
REPORT & ACCOUNTS 2001 **DERWENT VALLEY HOLDINGS PLC**

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Financial Calendar

Annual general meeting	16th May 2002
Payment of 2001 final dividend	10th June 2002
Announcement of 2002 interim results	September 2002
Payment of 2002 interim dividend	November 2002
Announcement of 2002 preliminary results	March 2003
Payment of debenture interest	31st January & 31st July

Advisers

Auditors
BDO Stoy Hayward

Solicitors
Slaughter and May

Stockbrokers
UBS Warburg

Clearing bankers
HSBC Bank plc

Registrars
Lloyds TSB Registrars

Debenture stock trustee
Royal Exchange Trust Company Limited

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

Derwent Valley was the recipient of the 2001 Estates Gazette Architecture Award for the development of Broadwick House, Soho, W1.

Derwent Valley sponsored the 2001 Royal Academy's Annual Architecture Lecture and forums.

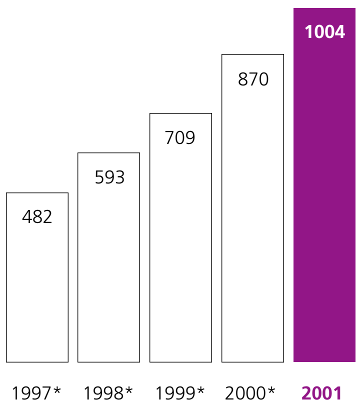
Financial highlights

		2001	2000 (restated)	Increase %
Net revenue from properties		**£43.0m**	£35.9m	19.8
Profit before taxation	FRS3	**£21.7m**	£11.7m	85.5
	Adjusted	**£17.9m**	£11.7m	53.0
Earnings per share	Basic	**31.68p**	16.38p	93.4
	Adjusted	**27.73p**	16.57p	67.4
Dividend per share		**9.35p**	8.50p	10.0
Net assets per share	Basic	**1004p**	870p	15.4
	Adjusted	**1020p**	884p	15.4
Total return		**16.5%**	23.9%	
Gearing	Balance sheet	**50.8%**	61.3%	
	Profit and loss	**1.95**	1.63	

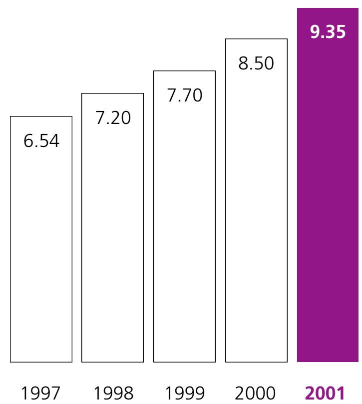
Results for 2000 have been restated following the adoption of UITF28 and FRS19.

Five year review

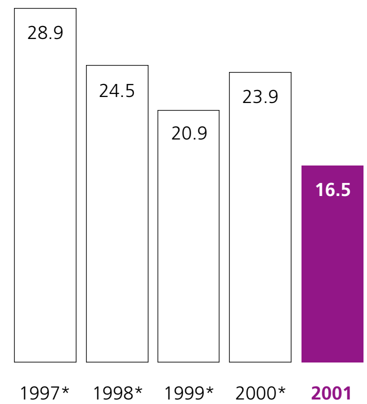
Net asset value per share (pence)



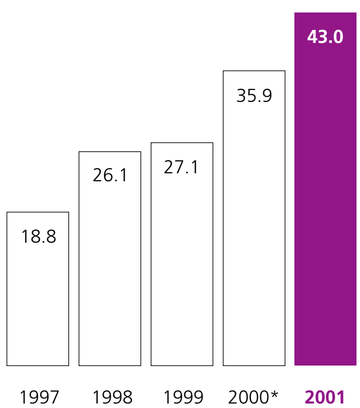
Dividend per share (pence)



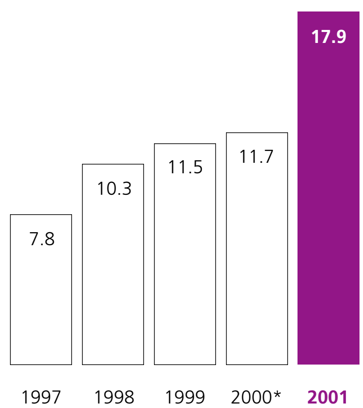
Total return (%)



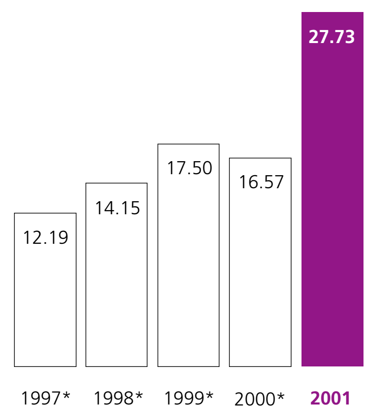
Net revenue from properties (£m)



Adjusted profit before taxation (£m)



Adjusted earnings per share (pence)



*Restated as applicable for the adoption of UITF28 and FRS19.

Chairman's statement

Results

I am pleased to report an increase in net asset value per share of 134p to 1004p at 31st December 2001. This has been achieved against the background of a slowing economy and unpredictable financial markets. The 15.4% rise has continued the group's record of strong growth which has seen net assets per share more than double over the last four years, a compound growth rate of 20.1% per annum. For the same period, average total returns, which includes dividends, were 21.4%.

The group's profit before tax, excluding gains from the disposal of investments, was £17.9 million, an increase of approximately 53% from last year's £11.7 million which has been restated following the implementation of UITF28. Included in the year's results is a £2.3 million surrender premium received from a tenant at 27-32 Old Jewry, EC2. Further details of this transaction and its effect are given in the property and financial reviews.

Pre-tax profits on an FRS3 basis were £21.7 million compared with £11.7 million last year. The £3.8 million profit on the disposal of investments was mainly generated by the profit realised on the disposal of Broadwick House, (the equivalent revaluation surplus was reflected in the interim results).

Dividend

A final dividend of 6.6p is proposed by the directors which would give a total for the year of 9.35p, an increase of 10% from that paid last year. The final dividend will be paid on 10th June 2002 to those shareholders on the register on 17th May 2002.

Valuation

The investment portfolio was revalued at the year end at £833.5 million, to produce an increase for the full year of £68.3 million. This revaluation surplus included £27.2 million from redevelopment schemes which were completed during the year. The second half saw a more modest level of revaluation surplus as the slowing UK economy and uncertainty caused by global events took effect. Investment properties held throughout the year increased in value by 9.9% compared with 13.9% for properties held throughout 2000. Over the same period the Central London Offices Index of the Investment Property Databank increased by 3.0%. Development properties with a carrying value of £34.4 million were not revalued at the year end. The valuation showed little movement in investment yields and in the 'middle market', where the group principally operates, rents of between £30 and £50 per square foot (£320 and £540 per m^2) proved more resilient than those in the prime West End.

Review

With some doubt over the economy evident, the group entered the year in a circumspect mood, and took advantage of the active investment market to realise sales of £104 million, substantially in the first half. The sales included two completed developments – Broadwick House, Soho, W1 and Hythe House, Hammersmith, W6. Both are prime examples of Derwent Valley's innovative approach to refurbishment and development and were sold at attractive levels relative to their future growth prospects.

21 Grosvenor Place, reception

Acquisitions are sought which have the characteristics that enable the group to enhance value – complicated lease management issues; opportunities for planning improvement; and scope for innovative refurbishment. This led to £46.2 million of properties being acquired in Paddington and Shoreditch, both areas which are currently undergoing regeneration and offer excellent prospects for the future. A further £12.1 million was added to the group's substantial West End portfolio with the acquisition of Morley House, Regent Street, W1.

The group also continued with its capital expenditure programme, with £36.4 million being added to various projects within the portfolio during the year. Currently, the main scheme is the redevelopment of Tower House and 5-8 Southampton Street, Covent Garden, WC2, where one of the retail units has recently been pre-let to Sainsbury's Supermarkets Limited. However, the group has not been immune from disappointment and the demise of Enron meant that the previously announced pre-let of three floors at 21 Grosvenor Place did not materialise. Given the current letting market, the board has decided to delay the group's office development at Leonard Street, EC2. Further details of the capital expenditure projects are given in the property review.

Tenant demand in Central London slowed considerably in the last quarter. This, together with the effect of companies looking to sub-let space which, originally taken for expansion, is no longer required, has seen vacancy levels rise. However, this should be viewed in perspective. The rigid planning regulations that prevail in Central London, especially in the West End, restrict the amount of new development and consequently limit the impact that lower demand has on rents. Meanwhile, the investment market remains strong in Central London as low interest rates, positive initial yields and stable income streams make property particularly attractive to investors in the current economic environment.

Prospects

The strategy of acquiring investments that can be transformed into future redevelopment/refurbishment schemes has generated substantial added value for the group. The board believes that in the current circumstances opportunities can be found to buy such projects ahead of the market and with this in mind, the group's borrowing facilities have been increased.

It is unlikely that, whilst rental growth remains restrained, returns in 2002 will match those achieved over the last few years. However, the board remains committed to Central London, a world class financial centre and cosmopolitan city, where its management team has considerable experience. This gives me confidence that the group is well placed and will take early advantage of any uplift. I look forward to keeping you apprised of the group's progress in these challenging times.

