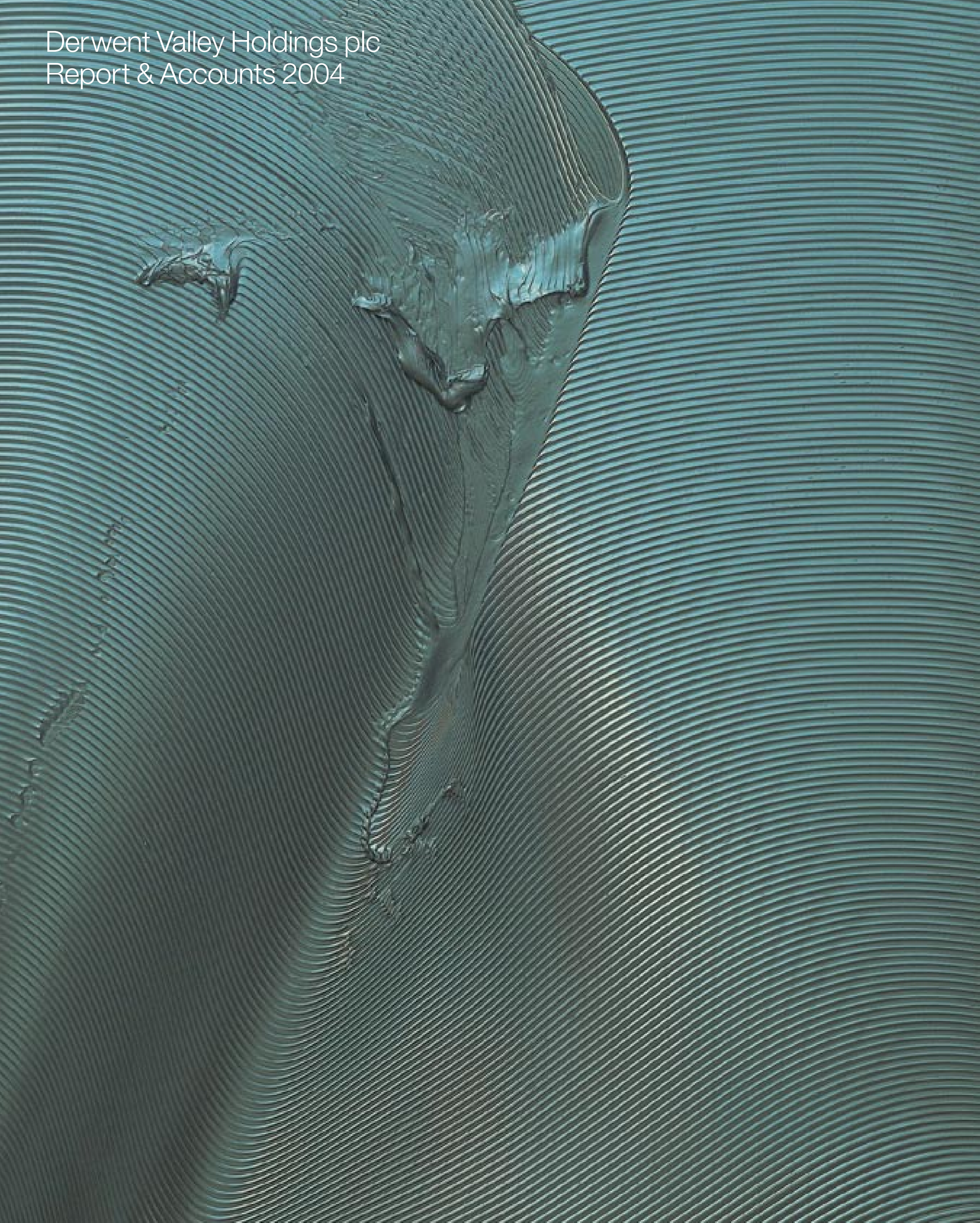
Derwent Valley Holdings plc
Report & Accounts 2004



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

Contents

Cover image: Jason Martin, Oresteia 1999
Internal images: computer generated images of redevelopment projects

Johnson Building, EC1, completion Spring 2006.

