	—
R.A. Farnes	19	—	—	19	—	—	—	—
	1,364	63	97	1,524	361	(20)	1,416	343

The over provision of the 2002 bonus, which has been recognised in the 2003 results, is the amount by which the estimated amount included in the 2002 results exceeded the final award under the bonus scheme, which could only be ascertained once the results of all the comparator companies had been announced. The total remuneration for 2002, which was previously disclosed as £1,436,000, has been revised to allow a correct comparison to be made between the two years.

During the year, directors made a gain of £15,000 on the exercise of share options.

Bonus scheme

For 2003, the company operated an all employee, performance related, bonus scheme under which entitlements are calculated by reference to the group's performance relative to a group of UK quoted companies with similar characteristics to those of the group. Performance is measured in terms of net asset value per share and the directors' maximum entitlement of 34% of basic salary is payable if the group is ranked in the upper quartile of the comparator group. Second quartile performance results in an entitlement of 15% whilst a 5% bonus is payable for third quartile performance. Additional amounts, the total of which cannot exceed the total of the performance related entitlement, may be awarded by the remuneration committee to individuals, based on an assessment of both the individual's performance and that of the group.

For 2004, a new group bonus scheme has been introduced with a regular bonus potential of two thirds of basic salary, determined by reference to targets linked to net asset value growth. No bonus will become payable for below median performance. A further one third of basic salary will be available by determination of the remuneration committee but only where performance is considered truly exceptional.

Report on directors' remuneration

Share option schemes

The Derwent Valley Holdings 1997 Executive Share Option Scheme was approved by shareholders on 3rd June 1997. The purpose of the scheme was to incentivise the participants on a medium to long term basis and to recognise, to the extent appropriate, the linkage between management performance and shareholder returns. However, the committee has become aware that the scheme no longer accorded with best practice and, as part of the review of the group's long term incentive arrangements, it has decided that, should the Performance Share Plan be approved at the forthcoming annual general meeting, no further grants will be made to executive directors under the 1997 scheme. The proposed new Performance Share Plan is described in the circular dated 14th April 2004 that accompanies the annual report.

Details of the options held by directors and employees under the group's share option schemes at 31st December 2003 are given in table 2 below:

Table 2

Exercise price £	Date from which exercisable	Expiry date	Directors					Employees	Total number of shares
			J.D. Burns	S.P. Silver	C.J. Odom	N.Q. George	P.M. Williams		
1.910	5/5/96	4/5/03	—	—	—	2,556	3,622	—	6,178
2.370	12/4/98	11/4/05	—	—	—	18,450	14,350	—	32,800
3.450	26/4/99	25/4/06	8,507	7,431	7,021	5,945	3,638	—	32,542
5.690	15/4/01*	14/4/08	31,500	27,000	21,500	10,500	13,500	8,500	112,500
5.530	16/4/02*	15/4/09	25,250	21,500	16,500	8,750	10,750	6,750	89,500
5.015	14/4/03*	13/4/10	30,000	25,000	19,000	11,000	13,000	8,000	106,000
7.235	12/4/04*	11/4/11	42,000	35,000	26,500	15,000	18,000	12,500	149,000
6.725	15/4/05*	14/4/12	24,000	20,250	15,000	10,750	12,250	10,500	92,750
Outstanding at 1st January 2003			161,257	136,181	105,521	82,951	89,110	46,250	621,270
Options granted during 2003									
4.265	22/4/06*	21/4/13	42,000	35,000	26,000	20,500	22,500	21,500	167,500
Options exercised during 2003									
Exercise price £	Market price at date of exercise £								
1.910	4.275		—	—	—	(2,556)	(3,622)	—	(6,178)
Outstanding at 31st December 2003			203,257	171,181	131,521	100,895	107,988	67,750	782,592

*These options were granted under the 1997 Executive Share Option Scheme.