J. C. Ivey   12th March 2002

Panton House, rear glazed façade

Principal activities in 2001

ACQUISITIONS

55-65 North Wharf Road, Paddington, W2
Offices – 7,500 m^2

Centric House, Shoreditch, E1
Warehouse – 31,700 m^2

Morley House, 314-322 Regent Street, W1
Office/retail – 3,500 m^2

CURRENT MAJOR SCHEMES

135-155 Charing Cross Road, WC2
Office/retail refurbishment
Architect: John McAslan & Partners

Tower House, Covent Garden, WC2
Office/retail refurbishment and development
Architect: Lifschutz Davidson

21 Grosvenor Place, Belgravia, SW1
Office refurbishment
Architect: Squire & Partners

Panton House, atrium

Property review

Introduction

Derwent Valley owns and manages an £833 million Central London commercial property portfolio, which comprises 48 properties totalling 233,000m². The portfolio is located throughout the Central London villages with 72% by value in the West End, including the areas of Covent Garden, Soho, Victoria, Belgravia and Paddington. There are over 400 occupiers providing a varied tenant mix. Professional and business services are the largest sector at 24% of income, followed by media at 19% and computer and technology at 15%. Retail and its associated businesses account for 11% of income, Government administration 9% and financial 6%.

Acquisitions

Three acquisitions totalling £58.3 million were made during the year. In May, the group purchased 55-65 North Wharf Road, Paddington, W2, for £23.4 million. This 7,500m² multi-occupied property, let at a low average rent of £220 per m², is in an area that is successfully undergoing substantial regeneration. Recent office lettings in Paddington have attracted companies such as Orange and Marks & Spencer, and rental levels increased during the year as the area evolved as a recognised office location. In Shoreditch, E1, Centric House, a 31,700m² warehouse was acquired in June for £22.8 million. This prominent building is close to the highly successful Broadgate financial district and refurbishment opportunities exist after the tenant's lease expires in June 2002. Planning consent has been granted to change the use from warehouse to offices. A detailed application for conversion into two buildings will shortly be submitted, to create a new identity and provide contemporary offices. The group's other acquisition was Morley House, 314-322 Regent Street, W1, close to Oxford Circus. This multi-let 3,500m² leasehold retail/office building was acquired in December for £12.1 million and offers scope for improvement through rolling refurbishment and reconfiguration of the office floors as leases expire.

Disposals

The disposal programme continued in line with the board's belief that the property market would quieten in 2001 and early 2002 and raised £104.5 million, the highest level in the group's history. These disposals showed a surplus of £3.8 million over the December 2000 valuation. In addition to Broadwick House, W1 and Hythe House, W6, the group sold five other properties which included two properties in Victoria, 6-14 Dean Farrar Street, SW1 and Steel House, 11 Tothill Street, SW1, and a building in the City, Peek House, 20 Eastcheap, EC3.

Development and refurbishment

The year saw the completion and revaluation of two projects, 1 Oliver's Yard, EC2 and Panton House, SW1. In March, the 16,600m² office refurbishment at 1 Oliver's Yard was completed, having been pre-let to Globix Corporation. This technology company, in common with so many in that sector, has suffered a severe downturn in its business and has filed for Chapter 11 protection in the US, while it restructures its finances. Derwent Valley took a two year rental deposit as security and is negotiating with the tenant to restructure their lease and consequently reduce the group's exposure to Globix.

Construction is well underway at Tower House and 5-8 Southampton Street, WC2, the group's current principal development project. This office and retail scheme, comprising 4,000m² of new development and 5,100m² of refurbishment, is located in the heart of Covent Garden and is due for completion by the end of the year. The offices will offer modern open plan floors, with the new build accommodation constructed behind a retained façade and a full height atrium. Since the year end a pre-let has been achieved on 1,000m² of the retail space, with Sainsbury's Supermarkets Limited taking a twenty year lease at £575,000 per annum.

There are a number of current refurbishment projects in progress, the most significant being at 135-155 Charing Cross Road, WC2, where 3,200m² of this 5,800m² building is being refurbished. The retail/restaurant space is being rationalised to provide larger units to meet current demand and the office floor plates redesigned. The focal point is a new office courtyard entrance, adjacent to Soho Square, which has been created from redundant space. At 21 Grosvenor Place, SW1, the 3,300m² first phase of refurbishment has recently been completed and is now being marketed. This has involved the creation of a new image for the building with large open plan office floors and a redesigned entrance.

Portfolio management

As part of actively managing the portfolio, opportunities to improve value through refurbishment or lease management are continually explored. The group's lettings from recently refurbished properties such as 1 Oliver's Yard, EC2, 6 Greencoat Place, SW1, and Holden House, W1, added over £5 million to rental income in 2001 while rent reviews at 4 Grosvenor Place, SW1, Harcourt House, W1 and Middlesex House, W1 added a further £0.8 million. At 27-32 Old Jewry, EC2, a surrender premium was negotiated with the Commonwealth Bank of Australia, who had sub-let all of their accommodation. The transaction creates a direct relationship with the occupational tenants and the opportunity to implement a strategy to improve the building and produce a more marketable asset.

Vacancy levels in Central London at December 2000 were 2.8% of floor area, the lowest for over 10 years. Due to the impact of the slowing economy, occupiers have become more cautious in entering lease commitments and, as a result, vacancy levels increased during the year to 6.2%. At the year end, the investment portfolio had 8,600m² of floor space available for letting. This included the schemes at 21 Grosvenor Place, SW1 and Panton House, SW1, which together accounted for 5,700m². A further 16,400m² was under refurbishment and development, including the 9,100m² Tower House and 5-8 Southampton Street, WC2 project. Therefore, vacant accommodation at the year end totalled 25,000m² and represented 10.7% of the portfolio's floor area, with an estimated rental value in the region of £11.4 million per annum.

In addition to the potential income from vacant space, future reversions, through lease renewals and rent reviews, could add approximately £19.4 million per annum to rental income over the next few years. The average passing rent from the West End properties is £265 per m², and throughout the investment portfolio is £220 per m². These are both modest levels. This reversion combined with income from the vacant space would give an estimated rental value of approximately £75 million per annum for the investment portfolio.

The following 8 pages provide more detail on the portfolio, its performance and forthcoming projects.

J. D. Burns 12th March 2002

Portfolio statistics and performance 2001

	Valuation £m	Valuation performance %	Weighting %	Number of properties	Floor area m^2	Average rental income £ per m^2	Vacant accommodation m^2
WEST END							
Central	540.7	7.4	65	30	117,700	275	21,700
Outer	57.7	4.6	7	4	18,300	200	900
	598.4	7.1	72	34	136,000	265	22,600
CITY							
Central	8.6	(21.3)	1	2	3,000	270	100
Outer	226.5	15.7	27	12	93,800	160	2,300
	235.1	13.7	28	14	96,800	160	2,400
CENTRAL LONDON	833.5	8.9	100	48	232,800	220	25,000
Other	–	–	–	–	–	–	–
TOTAL PORTFOLIO	**833.5**	**8.9**	**100**	**48**	**232,800**	**220**	**25,000**

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

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

Portfolio yields	Rental uplift per annum £m	Rent per annum £m	Yield * %
Year end contractual rental income, net of ground rents		44.0	5.3
Letting 8,600m^2 vacant accommodation available at year end	4.1		5.8
Completion and letting 16,400m^2 of existing schemes and developments	7.3		6.5
Anticipated rent review and lease renewal reversions	19.4		8.7
Portfolio reversion		30.8	
Potential portfolio rental value		74.8	8.7

* based upon the year end valuation of £833.5 million and adjusted for costs to complete commenced projects.

Portfolio statistics and performance 2000

	Valuation £m	Valuation performance %	Weighting %	Number of properties	Floor area m²	Average rental income £ per m²	Vacant accommodation m²
WEST END							
Central	529.8	13.0	69	33	124,800	270	17,500
Outer	52.1	9.3	7	4	16,000	220	–
	581.9	12.7	76	37	140,800	260	17,500
CITY							
Central	22.9	0.4	3	3	7,600	270	1,100
Outer	162.5	11.4	21	11	61,300	205	2,000
	185.4	9.9	24	14	68,900	210	3,100
CENTRAL LONDON	767.3	12.0	100	51	209,700	245	20,600
Other	3.1	(4.6)	–	1	1,500	185	–
TOTAL PORTFOLIO	**770.4**	**11.9**	**100**	**52**	**211,200**	**245**	**20,600**

Refurbishment and development

Property	Proposed net area m^2	Expected completion date	Estimated cost to complete including fees £m	Comments
DEVELOPMENT PROPERTIES				
Covent Garden				
Tower House and 5-8 Southampton Street, WC2	9,100	October 2002	13.0	Office/retail scheme, comprising 4,000m^2 new development and 5,100m^2 refurbishment. A retail unit of 1,000m^2 pre-let to Sainsbury's Supermarkets Limited.
City borders				
20 Leonard Street, EC2	4,500	–	–	Planning permission obtained for new office development.
	13,600		**13.0**	
CURRENT REFURBISHMENTS				
Soho				
135-155 Charing Cross Road, WC2	3,200	September 2002	5.5	First phase office/retail refurbishment underway to include a new 350m^2 penthouse office.
Islington				
Suncourt House, 26 Essex Road, N1	2,500	March 2002	1.0	Office/restaurant refurbishment nearing completion, with the restaurant pre-let. This is the group's only trading property.
Victoria				
Greencoat and Gordon House, Francis Street, SW1	1,200	June 2002	2.4	Scheme includes the reconfiguration of Gordon House entrance and office refurbishment. A further phase proposed in 2004 to include a new 370m^2 penthouse floor.
	6,900		**8.9**	

Property	Existing area m^2	Comments
FUTURE PROJECTS		
City borders		
Centric House, Shoreditch High Street, E1	31,700	Change of use to offices obtained and a planning application to be submitted for refurbishment. Scheme to be undertaken in phases.
Holborn		
New Garden House, 78-83 Hatton Garden, EC1	11,700	Refurbishment opportunity in 2003. Planning application submitted for additional office space.
Holborn		
40-43 Chancery Lane, WC2 and 20-21 Tooks Court, EC4	5,700	Feasibility and massing studies underway for redevelopment.
Noho		
Birkbeck College, 7-15 Gresse Street, W1	4,100	Planning application submitted for a mixed office and residential scheme in 2003. Possible linkage with adjacent holdings.
Noho		
Morley House, 314-322 Regent Street, W1	3,500	Rolling office refurbishment from 2004.
Noho		
16-19 Gresse Street, W1	3,100	Proposed office refurbishment upon lease expiry in 2003.
Noho		
Holden and Dumbarton House 54-68 Oxford Street, W1	2,300	Second phase to include Dumbarton House office refurbishment and connection with Holden House entrance. In addition, possible retail extension.
Victoria		
6 Greencoat Place, SW1	900	Final phase to commence later in 2002 to complete this office refurbishment.
	63,000	

Acquisitions and disposals

ACQUISITIONS

- Three Central London acquisitions totalling £58.3 million, reflecting a net initial yield of 5.7%.
- Total net income of £3.3 million per annum at acquisition.