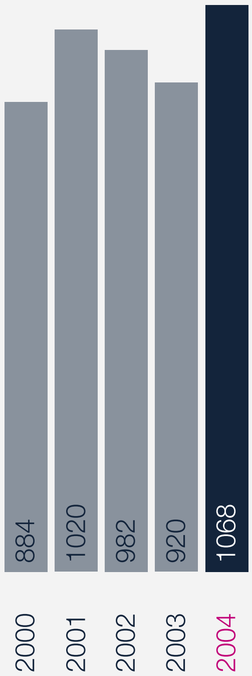
Financial highlights

	2004	2003	% Increase/ (decrease)
Net revenue from properties	**£44.8m**	£41.5m	8.0
Profit before taxation			
Adjusted*	**£16.4m**	£16.2m	1.2
FRS3	**£22.8m**	£17.1m	33.3
Earnings per share			
Adjusted*	**23.51p**	26.62p	(11.7)
FRS3	**33.71p**	27.69p	21.7
Dividend per share	**12.50p**	11.40p	9.6
Net assets per share			
Adjusted	**1,068p**	920p	16.1
Basic	**1,041p**	898p	15.9
Total return	**17.4%**	(5.2%)	
Gearing			
Balance sheet	**57.6%**	63.2%	
Profit and loss	**1.76**	1.87	

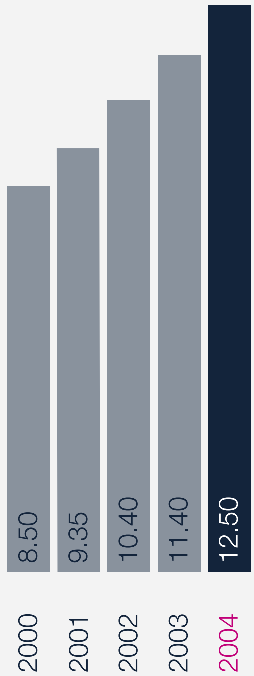
*excludes the profit on disposal of investment properties and, for 2003, the exceptional cost of the possible offer for the group.

03
Five year review

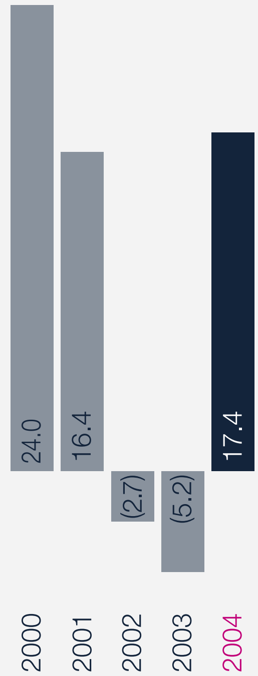
Adjusted net assets per share
pence



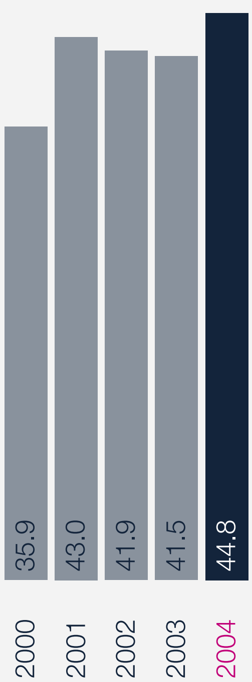
Dividend per share
pence



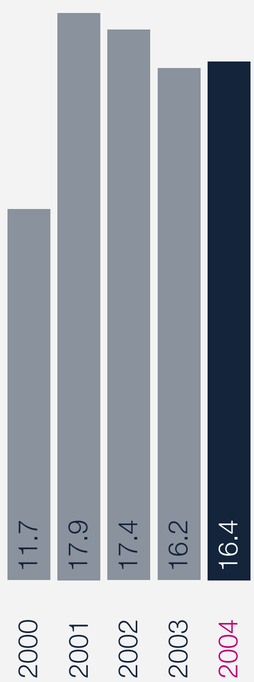
Total return
%



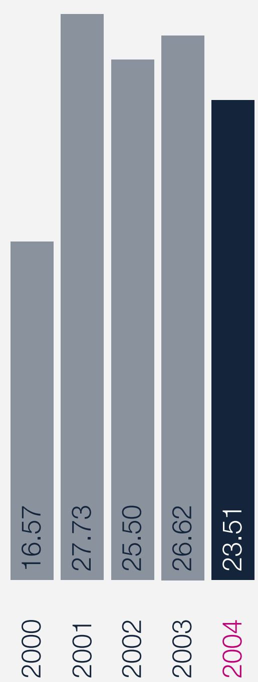
Net revenue from properties
£m



Adjusted profit before taxation
£m



Adjusted earnings per share
pence



Chairman's statement

Valuation

During 2004, adjusted net assets increased by 16% to 1,068p per share, a result that is comparable with the high levels of net asset growth per share that your company consistently achieved between 1996 and 2001. The valuation surplus of £69.5 million, before adjusting for UITF28, was driven by both rental growth and yield compression which illustrates the overall strength of the property market in Central London, the group's chosen area of operations. An increase of 9.1% was achieved by those investment properties held throughout the year compared to a decrease of 4.7% calculated on the same basis for 2003. At £924.8 million, the value of the portfolio excludes any gain from the £68.8 million of development property which, in accordance with the group's accounting policies, was not revalued.