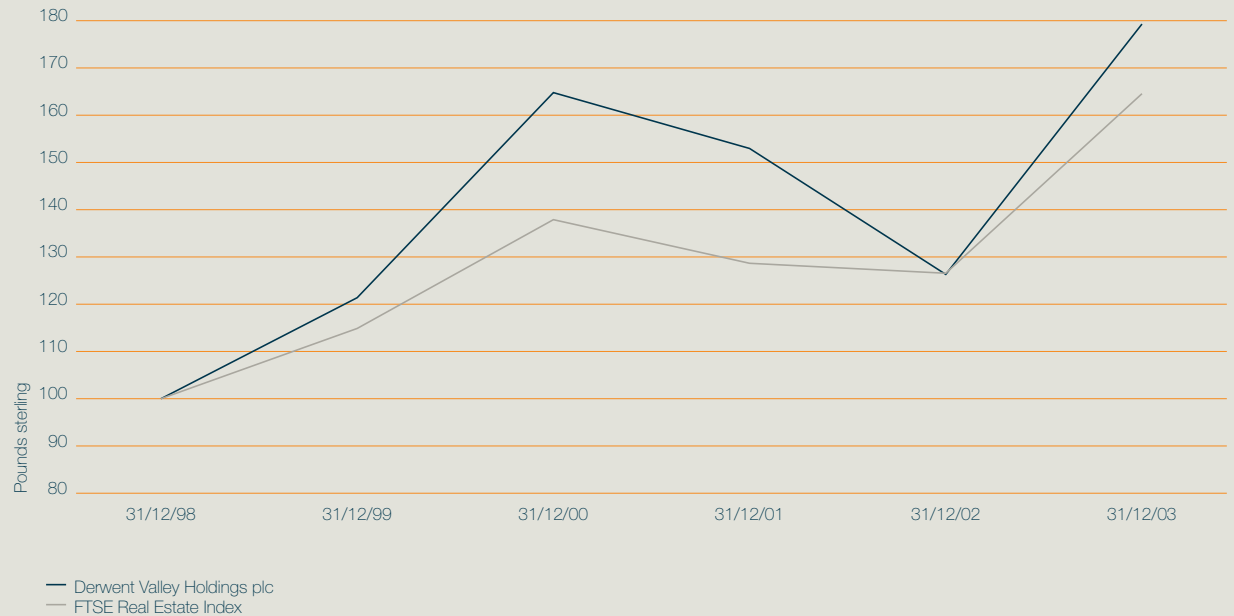
The exercise of options granted under the 1997 Executive Share Option Scheme is subject to a three year performance criterion. This states that a year's options can only be exercised once the growth of the group's net asset value per share over a subsequent three year period exceeds the increase of the IPD Central London Office Capital Growth Index over the same period by 6% or more. Those exercisable on 15th April 2001, 16th April 2002 and 14th April 2003 have met this criterion. Subsequent options have yet to be tested.

The market price of the 5p ordinary shares at 31st December 2003 was £7.45. During the year, they traded in a range between £4.265 and £7.90.

The company did not operate a long term incentive plan during 2003.

Performance graph

Total shareholder return compared to the FTSE Real Estate Index.



This graph shows the value, by the end of 2003, of £100 invested in Derwent Valley Holdings plc on 31st December 1998 compared to that of £100 invested in the FTSE Real Estate Index. This index has been chosen by the committee as it is considered the most appropriate benchmark against which to assess the relative performance of the group. To produce a "fair value", each point is a 30 day average of the return.

The disclosure on directors' remuneration in tables 1 and 2 above has been audited as required by Part 3 of Schedule 7A of the Companies Act 1985.

On behalf of the board

R. A. Farnes
Chairman of the remuneration committee
18th March 2004

Report of the independent auditors

To the shareholders of Derwent Valley Holdings plc

We have audited the financial statements of Derwent Valley Holdings plc for the year ended 31st December 2003 on pages 26 to 39. These financial statements have been prepared under the accounting policies set out on pages 30 and 31. We have also audited the information in the report on the directors' remuneration that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the report on directors' remuneration and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the report on directors' remuneration to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the report on directors' remuneration to be audited have been properly prepared in accordance with the Companies Act 1985. 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 company and other members of the group is not disclosed.

We review whether the corporate governance statement reflects the group'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 other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the directors' report, the chairman's statement, the property review, the financial review and the unaudited part of the report on directors' remuneration. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 and the part of the report on directors' remuneration to be audited. 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 group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the group's and company's affairs as at 31st December 2003 and of the group's profit for the year then ended; and
- the financial statements and the part of the report on directors' remuneration to be audited have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward LLP
Chartered Accountants and Registered Auditors, London
18th March 2004

Notice of annual general meeting

Notice is hereby given that the twentieth annual general meeting of Derwent Valley Holdings plc will be held at The Westbury Hotel, Bond Street, London, W1A 4UH on 20th May 2004 at 10.30am for the following purposes:

Ordinary business

- 1 To receive the report of the directors and the accounts for the year ended 31st December 2003 and the auditors' report thereon;
- 2 To declare a final dividend of 8.10p per ordinary share for the year ended 31st December 2003;
- 3 To approve the report of the remuneration committee for the year ended 31st December 2003;
- 4 To re-elect Mr N.Q. George as a director;
- 5 To re-elect Mr P.M. Williams as a director;
- 6 To re-elect Mr S.J. Neathercoat as a director;
- 7 To re-appoint BDO Stoy Hayward LLP as auditors of the company (having previously been appointed by the board to fill the casual vacancy arising by reason of the resignation of BDO Stoy Hayward following its conversion to a limited liability partnership) 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 its remuneration.

Special business

To consider and, if thought fit, pass the following resolutions, resolutions 8, 9 and 10 as ordinary resolutions and resolutions 11 and 12 as special resolutions.