55-65 North Wharf Road, Paddington, W2 - £23.4 million

7,500m² - Leasehold 94 years

- Office complex comprising four multi-tenanted terraced buildings.
- Improving location adjacent to major office developments.
- Low passing rental, equating to £220 per m², with opportunities to improve through lease management.
- Long term redevelopment opportunity of the 0.4 hectare site.

Centric House, Shoreditch, E1 - £22.8 million

31,700m² - Freehold

- Let to a single tenant on a lease expiring June 2002.
- Island site of 0.49 hectares.
- Improving location, close to Broadgate.
- Opportunity for a phased office refurbishment.

Morley House, 314-322 Regent Street, W1 - £12.1 million

3,500m² - Leasehold 75 years

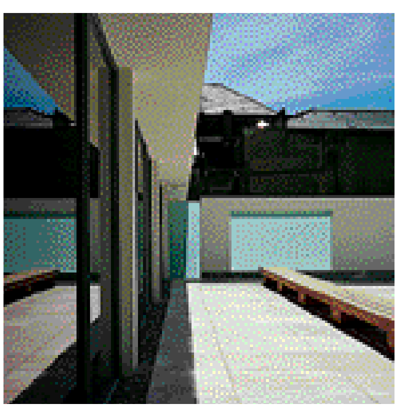
- West End location.
- Multi-let office and retail building.
- Low passing rental of £300 per m².
- Opportunity for rolling refurbishment.

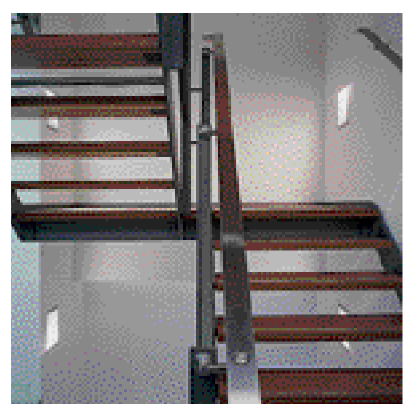
DISPOSALS

- Seven properties sold for a net £104.5 million at an exit yield of 6.1%.
- Broadwick House, Broadwick Street, W1
- Hythe House, 200 Shepherd's Bush Road, W6
- Steel House, 11 Tothill Street, SW1
- 6-14 Dean Farrar Street, SW1
- Peek House, 20 Eastcheap, EC3
- 101-102 Jermyn Street, W1
- Glydan House, Portwall Lane, Bristol

Portfolio activity

Property	Approximate net area m^2	Rent per annum £m	Headline rent £ per m^2	Comments
PRINCIPAL LETTINGS				
5-8 Southampton Street, WC2	1,000	0.57	570	Pre-let to Sainsbury's Supermarkets Limited on a 20 year lease. Building under construction.
Suncourt House, 26 Essex Road, N1	700	0.19	260	Restaurant unit let to Living Ventures Limited on a 25 year lease.
40-43 Chancery Lane, WC2	680	0.25	370	Floor refurbished and relet.
Panton House, 25-27 Haymarket, SW1	340	0.18	530	Corner restaurant unit let to Pizza Express on a 25 year lease.
20-21 Tooks Court, EC4	330	0.11	340	Various suites let following refurbishment.
PRINCIPAL RENT REVIEWS				
55-65 North Wharf Road, W2	4,250	1.10	250	Following acquisition, three reviews concluded.
4 Grosvenor Place, SW1	1,700	0.91	565	Six reviews conducted, resulting in a rental uplift of 49%.
Exmouth House, Exmouth Market, EC1	800	0.28	340	A number of reviews settled.





Principal properties

£30 million and over – 42% of portfolio

	Property	Approximate net area m²
O R	Covent Garden Estate: 19-26 and 19A Floral Street, 26 and 27-32 King Street, and 34 Rose Street, WC2	6,700
O	Greencoat and Gordon House, Francis Street, SW1	11,200
O	1-3 Grosvenor Place, SW1	7,700
O	4 Grosvenor Place, SW1	7,300
O	21 Grosvenor Place, SW1	5,300
O R	Holden and Dumbarton House, 54-68 Oxford Street, W1	8,200
O	New Garden House, 78-83 Hatton Garden, EC1	11,700
O	1 Oliver's Yard, EC2	16,600

£20 - £30 million – 33% of portfolio

	Property	Approximate net area m²
O	Berkshire House, 168-173 High Holborn, WC1	4,900
O	Centric House, Shoreditch High Street, E1	31,700
O R	135-155 Charing Cross Road, WC2	5,800
O	Gresse Street Estate: Birkbeck College, 7-15 Gresse Street, 16-19 Gresse Street, and 7-8 Rathbone Place, W1	8,300
O	Harcourt House, 19-19A Cavendish Square, W1	5,300
O R	Heron House, 319-325 High Holborn, WC1	6,100
O	Middlesex House, 34-42 Cleveland Street, W1	6,000
O	55-65 North Wharf Road, W2	7,500
O	Premier House, 10 Greycoat Place, SW1	5,900
O R	25 Savile Row, W1	3,800
O	Telstar House, Eastbourne Terrace, W2	8,300

£10 - £20 million – 16% of portfolio

	Property	Approximate net area m²
O	Argosy House, 215-227 Great Portland Street, W1	2,800
O	40-43 Chancery Lane, WC2 and 20-21 Tooks Court, EC4	5,700
O R	Exmouth House, Exmouth Market, EC1	5,000
O	6 Greencoat Place, SW1	3,000
O R	Jaeger House, 57 Broadwick Street, W1	2,300
O R	Morelands Buildings, 5-27 Old Street, EC1	7,400
O R	Morley House, 314-322 Regent Street, W1	3,500
O R	Panton House, 25-27 Haymarket, SW1	2,700

Under £10 million – 5% of portfolio

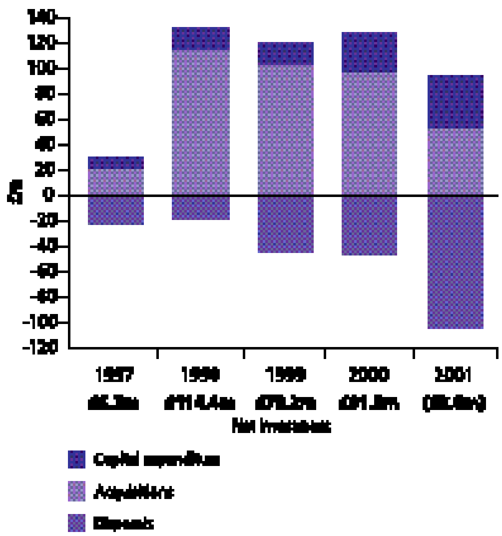
	Property	Approximate net area m²
O R	Broadmead and Westcombe House, 19-23 Panton Street, SW1	1,500
O	27-32 Old Jewry, EC2	2,100
O R	78 St Martin's Lane, WC2	1,500

Development properties – 4% of portfolio

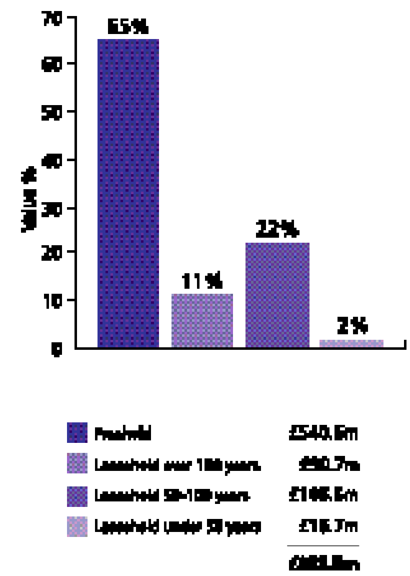
	Property	Approximate net area m²
O R	Tower House and 5-8 Southampton Street, WC2	9,100
O	20 Leonard Street, EC2	Site