Profits and dividend

Adjusted profit before tax increased to £16.4 million from £16.2 million in 2003. FRS3 profit before tax, which includes profit on disposal of investment properties of £6.4 million, was £22.8 million, compared to £17.1 million last year, an increase of £5.7 million. Taxation on ordinary activities rose to £4.8 million from £2.3 million in 2003 resulting in FRS3 profit after tax of £18.0 million (2003 - £14.8 million).

The directors propose a final dividend of 8.9p per share, which would give a total for the year of 12.5p, an increase of 9.6% on last year's distribution. The final dividend will be paid on 6th June 2005 to shareholders on the register on 13th May 2005.

Review of the year

With the occupational market for Central London offices continuing to make strides, the momentum of our own letting programme was maintained. New leases were agreed across the spectrum of the portfolio with 21,300m^2 of space being let at an annualised rental income of £4.8 million. Whilst the West End offers earlier and greater prospects for growth than the City, we have done particularly well in the City borders where Oliver's Yard, EC2 is now 90% let, and the Tea Building, Shoreditch, E1 is over 70% let. These successes reinforce our view that attractively designed and appropriately priced space will secure tenants. Rental growth has not been as pronounced as some predicted but it has moved into positive territory and we remain confident that it will step up further in 2005.

Our investment philosophy is to create shareholder value by identifying and purchasing property in those dynamic London sub-markets that provide the necessary environment for twenty-first century working and living. The group's portfolio already contains opportunities in such locations from which future performance will be generated. Our key priority is to keep replenishing this pipeline. Consequently, we remain acquisitive when our investment criteria are met. Acquisitions of £88.6 million were made during the year, principally through the £76.7 million deal with Chelsfield in the first half. With an eye to recycling capital into the next generation of schemes, £78.9 million of sales were made into the strong investment market at £6.4 million above book value.

Johnson Building, EC1, completion Spring 2006.

Chairman's statement

Capital expenditure during the year was £27.1 million and a further £34.6 million is budgeted for 2005. This includes our largest project to date, the Johnson Building at Hatton Garden, EC1. Construction is underway on this 15,900m^2 scheme which is due to be completed in Spring 2006. During the year, settlement was reached with both tenant and insurers to enable a new, larger property to be developed on the site of the fire damaged Telstar House, Paddington, W2. Strategies for the implementation of the planning permission for this site are being evaluated.

Prospects

Your board believes that, during 2004, there has been a considerable change in the property investment market with property enjoying a re-rating relative to other asset classes. Attractive initial yields, against a background of historically low interest rates, and prospects of rental growth offer more compelling reasons than in previous cycles to hold property rather than to seek alternative investments. Consequently, the demand for property continues from all sectors of investors – UK, international, public and private. However, as regulation from many sources multiplies, operating in such a buoyant market is not all plain sailing. An increasingly prescriptive and protracted planning process, that seeks to force residential accommodation into new office schemes, may reduce returns and hence restrict regenerative development.

There also remains the possibility of government intervention in the established letting and rent review system, which will interfere with the tried and tested free market negotiation between landlord and tenant. The need for change was never compelling, a view that has recently been supported by a report issued by Reading University. Clearly, if implemented, changes to the existing system could affect investment values. Additionally, the property industry awaits the delayed rules for a UK real estate investment trust (REIT). Whilst it is the board's role to manage these matters, and identify any opportunities that may be presented, it is to be hoped that, together with the changes arising from the introduction of International Financial Reporting Standards, they will not increase bureaucracy to such a level that entrepreneurial skills are stifled.

The ownership and ongoing replenishment of a portfolio with a pipeline of opportunities remains a prerequisite of achieving outperformance and staying in the game as active investors. As one of the principal Central London property companies, Derwent Valley owns such a portfolio and this, combined with financial strength and management that can convert potential into performance, places your company in a strong position to build further on its record of growth.

J.C. Ivey
15th March 2005

Eastbourne Terrace, W2.

Overview

Good progress was made during the year in all areas of our business. With conditions in the Central London office market improving, we increasingly focused on evaluating the next generation of schemes so as to ensure an ongoing supply of projects.