- 8 That the rules of the Derwent Valley Holdings plc Performance Share Plan 2004, the main features of which are summarised in appendix I of the circular to shareholders dated 14th April 2004 that accompanies this notice, be approved and adopted, and that the directors (or any duly authorised committee thereof) be authorised to do all acts and things as they consider necessary or desirable for the purposes of implementing and giving effect to this resolution (including making any such changes as they may consider necessary for that purpose);
- 9 That the Company's proposed new employee trust, the Derwent Valley Holdings plc Employee Trust (the "Trust"), the main features of which are summarised in appendix II of the circular to shareholders dated 14th April 2004 that accompanies this notice, be approved, and that the directors (or any duly authorised committee thereof) be authorised to do all acts and things as they consider necessary or desirable for the purposes of implementing and giving effect to this resolution and establishing similar trusts based on the Trust (including making any such changes as they may consider necessary for that purpose);
- 10 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 £886,119.20 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;
- 11 That the directors be and they are hereby empowered, pursuant to Section 95 of the Companies Act 1985, to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to the authority conferred upon them by the previous resolution and/or where such allotment constitutes an allotment of equity securities by virtue of Section 94(3A) of the said Act as if Section 89(1) 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 (excluding any shareholder holding shares as treasury shares) where the equity securities respectively attributable to the interests of such ordinary 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 £132,917.90,

- 11 (continued)
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;
- 12 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 5,316,715;
 - (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
14th April 2004

25 Savile Row
London
W1S 2ER

Notes:

The company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the company as at 6pm on 14th May 2004 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 6pm on 14th May 2004 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 the following documents will be available for inspection by members at the company's registered office during usual business hours on any weekday (public holidays excluded) from the date of this notice until the time of the annual general meeting and also at The Westbury Hotel during the annual general meeting and for at least fifteen minutes prior to the meeting.

- the contracts of service relating to Messrs J.D. Burns, S.P. Silver, C.J. Odom, N.Q. George and P.M. Williams;
- the draft rules of the Derwent Valley Holdings plc Performance Share Plan 2004; and
- the draft rules of the Derwent Valley Holdings plc Employee Trust.

The register of the directors' (and their families') interests in the ordinary shares of the company will also be available for inspection at The Westbury Hotel during the fifteen minutes prior to the meeting and throughout the meeting.

A copy of the draft rules of the Derwent Valley Holdings plc Performance Share Plan 2004 and the Derwent Valley Holdings plc Employee Trust will also be available for inspection at the offices of New Bridge Street Consultants LLP, 20 Little Britain, London, EC1A 7DH, during usual business hours on any weekday (public holidays excluded) from the date of this notice until the time of the annual general meeting.

Five year summary

	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Group gross rental income	47.9	46.5	46.9	39.5	29.8
Net revenue from properties	41.5	41.9	43.0	35.9	27.1
Adjusted profit before taxation	16.2	17.4	17.9	11.7	11.5
Profit/(loss) on disposal of investments	1.6	(2.0)	3.8	–	5.1
Profit before taxation	17.1	15.4	21.7	11.7	16.6
Net assets	477.6	512.0	533.7	462.3	376.5
Investment property valuation	812.1	831.9	833.5	770.4	604.1
(Deficit)/surplus on revaluation of investment properties	(39.6)	(29.3)	68.3	81.9	53.3
Net borrowings	301.8	296.8	271.0	283.4	209.3
Cashflow	(5.0)	(25.8)	12.5	(74.3)	(66.4)
Net cash inflow from operating activities less interest	11.7	23.5	15.2	14.8	13.1
Acquisitions	59.1	15.9	57.3	98.3	101.7
Capital expenditure on properties	24.0	35.0	38.6	29.8	16.9
Disposals	76.5	16.9	104.5	46.6	45.4
Adjusted earnings per share (p)	26.62	25.50	27.73	16.57	17.50
Dividend per share (p)	11.40	10.40	9.35	8.50	7.70
Adjusted net assets per share (p)	920	982	1020	884	720
Net assets per share (p)	898	963	1004	870	709
Total return (%)	(5.2)	(2.7)	16.4	24.0	20.7
Gearing					
Balance sheet (%)	63.2	58.0	50.8	61.3	55.6
Profit and loss	1.87	1.96	1.95	1.63	1.97

Financial calendar

Annual general meeting	20th May 2004
Payment of 2003 final dividend	9th June 2004
Announcement of 2004 interim results	September 2004
Payment of 2004 interim dividend	November 2004
Announcement of 2004 preliminary results	March 2005
Payment of debenture interest	31st January & 31st July

Advisers

Auditors
BDO Stoy Hayward LLP

Solicitors
Slaughter and May

Stockbrokers
UBS

Clearing bankers
HSBC Bank plc

Registrars
Lloyds TSB Registrars

Debenture stock trustee
Royal Exchange Trust Company Limited

Derwent Valley Holdings plc

Registered office:
25 Savile Row
London W1S 2ER

t 020 7659 3000

f 020 7659 3100

www.derwentvalley.co.uk

Registered No. 1819699