O Offices
R Retail/Restaurant

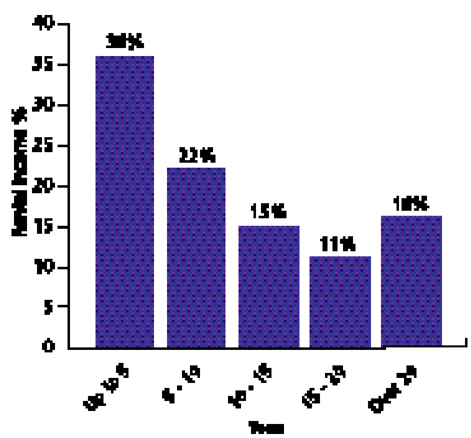
Net investment 1997-2001



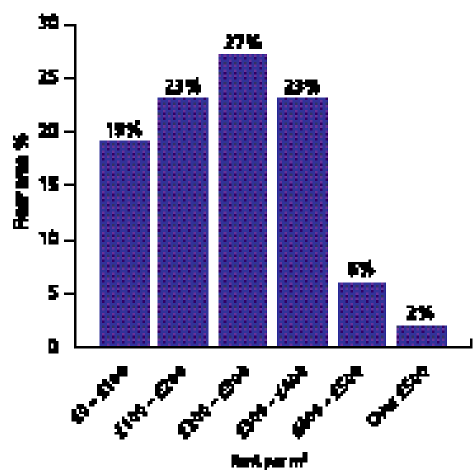
Value of portfolio by tenure



Profile of contracted rental income expiry



Profile of occupied floor area



Financial review

Results

Profit before taxation rose £3.9 million from £11.7 million in 2000 to £15.6 million this year, after excluding the results of investment transactions, and the surrender premium negotiated at Old Jewry, EC2, which is dealt with in the next paragraph. The basis of the increase was the strong growth in net rental income from £35.9 million in 2000 to £43.0 million. This showed an increase of £4.8 million if, again, the Old Jewry surrender premium is excluded. Lettings added £5.5 million and rent reviews £1.7 million, while voids, mainly due to the development programme, reduced rental income by £2.4 million. The net effect of acquisitions and disposals was negligible. Administrative costs increased £0.7 million partly as a consequence of legal fees and bank charges incurred as a result of the renegotiation of the group's bank loans during the year.

At the end of the year, terms were agreed to accept the surrender of the principal occupational lease at Old Jewry for a premium of £2.8 million, which has been included in gross rental income. Under the terms of the headlease, the freeholder of the property received £0.5 million of this premium which left the net amount of £2.3 million included in net rental income and pre-tax profit. The effect of the surrender was to reduce the value of the property by £2.3 million of which £0.8 million has been taken through the profit and loss account as a permanent diminution in value. Therefore, the transaction had little effect on the net assets of the group.

The prior year results have been restated upon the adoption of UITF28, "Operating Lease Incentives" and the early implementation of FRS19, "Deferred Taxation". Both were changes in the group's accounting policies, as they have been for most other property companies. The implementation of UITF28 has added £0.8 million to pre-tax profits in 2001 and £1.0 million in 2000.

Net assets at the year end were £533.7 million which gave a net asset value per share of 1004p, an increase of 15.4% on the restated prior year figure of 870p. The implementation of FRS19 has reduced the net asset value per share by 16p in 2001 and 14p in 2000.

Taxation

The total tax chargeable in 2001 was £14.5 million compared with £4.4 million in 2000. The profit and loss account bore £4.8 million of this while the balance of £9.7 million, consisting of capital gains tax on the disposals' prior year revaluation surpluses, was charged to the statement of total recognised gains and losses.

In accordance with FRS19, the group has had to provide deferred tax on the value of capital allowances claimed. Based on historic evidence, this tax, which amounts to £8.8 million, is unlikely ever to be paid and, therefore, it is difficult to justify making this provision, other than to purely comply with this Standard. It seems contradictory that whilst those that drafted FRS19 deemed such a provision necessary, none is required for the capital gains tax that the group would have to pay if its land and buildings were sold at their year end values. This amounts to £74.3 million (2000 – £65.6 million), equivalent to 140p per share (2000 – 123p).

Panton House, reception

21 Grosvenor Place, entrance

Financing

It remains the company's preference to finance the group using medium term, revolving credit facilities, negotiated with a small number of banks on a bilateral basis. During the second half year, the programme of restructuring the company's bank loans was completed. This achieved the aim of extending the term of this debt while both reducing the group's borrowing costs and increasing the available facilities. On completion of this exercise at the end of the year, unutilised, committed facilities amounted to over £150 million. Whilst maintaining such facilities incurs a cost, this is outweighed by the group's ability to move swiftly to secure acquisitions as a consequence of these loans being in place.

Debt

At the year end, group debt amounted to £271 million compared with £283 million a year earlier. With debt decreasing and a rise in the group's net assets, gearing fell to 51% from the restated figure of 61% at the December 2000 year end. The strong rental growth and continuation of low interest rates lead to an improved interest cover of 1.95 compared with 1.63, as restated for the previous year.

In 2001, property disposals of £104.5 million exceeded the combined amount spent on acquisitions of £57 million and capital expenditure on developments of £39 million. This gave rise to a cash inflow and a reduction in the group's debt of £12.4 million. The programme of refurbishments and developments is ongoing and capital expenditure budgeted for 2002 and 2003 totals £53 million, with the major investments being at Centric House (£14 million), Tower House (£13 million) and Charing Cross Road (£7.5 million).

Interest rate hedging

The group's policy on interest rate hedging, which is used to protect the group from the risks of adverse interest rate movements, has not changed from prior years. At the year end, 53% of debt was either fixed or hedged. At the same date, the weighted average cost of borrowing was 6.7%. The fair value adjustment arising as a result of the valuation of fixed rate debt and interest rate hedging instruments, required to be disclosed by FRS13, "Financial Instruments", was a negative £12.5 million (31st December 2000: negative £16.1 million), equivalent to a reduction in the group's net asset value per share of 24p (31st December 2000: 30p). After taking account of tax relief, these figures would be 17p and 21p respectively. There is no obligation or present intention to redeem the debenture or any of the hedging instruments other than at normal maturity.

Group profit and loss account

for the year ended 31st December 2001

	Note	2001 £m	2000 (restated) £m
Gross rental income			
Group and share of joint ventures		**47.3**	39.8
Less share of joint ventures		**0.4**	0.3
Group gross rental income		**46.9**	39.5
Property outgoings net of recoveries	3	**3.9**	3.6
Net revenue from properties		**43.0**	35.9
Administrative costs		**6.2**	5.5
Operating profit		**36.8**	30.4
Share of operating results of joint ventures		**0.3**	0.3
Profit on disposal of investments	4	**3.8**	–
		40.9	30.7
Interest receivable		**0.1**	–
Interest payable	5	**19.3**	19.0
Profit on ordinary activities before taxation	6	**21.7**	11.7
Taxation on profit on ordinary activities	9	**4.8**	3.0
Profit on ordinary activities after taxation	10	**16.9**	8.7
Dividend	11	**5.0**	4.5
Retained profit	23	**11.9**	4.2

All amounts relate to continuing activities.

	Note	2001	2000
Adjusted earnings per share	12	**27.73p**	16.57p
Adjustment for disposal of investments		**3.95p**	(0.19p)
Basic earnings per share	12	**31.68p**	16.38p
Adjustment for dilutive share options		**(0.07p)**	(0.02p)
Diluted earnings per share	12	**31.61p**	16.36p
Dividend per share	11	**9.35p**	8.50p
Total return	13	**16.5%**	23.9%

The notes on pages 28 to 42 form part of these accounts.

Balance sheets

at 31st December 2001

	Note	Group 2001 £m	Group 2000 (restated) £m	Company 2001 £m	Company 2000 £m
Fixed assets					
Tangible assets	14	**834.1**	771.0	**0.6**	0.6
Investments	15	**–**	–	**185.4**	185.4
Investment in joint ventures					
Share of gross assets		**3.1**	3.1	**–**	–
Share of gross liabilities		**(2.9)**	(3.0)	**–**	–
		0.2	0.1	**–**	–
Current assets					
Properties held for resale		**5.4**	2.6	**–**	–
Debtors	16	**10.0**	9.8	**317.7**	317.2
		15.4	12.4	**317.7**	317.2
Creditors falling due within one year	17	**37.0**	79.4	**35.1**	82.9
Net current (liabilities)/assets		**(21.6)**	(67.0)	**282.6**	234.3
Total assets less current liabilities		**812.7**	704.1	**468.6**	420.3
Creditors falling due after more than one year	18	**269.4**	233.3	**269.4**	233.3
Provisions for liabilities and charges					
Deferred tax	20	**8.8**	7.7	**–**	–
Other provisions	21	**0.8**	0.8	**0.8**	0.8
		533.7	462.3	**198.4**	186.2
Capital and reserves – equity					
Called up share capital	22	**2.6**	2.6	**2.6**	2.6
Share premium account	23	**153.7**	153.8	**153.7**	153.8
Revaluation reserve	23	**294.0**	260.3	**–**	–
Other reserves	23	**–**	0.7	**–**	–
Profit and loss account	23	**83.4**	44.9	**42.1**	29.8
		533.7	462.3	**198.4**	186.2
Net asset value per share	24	**1004p**	870p		
Adjusted net asset value per share	24	**1020p**	884p		

J. D. Burns, Director   C. J. Odom, Director   12th March 2002

The notes on pages 28 to 42 form part of these accounts.