Key achievements included:

£88.6 million of acquisitions with refurbishment and redevelopment potential.

80 lettings, totalling 21,300m^2 at an annualised rental of £4.8 million per annum.

The level of space available for letting reduced from 9.9% to 5.9%.

Start of construction on the 15,900m^2 Johnson Building, Hatton Garden.

£27.1 million of project expenditure with £68.4 million budgeted over the next two years.

A 9,700m^2 office planning consent obtained at Telstar House, Eastbourne Terrace, Paddington.

14 planning studies ongoing in relation to 65,000m^2 of property.

26 renewals concluded and 46 rent reviews settled.

£78.9 million of disposals, achieving £6.4 million above book value.

Eastbourne Terrace, W2.

Strategy and performance

Derwent Valley is a commercial property company focused entirely on Central London, one of the world's most vibrant and economically important capital cities. The emphasis is on the ownership of a portfolio that offers potential for both rental income and capital growth. There are three elements to the business strategy:

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

Through a disciplined approach and the application of our considerable commercial property experience, we have assembled a £925 million portfolio. This comprises 254,400m^2 of space and approaching 500 tenancies. We work to enhance our assets through contemporary architecture to provide occupiers with stylish and efficient offices. Capital will then be recycled, through disposals, into properties with potential to become the future outperformers in the portfolio. Over the last five years, sales have raised in excess of £320 million.

One of our strengths is our close working relationships with architects and designers. In 2004, this resulted in the Royal Institute of British Architects voting Derwent Valley as one of the top five clients with whom to work. We seek to remain at the cutting edge of architectural procurement and systematically identify talented young architectural practices, encouraging their vision for the working spaces of the future.

Our close involvement and attention to detail in the refurbishment/redevelopment process extends from evaluation to implementation and through to the finished product. This produces a highly recognisable Derwent Valley brand, which identifies the company and gives it a competitive advantage when seeking tenants. Whilst our enthusiasm to regenerate our buildings flourishes, it is set around an ever more challenging planning environment. Constraints include the lengthy planning process and the need for the provision of residential space in new commercial developments.

Valuation commentary

At 31st December 2004, the group's investment portfolio had a value of £924.8 million, before the UITF28 adjustment of £8.2 million, and included £68.8 million of development properties which were not re-valued at the year end. This revaluation generated a surplus of £69.5 million. For those investment properties held throughout the year, there was an underlying valuation increase of 9.1%, compared to a 4.7% decline in 2003.

The return to growth, which started in the second half of 2003, accelerated in 2004 and reflected the improving occupational market and the extremely strong investment demand, which led to hardening yields. The group's West End properties, which account for 73% of the portfolio, increased in value by 8.5%. The best performing sub-sector was Soho/Covent Garden (18% of the portfolio), which rose by 14.3% during the year. Here, letting progress on recent schemes at Charing Cross Road and the Davidson Building, coupled with yield movement on these assets, drove values forward. At our North of Oxford Street and Belgravia properties, the valuation performance was lower at 4.6% and 3.9% respectively, due to the fact that the properties are mainly fully let. The City borders and surrounding areas, taking in Holborn, Clerkenwell and Shoreditch, comprise the balance of the portfolio. This location saw an 11.0% valuation increase, with 1 Oliver's Yard, one of our larger properties, a significant contributor to the uplift. Here, lettings at increased rents were achieved during the year.

Property review
Portfolio statistics and performance

	Valuation £m	Weighting %	Valuation performance* %	Number of properties	Floor area m²	Vacant accommodation m²
West End						
Central	569.7	62	8.6	31	113,700	12,900
Outer	100.9	11	7.7	17	35,100	5,400
	670.6	73	8.5	48	148,800	18,300
City						
Central	–	–	–	–	–	–
Outer	254.2	27	11.0	27	105,600	35,400
	254.2	27	11.0	27	105,600	35,400
Total portfolio						
2004	**924.8**	**100**	**9.1**	**75**	**254,400**	**53,700**
2003	812.1	100	(4.7)	77	244,200	47,900

*properties held throughout the year and excluding the £68.8 million development properties.