Other primary statements

for the year ended 31st December 2001

Statement of total recognised gains and losses	Note	**2001** **£m**	2000 (restated) £m
Profit for financial year		**16.9**	8.7
Unrealised surplus on revaluation of investment properties		**69.2**	82.5
Unrealised surplus on revaluation of joint venture's investment property		**–**	0.3
Taxation on realisation of property revaluation gains of previous years	9	**(9.7)**	(1.4)
Total gains and losses relating to the year		**76.4**	90.1
Prior year adjustment	2	**(7.0)**	
Total gains and losses recognised since last full year financial statements		**69.4**	

Note of historical cost profit and loss	**2001** **£m**	2000 (restated) £m
Reported profit on ordinary activities before taxation	**21.7**	11.7
Realisation of property revaluation surplus of previous years	**35.5**	8.9
Historical cost profit on ordinary activities before taxation	**57.2**	20.6
Historical cost profit retained after taxation and dividends	**37.7**	11.7

Reconciliation of movements in shareholders' funds	**2001** **£m**	2000 (restated) £m
Profit for financial year	**16.9**	8.7
Other gains and losses relating to the year	**59.5**	81.4
Net proceeds of share issue	**–**	0.2
	76.4	90.3
Dividend	**(5.0)**	(4.5)
	71.4	85.8
Shareholders' funds at 1st January 2001	**462.3**	376.5
Shareholders' funds at 31st December 2001	**533.7**	462.3

The shareholders' funds at 1st January 2001 were originally £469.3m (2000 – £382.2m) before deducting the prior year adjustments of £7.0m (2000 – £5.7m).

The notes on pages 28 to 42 form part of these accounts.

Group cash flow statement

for the year ended 31st December 2001

	Note	2001 £m	2001 £m	2000 £m	2000 £m
Operating activities					
Net cash inflow from operating activities	25		**34.9**		32.1
Return on investments and servicing of finance					
Interest received		**0.1**		–	
Interest paid		**(19.8)**		(17.3)	
Net cash outflow from return on investments and servicing of finance			**(19.7)**		(17.3)
Taxation					
Corporation tax paid			**(6.5)**		(2.9)
Capital expenditure and financial investment					
Additions to properties		**(95.9)**		(128.1)	
Disposal of properties		**73.3**		46.6	
Disposal of subsidiary undertaking		**31.2**		–	
Purchase of other fixed assets		**(0.2)**		(0.6)	
Net cash inflow/(outflow) from capital expenditure and financial investment			**8.4**		(82.1)
Equity dividends paid			**(4.6)**		(4.1)
Cash inflow/(outflow) before management of liquid resources and financing			**12.5**		(74.3)
Financing					
Net proceeds of share issue		**–**		0.2	
Movement in bank loans	28	**(14.0)**		76.0	
Net cash (outflow)/inflow from financing			**(14.0)**		76.2
(Decrease)/increase in cash in the period			**(1.5)**		1.9

The notes on pages 28 to 42 form part of these accounts.

Notes

1. Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets, and in accordance with applicable financial reporting standards. During the year, the group adopted Urgent Issues Task Force Abstract 28, "Operating Lease Incentives" (UITF28), and Financial Reporting Standard 19, "Deferred Tax", (FRS19). This represents a change in accounting policy for net revenue from properties and deferred tax. The impact on the current year and prior year results is shown in note 2. Compliance with SSAP19 "Accounting for Investment Properties" requires a departure from the requirements of the Companies Act 1985 relating to depreciation and amortisation and an explanation of this departure can be found under the heading for depreciation. The principal accounting policies are described below.

Basis of consolidation

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

Net revenue from properties

Gross rental income arises from operating leases. Rent receivable under the terms of the leases is adjusted, in accordance with UITF28, 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 FRS15. All other costs incurred under operating leases are charged to the profit and loss account as they become payable.

Disposal of properties

The disposal of both investment and trading properties is accounted for on completion of contract. 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 passing rent 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 SSAP19, are revalued annually by independent valuers in accordance with the Statements of Asset Valuation Practice and Guidance Notes issued by the Royal Institution of Chartered Surveyors and are included in the balance sheet on the basis of open market value. The aggregate surplus or deficit arising from such revaluation is transferred to the revaluation reserve. However, if on an individual property, a deficit arising from a

1. Accounting policies (continued)

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.

Investments

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

Depreciation

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

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

Financial instruments

Financial instruments are used to manage the interest rate risk associated with the group's business and the financing thereof. No trading in financial instruments is undertaken. Short term debtors and creditors are excluded from the analysis of financial instruments given in note 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 except that deferred tax is not recognised on timing differences arising on revalued properties unless these are subject to a binding sale agreement. Deferred tax balances are not discounted.

Notes

2. Prior year adjustment

The group has adopted UITF28, "Operating Lease Incentives" and FRS19, "Deferred Tax". The impact of UITF28 is to spread the effect of lease incentives given on new or renewed leases on a straight line basis up to the time when the prevailing market rent will be payable. The previous accounting policy was to recognise rental income when received under the terms of a lease. The new accounting policy has been applied to all lease agreements commencing on or after 1st January 2000. In accordance with FRS19, full provision is made for timing differences relating to capital allowances and other reversing timing differences. Upon the sale of a property, any deferred tax provisions not required will be released to the profit and loss account. The previous accounting policy was to provide for taxation on timing differences to the extent that a liability or asset was expected to arise in the foreseeable future.

The effect of these revised accounting policies on 2001 and the restatement of the prior year figures is shown below.

	2001 UITF28 £m	**2001 FRS19 £m**	**2001 Total £m**	2000 UITF28 £m	2000 FRS19 £m	2000 Total £m
Gross rental income net of provision	**0.8**	**–**	**0.8**	1.0	–	1.0
Taxation on profit on ordinary activities	**(0.2)**	**(1.1)**	**(1.3)**	(0.3)	(2.0)	(2.3)
Profit on ordinary activities after taxation	**0.6**	**(1.1)**	**(0.5)**	0.7	(2.0)	(1.3)
Prepayments and accrued income net of provision	**1.8**	**–**	**1.8**	1.0	–	1.0
Corporation tax	**(0.5)**	**–**	**(0.5)**	(0.3)	–	(0.3)
Deferred tax	**–**	**(8.8)**	**(8.8)**	–	(7.7)	(7.7)
Net assets	**1.3**	**(8.8)**	**(7.5)**	0.7	(7.7)	(7.0)
Earnings per share						
Basic, adjusted and diluted (p)	**1.06**	**(2.03)**	**(0.97)**	1.26	(3.74)	(2.48)
Net asset value per share (p)	**2**	**(16)**	**(14)**	1	(14)	(13)

In accordance with UITF28, a provision of £1.2m (2000 – £nil) has been made against that element of the UITF28 debtor that is not expected to be recovered.

3. Property outgoings net of recoveries

	2001 £m	2000 £m
Ground rents	**1.4**	0.8
Other property outgoings net of recoveries	**2.5**	2.8
	3.9	3.6

4. Profit on disposal of investments	2001 £m	2000 £m
Investment properties		
Disposals	73.3	46.6
Cost/valuation	(71.8)	(46.0)
Profit on disposal of investment properties	1.5	0.6
Permanent diminution in value of investment properties	(0.8)	(0.6)
	0.7	–
Subsidiary undertaking		
Disposal	31.2	–
Net assets on disposal	(28.1)	–
Profit on disposal of subsidiary undertaking	3.1	–
Total profit on disposal of investments	3.8	–

Profits on the sale of investments are calculated by reference to the valuation at the last year end plus subsequent additions in the year. The profit on disposal of the subsidiary undertaking relates to the sale of Broadwick House through the disposal of Apexzone Limited in the second half of the year. Broadwick House was revalued at the half year and the £3.1m profit for the full year is the realisation of that half year surplus less the fees incurred on the sale of Apexzone Limited.

5. Interest payable	2001 £m	2000 £m
Bank loans and overdraft wholly repayable within five years	15.0	15.1
Bank loans not wholly repayable within five years	0.4	–
Debenture stock	3.6	3.6
Group interest payable	19.0	18.7
Share of joint ventures' interest payable	0.3	0.3
	19.3	19.0

Notes

6. Profit on ordinary activities before taxation	**2001 £'000**	2000 £'000
This is arrived at after crediting or charging:		
Exceptional item - surrender premium received	**2,344**	–
Depreciation and amortisation	**146**	225
Rent payable under property leases	**1,422**	826
Auditors' remuneration		
Audit	**58**	63
Other services	**95**	43

The exceptional item relates to the surrender of a lease that resulted in a premium of £2,790,000 being received, which is included in gross rental income. Under the terms of the headlease, the freeholder of the property received a payment of £446,000. This is charged as ground rent in property outgoings net of recoveries.

7. Directors' emoluments	**2001 £'000**	2000 £'000
Remuneration for management services	**1,685**	1,573
Non-executive directors' remuneration	**65**	65
Gain on exercise of share options	**–**	267
Pension contributions	**318**	293
Total emoluments	**2,068**	2,198

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 47 to 49.

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 £1.6m (2000 – £1.1m), excluding value added tax. This amount included management fees which were rechargeable to tenants of £0.5m (2000 – £0.6m). Pilcher Hershman and Partners occupy offices owned by the group for which they paid a commercial rent in the year of £0.1m (2000 - £0.1m).

8. Employees	**2001 £m**	2000 £m
Staff costs, including those of directors:		
Wages and salaries	**2.5**	2.2
Social security costs	**0.4**	0.3
Pension costs	**0.4**	0.3
	3.3	2.8
The average number of employees during the year, excluding directors, was as follows:	**Number**	Number
Administration	**22**	17

9. Taxation on profit on ordinary activities	2001 £m	2000 (restated) £m
UK corporation tax on profit, adjusted for the surplus on disposal of investments, at 30% (2000 – 30%)	4.5	3.5
Capital allowances	(2.3)	(2.3)
Deferred tax	1.1	2.0
Other differences	–	0.5
	3.3	3.7
Taxation on disposal of investments	11.4	1.5
Less amount allocated to the statement of total recognised gains and losses	(9.7)	(1.4)
Tax charge in respect of current year profits	5.0	3.8
Adjustment in respect of prior years	(0.2)	(0.8)
	4.8	3.0

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

Profit on ordinary activities after taxation includes £17.2m (2000 – £1.7m) which has been dealt with in the accounts of the holding company.

11. Dividend	2001 £m	2000 £m
Ordinary shares of 5p each:		
Paid – interim dividend of 2.75p (2000 – 2.50p) per share	1.4	1.3
Proposed – final dividend of 6.60p (2000 – 6.00p) per share	3.6	3.2
	5.0	4.5

12. Earnings per share

Earnings per ordinary share have been computed on the basis of a profit after taxation of £16,841,000 (2000 – £8,700,000 as restated) and the weighted average number of ordinary shares in issue during the year of 53,157,000 (2000 – 53,101,000). An adjusted earnings per share has been calculated using a profit of £14,740,000 (2000 – £8,798,000 as restated). This figure excludes the profit after tax arising from the disposal of investments in order to show the recurring element of the group's profit. The diluted earnings per share has been calculated using 53,285,000 (2000 – 53,181,000) ordinary shares which includes the number of dilutive share options outstanding at the year end.

13. Total return

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

Notes

14. Tangible assets	Group Freehold land and buildings £m	Group Leasehold property £m	Group Other fixed assets £m	Group Total £m	Company Other fixed assets £m
Cost or valuation:					
At 1st January 2001	538.0	232.4	1.6	772.0	1.6
Additions	52.0	42.7	0.2	94.9	0.2
Disposals	(99.9)	–	(0.8)	(100.7)	(0.8)
Revaluation	50.5	17.8	–	68.3	–
At 31st December 2001	540.6	292.9	1.0	834.5	1.0
Amortisation and depreciation:					
At 1st January 2001	–	–	1.0	1.0	1.0
Disposals	–	–	(0.7)	(0.7)	(0.7)
Provision for year	–	–	0.1	0.1	0.1
At 31st December 2001	–	–	0.4	0.4	0.4
Net book value:					
At 31st December 2001	**540.6**	**292.9**	**0.6**	**834.1**	**0.6**
At 31st December 2000	538.0	232.4	0.6	771.0	0.6
Assets stated at cost or valuation:					
31st December 2001 valuation	506.2	292.9	–	799.1	–
Prior years' valuation plus subsequent costs	34.4	–	–	34.4	–
Cost	–	–	0.6	0.6	0.6
	540.6	292.9	0.6	834.1	0.6

Short leasehold property with a value of £16.7m (2000 – £14.9m) is included in leasehold property above. Investment property in the course of development with a carrying value of £34.4m (2000 – £59.3m) is included in freehold land and buildings above.

The freehold land and buildings and leasehold property, other than those in the course of development, were revalued by either Keith Cardale Groves (Commercial) Limited or CB Hillier Parker Limited, chartered surveyors, at open market value on 31st December 2001. At 31st December 2001 the historical cost of the freehold land and buildings and leasehold property owned by the group was £540.6m (2000 – £510.5m).

15. Investments	Company £m
Shares in subsidiary undertakings:	
At 1st January 2001	185.4
Additions	31.8
Disposals	(31.8)
At 31st December 2001	**185.4**

16. Debtors	Group **2001** £m	2000 (restated) £m	Company **2001** £m	2000 £m
Trade debtors	**6.7**	7.3	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**316.2**	315.6
Other debtors	**0.5**	0.5	**0.1**	0.2
Prepayments and accrued income	**2.8**	2.0	**0.7**	0.4
Corporation tax	**–**	–	**0.7**	1.0
	10.0	9.8	**317.7**	317.2

Group prepayments and accrued income includes £1.3m (2000 – £0.7m) which falls due for payment after more than one year.

17. Creditors falling due within one year	Group **2001** £m	2000 (restated) £m	Company **2001** £m	2000 £m
Bank loans and overdraft	**1.6**	50.1	**1.9**	51.0
Amounts owed to subsidiary undertakings	**–**	–	**23.5**	22.1
Corporation tax	**9.1**	2.1	**–**	–
Other taxation and social security	**0.7**	0.6	**0.1**	0.1
Other creditors	**2.6**	3.2	**0.4**	0.2
Dividend payable	**3.6**	3.2	**3.6**	3.2
Accruals and deferred income	**19.4**	20.2	**5.6**	6.3
	37.0	79.4	**35.1**	82.9

Notes

18. Creditors falling due after more than one year	Group 2001 £m	2000 £m	Company 2001 £m	2000 £m
Bank loans	**235.0**	199.0	**235.0**	199.0
10⅛% First Mortgage Debenture Stock 2019	**34.4**	34.3	**34.4**	34.3
	269.4	233.3	**269.4**	233.3

In accordance with FRS4, "Capital Instruments", the £35,000,000 10⅛% First Mortgage Debenture Stock 2019 is shown net of the unamortised discount and costs on issue of £0.6m (2000 – £0.7m).

19. Borrowings	Group 2001 £m	2000 £m	Company 2001 £m	2000 £m
Bank loans and overdraft wholly repayable:				
less than 1 year	**1.6**	50.1	**1.9**	51.0
between 1-2 years	**10.0**	107.5	**10.0**	107.5
between 2-5 years	**140.0**	91.5	**140.0**	91.5
more than 5 years	**85.0**	–	**85.0**	–
10⅛% First Mortgage Debenture Stock 2019	**34.4**	34.3	**34.4**	34.3
	271.0	283.4	**271.3**	284.3

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

	Group 2001 £m	2000 £m	Company 2001 £m	2000 £m
Undrawn committed bank facilities were:				
expiring in less than 1 year	**20.9**	14.9	**20.9**	14.9
expiring between 1-2 years	**7.5**	10.0	**7.5**	10.0
expiring between 2-5 years	**50.0**	1.0	**50.0**	1.0
expiring beyond 5 years	**115.0**	–	**115.0**	–
	193.4	25.9	**193.4**	25.9

19. Borrowings (continued)

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

	Floating rate borrowings £m	Hedged borrowings £m	Fixed rate borrowings £m	Total £m	Weighted average cost of borrowing %	Weighted average life Years
At 31st December 2001	**126.6**	**110.0**	**34.4**	**271.0**	**6.70**	**6.44**
At 31st December 2000	134.1	115.0	34.3	283.4	7.71	4.09

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

Instrument	Principal £m	Weighted average interest rate %	Weighted average life Years	Fair value £m	Fair value adjustment £m
10⅛% First Mortgage Debenture Stock 2019	35.0	10.125	17.59	45.1	(10.1)
Interest rate swaps	105.0	6.27	3.96	2.4	(2.4)
Interest rate collars	5.0	cap 8.000 floor 6.500	0.04	–	–
At 31st December 2001				**47.5**	**(12.5)**
10⅛% First Mortgage Debenture Stock 2019	35.0	10.125	18.59	49.1	(14.1)
Interest rate swaps	95.0	6.359	4.88	1.9	(1.9)
Interest rate collars	20.0	cap 8.500 floor 7.000	0.49	0.1	(0.1)
At 31st December 2000				51.1	(16.1)

10⅛% First Mortgage Debenture Stock 2019

The market price for the debenture at 31st December 2001 was £128.875 (2000 - £140.5) which gave rise to a value of £45,106,000 (2000 - £49,175,000). At this price, the gross redemption yield on the debenture was 7.20% (2000 - 6.38%) implying a margin of 2.15% (2000 - 1.66%) over the 8% Treasury 2015 gilt. The fair value adjustment effectively represents the net present value of the difference between the contracted fixed rate of the debenture and the gross redemption yield on the benchmark gilt at 31st December 2001.

Interest rate swaps

The fair values represent the net present value of the difference between the contracted fixed rates and the fixed rates payable were the swaps to be replaced on 31st December 2001 for the period to the contracted expiry dates.

Interest rate collars

Interest rate collars comprise interest rate caps purchased and interest rate floors sold. The fair values represent the net cost of replacement on identical terms at prices prevailing on 31st December 2001.

Notes

20. Deferred tax	Group £m
At 1st January 2001	–
Prior year adjustment	7.7
At 1st January 2001 as restated	7.7
Provided during year	1.1
At 31st December 2001	**8.8**

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 (2000 – £nil).

A taxation liability of approximately £74.3m (2000 – £65.6m) would arise on the disposal of land and buildings at the valuation shown in the balance sheet. This is equivalent to 140p per share (2000 – 123p). In accordance with FRS19 no provision has been made for this. No such liability exists for the company (2000 – £nil).

21. Other provisions	Group and Company £m
At 1st January 2001	0.8
Provided during the year	0.2
Released during the year	(0.2)
At 31st December 2001	**0.8**

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 2001 and 31st December 2001	3.55	**2.6**

The number of shares in issue at the year end was 53,156,972.

23. Reserves	Share premium account £m	Revaluation reserve £m	Other reserves £m	Profit and loss account £m
Group				
At 1st January 2001	153.8	260.3	0.7	51.9
Prior year adjustment				
– UITF28	–	–	–	0.7
– FRS19	–	–	–	(7.7)
At 1st January 2001 as restated	153.8	260.3	0.7	44.9
Surplus on property revaluation	–	69.2	–	–
Profit realised on disposal of investments	–	(35.5)	–	35.5
Tax attributable to revaluation surplus realised on disposal of investments	–	–	–	(9.7)
Amortisation of discount and costs on issue of debenture	(0.1)	–	–	0.1
Reserve reclassification	–	–	(0.7)	0.7
Retained profit for the year	–	–	–	11.9
At 31st December 2001	**153.7**	**294.0**	**–**	**83.4**
Company				
At 1st January 2001	153.8	–	–	29.8
Amortisation of discount and costs on issue of debenture	(0.1)	–	–	0.1
Retained profit for the year	–	–	–	12.2
At 31st December 2001	**153.7**	**–**	**–**	**42.1**

24. Net asset value per share

Net asset value per share has been calculated on the basis of net assets at 31st December 2001 of £533,657,000 (2000 – £462,372,000 as restated) and the number of ordinary shares in issue at the year end of 53,157,000 (2000 – 53,157,000).

An adjusted net asset value per share figure has been calculated using net assets of £542,415,000 (2000 – £470,048,000 as restated). This figure excludes the deferred tax provided in accordance with FRS19 on the basis that it is very unlikely that this liability will ever crystallise.

Notes

25. Net cash inflow from operating activities	2001 £m	2000 £m
Cash received from:		
Tenants	47.5	40.1
Trading activities	–	0.1
Cash payments in respect of:		
Direct property expenses	(3.8)	(3.4)
Wages and salaries	(3.3)	(2.7)
Administrative costs	(2.7)	(1.4)
Properties held for resale	(2.8)	(0.6)
	34.9	32.1

26. Reconciliation of operating profit to net cash inflow from operating activities	2001 £m	2000 £m
Operating profit	36.8	30.4
Depreciation charge	0.1	0.2
Increase in debtors	(0.2)	(1.4)
(Decrease)/increase in creditors	(1.3)	7.0
Increase in properties held for resale	(2.8)	(0.4)
Effect of other deferrals and accruals on operating activity cash flow	2.3	(3.7)
Net cash inflow from operating activities	34.9	32.1

27. Reconciliation of net cash flow to movement in net debt	2001 £m	2000 £m
Decrease/(increase) in cash in the period	1.5	(1.9)
Cash (outflow)/inflow from movement in debt financing	(14.0)	76.0
Amortisation of discount and costs on issue of debenture	0.1	–
Movement in net debt in the year	(12.4)	74.1
Net debt at 1st January 2001	283.4	209.3
Net debt at 31st December 2001	271.0	283.4

28. Movement in net debt	1st January 2001 £m	Cash flow £m	Other £m	31st December 2001 £m
Overdraft	0.1	1.5	–	**1.6**
Bank loans wholly repayable:				
less than one year	50.0	(50.0)	–	**–**
between 1 – 2 years	107.5	(95.0)	(2.5)	**10.0**
between 2 – 5 years	91.5	46.0	2.5	**140.0**
more than 5 years	–	85.0	–	**85.0**
	249.0	(14.0)	–	**235.0**
10⅛% First Mortgage Debenture Stock 2019	34.3	–	0.1	**34.4**
Total	283.4	(12.5)	0.1	**271.0**

29. Principal operating companies

The principal operating companies within the group are as follows:

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

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

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

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

Notes

30. Capital commitments

Contracts for capital expenditure entered into by the group at 31st December 2001 and not provided for in the accounts amounted to £21.3m (2000 – £13.5m).

31. Lease commitments

At 31st December 2001 annual commitments under property leases expiring in more than 5 years were £1.1m (2000 – £1.1m).

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 respect of the accounting period to which they relate.

33. Post balance sheet events

Since the year end, the group has sold one property for a consideration of £7.5m before costs and exchanged contracts for the disposal of a second property for a consideration of £7.0m 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 2001 the maximum liability that could arise for the company from the cross guarantees amounted to £nil (2000 – £nil). The company has guaranteed its share of a loan to Primister Limited, the contingent liability for which at 31st December 2001 amounted to £2.8m (2000 – £2.8m). In addition, the company guarantees its share of interest payable on this loan which amounts to £0.3m per annum (2000 – £0.3m).

Directors' report

The directors present their report and the financial statements for the year ended 31st December 2001.

Results and dividend

Profit before taxation from ordinary activities was £21.7m (2000 – £11.7m as restated) and profit after taxation amounted to £16.9m (2000 – £8.7m as restated). The directors recommend a final dividend of 6.6p per ordinary share. This, when taken with the interim dividend of 2.75p per share, paid on 5th November 2001, gives a total dividend of 9.35p (2000 – 8.5p) per ordinary share for the year ended 31st December 2001, amounting to £5.0m. After ordinary dividends, £11.9m (2000 – £4.2m as restated) was transferred to revenue reserves.

Principal activities, trading review and future developments

The principal activities of the group are those of property investment, refurbishment and redevelopment, and trading.
A review of the business and comments on the future outlook for the group can be found within the chairman's statement, property review and financial review on pages 4 to 23.

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 2001	31st December 2000	**31st December 2001**	31st December 2000
J. C. Ivey	**79,072**	79,072	**–**	–
J. D. Burns	**679,013**	679,013	**137,257**	95,257
S. P. Silver	**269,589**	269,589	**115,931**	80,931
C. J. Odom	**12,650**	12,650	**90,521**	64,021
N. Q. George	**–**	–	**72,201**	57,201
P. M. Williams	**2,000**	2,000	**76,860**	58,860
I. Yeatman	**–**	–	**–**	–
S. J. Neathercoat	**–**	–	**–**	–

On 9th January 2002, Mr. S. J. Neathercoat acquired 1,000 ordinary shares which are held beneficially. There have been no other changes in directors' shareholdings between the year end and 12th March 2002.
During the year, options over 136,500 shares were granted to the directors at an exercise price of £7.235. No options were exercised during the year. Full details of the directors' options are given in the report on directors' remuneration which commences on page 47.
In accordance with the articles of association, Messrs. S. J. Neathercoat, S. P. Silver and I. Yeatman retire by rotation and, being eligible, offer themselves for re-election. Biographies of all the directors are given on page 50.
Other than as disclosed in note 7, the directors have no interest in any material contracts of the company.

Fixed assets

The group's freehold and leasehold investment properties were professionally revalued at 31st December 2001, resulting in an unrealised surplus of £68.3m. The freehold and leasehold investment properties are included in the group balance sheet at a total value of £833.5m.

Directors' report

Substantial shareholders

In addition to those of the directors disclosed above, the company has been notified of the following interests in the issued ordinary share capital as at 12th March 2002:

	Number of shares	Percentage of issued share capital
Royal & SunAlliance Investments	3,352,127	6.31
Standard Life Assurance Company	2,559,145	4.81
Scottish Widows Investment Partnership	2,211,008	4.16
Aegon Asset Management UK plc	2,119,116	3.99
Legal and General Investment Management	1,962,829	3.69
Morley Fund Management Limited	1,596,151	3.00

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 2001, the average payment period for trade creditors was 18 days (2000 – 20 days).

Charitable donations

During the year, the group made charitable donations amounting to £3,000.

Corporate governance

The company is required to comply with "The Combined Code – Principles of Good Governance and Code of Best Practice" ("the Combined Code") which was appended to the Listing Rules of the London Stock Exchange during 1998. The board believes that the company has complied with the Combined Code throughout the period and has set out below how the 14 principles of good governance in the Combined Code have been applied.

The board

Throughout 2001, the board comprised Mr. Ivey, the non-executive chairman, five executive directors, Messrs. Burns, Silver, Odom, George and Williams and two further independent non-executive directors, Messrs. Yeatman and Neathercoat.
Mr. Yeatman was the senior non-executive director throughout the year. Biographies of the directors are given on page 50.
Five meetings of the full board are scheduled each year and a formal list of matters is reserved for its 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. Additional meetings are arranged when necessary.
Since 1993, the board has maintained a number of board committees. Set out below are details of the membership and duties of the three principal committees.

• Remuneration committee

Throughout 2001, the committee consisted of Mr. Yeatman as chairman and Mr. Neathercoat. The committee is responsible for recommending to the board the company's remuneration policy and individual remuneration packages for the executive directors. The report on directors' remuneration is set out on pages 47 to 49.

• Audit committee

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

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

Directors
Appointment of a director from outside the company is on the recommendation of the nominations committee, whilst internal promotion is a matter decided by the board unless it is considered appropriate for a recommendation to be requested from the nominations committee. All new directors must stand for re-election at the first annual general meeting following their appointment. Existing directors must submit themselves for re-election at least once every three years.
If considered appropriate, new directors are sent on an external training course addressing their role and duties as a director of a public company.
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 and fund managers. 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 2001 to 12th March 2002. During the period, the board has monitored the operation of the system with a view to further integrate 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.

Corporate social responsibility
The board recognises the importance of the group's relationship with the economy, community and environment within which it operates and has adopted formal policies addressing environmental matters and health and safety issues. These are issued to appropriate professional advisers and compliance therewith is monitored. The board is notified of any incidents that require reporting under health and safety regulations and also receives regular reports on the health and safety performance at each development site.
The board will continue to monitor developments in corporate social responsibility reporting and is aiming to introduce a system during 2002 which will enable the group's impact on the environment to be measured.

Directors' report

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

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

Resolution 7 renews the authority for the directors under Section 80 of the Companies Act 1985 to allot shares up to an aggregate nominal amount of £885,949.50 representing about one third of the issued share capital at the date of the notice of meeting. The directors have no present intention of issuing shares except on the exercise of options under the company's share option schemes. The authority will expire at the conclusion of the next annual general meeting after the passing of the resolution.

Resolution 8 is a special resolution proposed annually, renewing the directors' authority under Section 95 of the Companies Act 1985. The resolution empowers the directors to allot shares for cash in connection with pre-emptive offers with modifications to the requirements set out in Section 89 of the Companies Act 1985. The resolution further empowers the directors to allot shares for cash, otherwise than on a pre-emptive basis, up to an aggregate nominal value of £132,892.40 which is equivalent to 5% of the issued share capital at the date of the notice of meeting. The authority will expire at the conclusion of the next annual general meeting after the passing of the resolution.

Resolution 9 is proposed to renew the authority enabling the company to purchase its own shares. The directors have no immediate plans to make such purchases, but would like to act quickly if circumstances arose in which they considered such purchases to be desirable.The resolution gives the directors authority to purchase up to 10% of the company's ordinary shares and specifies the maximum and minimum prices at which shares may be bought. No purchases will be made unless the directors believe, in the light of market conditions prevailing at the time, that the effect will be in the interests of shareholders generally. The total number of options to subscribe for ordinary shares outstanding at 12th March 2002 was 543,520, which represented 1.02% of the issued share capital at that date. If the company was to purchase the maximum number of ordinary shares permitted by this resolution, the options outstanding at 12th March 2002 would represent 1.14% of the issued share capital.

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

By order of the board
T. J. Kite, ACA
Secretary — 12th March 2002

Report on directors' remuneration

Remuneration committee

The committee consisted of Mr. Yeatman and Mr. Neathercoat. Neither member 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.

Policy

In determining an appropriate remuneration policy for the executive directors, the committee's objective is to ensure that the company is able to attract, retain and motivate executives capable of making a significant contribution to the success of the group whilst having due regard to the interests of shareholders and the financial and commercial health of the company. To implement this policy, the committee uses published data and market research, together with the services of remuneration advisers, when appropriate, to ensure that the total remuneration received by the executive directors is competitive both within the property sector and with companies of a similar size in other industries. Details of the components of the directors' remuneration follow.

Service contracts

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

Basic salary and benefits

Details of directors' remuneration are given below:

	Salary and fees £'000	Estimated bonus £'000	Benefits in kind £'000	**2001 Total £'000**	**2001 Pension £'000**	2000 Total £'000	2000 Pension £'000
Executive							
J. D. Burns	325	143	35	**503**	**94**	499	91
S. P. Silver	273	125	21	**419**	**93**	403	86
C. J. Odom	205	73	9	**287**	**59**	546	57
N. Q. George	145	67	11	**223**	**33**	179	27
P. M. Williams	165	75	13	**253**	**39**	213	32
Non-executive							
J. C. Ivey	25	–	–	**25**	**–**	25	–
I. Yeatman	20	–	–	**20**	**–**	20	–
S. J. Neathercoat	20	–	–	**20**	**–**	20	–
	1,178	483	89	**1,750**	**318**	1,905	293

Until 30th September 2001, fees in respect of Mr. S. J. Neathercoat were paid to Dresdner Kleinwort Wasserstein.
Basic salaries for executive directors are reviewed annually by the remuneration committee having regard to the remuneration policy set out above. Pension contributions for the five executive directors are based solely on basic salaries and paid into a defined contribution scheme. The principal benefits comprise a company car and medical insurance. Fees for non-executive directors are set by the whole board.

Report on directors' remuneration

Share option schemes

The Derwent Valley Holdings 1997 Executive Share Option Scheme, which contains long term performance criteria over both the grant and exercise of options, was approved by shareholders on 3rd June 1997 to replace the scheme that had expired in 1996. The purpose of the scheme is 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. The maximum market value of shares over which options may be granted to an individual is limited to their basic salary. The actual grant will reflect the group's performance in terms of total shareholder return compared to a group of companies established by the remuneration committee.

At 31st December 2001, directors and employees held options over 543,520 ordinary shares of 5p each under share option schemes.

Exercise price £	Date from which exercisable	Expiry date	Directors J.D. Burns	S.P. Silver	C.J. Odom	N.Q. George	P.M. Williams	Employees	Total number of shares
1.910	5/5/96	4/5/03	–	–	–	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	11,500	115,500
5.530	16/4/02*	15/4/09	25,250	21,500	16,500	8,750	10,750	10,750	93,500
5.015	14/4/03*	13/4/10	30,000	25,000	19,000	11,000	13,000	10,000	108,000
Outstanding at 1st January 2001			95,257	80,931	64,021	57,201	58,860	32,250	388,520
Options granted during the year									
7.235	12/4/04*	11/4/11	42,000	35,000	26,500	15,000	18,000	18,500	155,000
Outstanding at 31st December 2001			137,257	115,931	90,521	72,201	76,860	50,750	543,520

*Options granted under the 1997 Executive Share Option Plan which can only be exercised once a three year performance criteria has been met. Those exercisable on 15th April 2001 have met this criteria. Subsequent options have yet to be tested. No options were exercised during the year.

The market price of the 5p ordinary shares at 31st December 2001 was £6.575. During the year they traded in a range between £6.575 and £8.20.

Bonus scheme and long term incentive plan

The company operates 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 company. Performance is measured in terms of net asset value per share and the directors' maximum entitlement of 34% is payable if the company is ranked in the upper quartile of the comparator group.

An additional amount, not exceeding the performance related entitlement, may be awarded by the remuneration committee to an individual, based on an assessment of both the individual's performance and that of the group.

No long-term incentive plan operated during the year.

On behalf of the board
I. Yeatman
Chairman of the remuneration committee
12th March 2002

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 company'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 company'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
Non-executive chairman
A chartered accountant, Mr Ivey, 60, is chief executive of The Davis Service Group plc. He chairs the nominations committee and is a member of the audit committee.

J. D. Burns
Managing director
Mr Burns is 57 years old and has overall responsibility for group strategy, business development and day to day operations. He is a non-executive director of The Davis Service Group plc and a consultant partner at Pilcher Hershman & Partners, estate agents. A member of the nominations committee.

S. P. Silver
Aged 51, Mr Silver has overall responsibility for acquisitions, design and development projects. He is also a consultant partner in Pilcher Hershman & Partners.

C. J. Odom
Mr Odom, 51, is a chartered accountant and has overall responsibility for financial strategy, treasury, taxation and financial reporting.

N. Q. George
A chartered surveyor, Mr George was appointed to the board in 1998. Aged 38, he has responsibility for acquisitions and investment analysis.

P. M. Williams
Mr Williams is a chartered surveyor. He is 42 years old and was appointed to the board in 1998. His responsibilities include asset management and supervision of refurbishment and development projects.

I. Yeatman
Senior non-executive director
Mr Yeatman is 64 years old and a chartered surveyor. He joined the board in 1995 and is chairman of both the audit and remuneration committees. He is also a member of the nominations committee.

S. J. Neathercoat
Non-executive director
Mr Neathercoat, 53, is a chartered accountant. He joined the board in March 1999 and is a member of the audit, remuneration and nominations committees.

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 2001 on pages 24 to 42 which have been prepared under the accounting policies set out on pages 28 and 29.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report 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 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 are 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 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 company'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, the corporate governance statement and 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.

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. 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 are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31st December 2001 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward
Chartered Accountants and Registered Auditors,
London.

12th March 2002

Notice of annual general meeting

Notice is hereby given that the eighteenth annual general meeting of Derwent Valley Holdings plc will be held at The Westbury Hotel, Bond Street, London, W1A 4UH on 16th May 2002 at 10.30 a.m. for the following purposes:

Ordinary business

1. To receive the report of the directors and the accounts for the year ended 31st December 2001 and the auditors' report thereon;

2. To declare a final dividend of 6.6p per ordinary share for the year ended 31st December 2001;

3. To re-elect Mr. S. J. Neathercoat as a director;

4. To re-elect Mr. S. P. Silver as a director;

5. To re-elect Mr. I. Yeatman as a director;

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

Special business

To consider and, if thought fit, pass the following resolutions, resolution 7 as an ordinary resolution and resolutions 8 and 9 as special resolutions.

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

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

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

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

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

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

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

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

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

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

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

25 Savile Row
London
W1S 2ER

10th April 2002

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 6 pm on 14th May 2002 shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6 pm on 14th May 2002 shall be disregarded in determining the rights of any person to attend or vote at the meeting. Every member entitled to attend and vote at the meeting may appoint a proxy or proxies to attend and, on a poll, vote instead of him. The proxy need not himself be a member. A form of appointment of a proxy is enclosed.

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

Five year summary

	2001 £m	2000 (restated) £m	1999 (restated) £m	1998 (restated) £m	1997 (restated) £m
Group gross rental income	**46.9**	39.5	29.8	28.7	20.8
Net revenue from properties	**43.0**	35.9	27.1	26.1	18.8
Profit from property trading	**–**	–	0.2	–	0.1
Net interest – including joint ventures	**19.2**	19.0	11.8	12.8	9.1
Adjusted profit before taxation	**17.9**	11.7	11.5	10.3	7.8
Profit on disposal of investments	**3.8**	–	5.1	0.3	1.6
Profit before taxation	**21.7**	11.7	16.6	10.6	9.4
Surplus on revaluation of investment properties	**68.3**	81.9	53.3	46.7	38.1
Investment property	**833.5**	770.4	604.1	471.7	309.6
Net borrowings	**271.0**	283.4	209.3	143.3	90.2
Net assets	**533.7**	462.3	376.5	314.0	209.5
Net cash inflow from operating activities less interest	**15.2**	14.8	13.1	12.0	8.8
Acquisitions	**57.3**	98.3	101.7	117.4	21.2
Other capital expenditure	**38.6**	29.8	16.9	15.2	7.2
Disposals	**104.5**	46.6	45.4	18.2	22.1
Adjusted earnings per share (p)	**27.73**	16.57	17.50	14.15	12.19
Dividend per share (p)	**9.35**	8.50	7.70	7.20	6.54
Net assets per share (p)	**1004**	870	709	593	482
Adjusted net assets per share (p)	**1020**	884	720	603	492
Total return (%)	**16.5**	23.9	20.9	24.5	28.9
Gearing – Balance sheet (%)	**50.8**	61.3	55.6	45.6	43.1
– Profit and loss	**1.95**	1.63	1.97	1.83	1.97

Where applicable the comparatives have been restated.

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