West End
Central: Belgravia, Mayfair, Soho, Covent Garden, Victoria, Noho, King's Cross
Outer: Camden, Islington, Paddington
City
Central: Core
Outer: Clerkenwell, Holborn, Shoreditch, South Bank and borders

	Net contracted rental income per annum £m	Average rental income £ per m²	Vacant accommodation rental value per annum £m	Rent review and lease reversions per annum £m	Portfolio estimated rental value per annum £m	Average unexpired lease length† Years
West End						
Central	30.8	318	3.8	4.5	39.1	9.8
Outer	3.9	136	0.5	0.5	4.9	8.9
	34.7	277	4.3	5.0	44.0	9.7
City						
Central	–	–	–	–	–	–
Outer	13.7	197	8.7	1.2	23.6	4.2
	13.7	197	8.7	1.2	23.6	4.2
Total portfolio						
2004	**48.4**	**249**	**13.0**	**6.2**	**67.6**	**8.2**
2003	48.6	255	10.8	3.9	63.3	7.7

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

	Rental uplift per annum £m	Rental per annum £m	Yield ‡ %
Portfolio yields			
Year end contracted rental income, net of ground rents		48.4	5.4
Letting 16,900m² vacant accommodation available at year end	4.0		5.9
Completion and letting 36,800m² of refurbishments	9.0		6.7
Anticipated rent review and lease renewal reversions	6.2		7.4
Portfolio reversion		19.2	
Potential portfolio rental value		67.6	7.4

‡ based upon the year end valuation, excluding the development sites at Eastbourne Terrace and Leonard Street, and adjusted for costs to complete commenced projects.

Portfolio management

Our focus on active management continued, with the completion of 80 lettings, totalling 21,300m^2 at a rental of £4.8 million per annum. This followed the letting of 29,800m^2 of vacant space last year. The increased level of interest being shown for space is encouraging, with incentives reducing and rental growth coming through. Lettings included four floors at the Davidson Building, with the final floor let since year end. In addition, activity at the Tea Building was brisk with 23 lettings, totalling 4,800m^2. This building has evolved into a dynamic complex, in an improving City border location, and this transformation has encouraged us to assess further refurbishment phases.

Total available space at year end was 16,900m^2, a 32% reduction on last year's 24,900m^2. This level reflects a vacancy rate of 6.6% of portfolio floor area or 5.9% of the estimated rental value. Since the year end, lettings have been concluded or terms agreed on 9,900m^2 of the available space, which reduces the vacancy rate to 2.2% of rental value. Space still available includes floors at the recently refurbished Berkshire House and The College, Gresse Street.

Vacant space, either under refurbishment or identified for refurbishment at the year end, stood at 36,800m^2, in addition to the development sites of Eastbourne Terrace and Leonard Street. Included in this, is the 15,900m^2 Johnson Building, Hatton Garden, our largest project to date, and further phases at Holden House (2,500m^2) and the Tea Building (5,100m^2). Our increased project programme, up from 23,000m^2 a year ago, demonstrates our commitment to deliver space into the improving market.

The annualised contracted rental income of the investment portfolio at the year end, net of ground rents, was £48.4 million. The estimated rental value of the portfolio was £67.6 million. This £19.2 million reversion represents £13 million of potential income through letting of vacant space and £6.2 million of rent review and lease reversions. Based on this reversion, the portfolio's initial yield was 5.4%, rising to 7.4%. Last year the yield profile was 6.0%, rising to 7.7%, and the change reflects general tightening of valuation yields during the year.

There was an underlying increase in rental values of 2.8%, which reduced the limited amount of over-renting in the portfolio from £2.6 million last year to £1.9 million at year end. This, coupled with the portfolio's low average passing rent, will enable it to benefit from the rental improvement now coming through. Overall, the average rent was £249 per m^2, with £277 per m^2 for the West End properties.

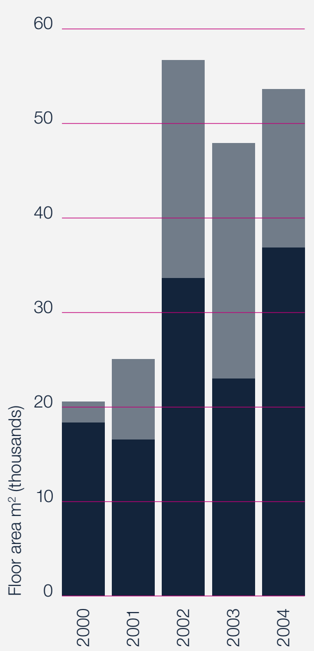
In addition to letting space and managing schemes, 46 rent reviews were settled, achieving an 8% overall increase in annual income to £6.4 million. By the nature of the type of properties held, the majority of the space that reverts to the group due to lease expiries and break options is earmarked for improvement. However, 26 renewals were agreed on 3,600m^2 of space where it was appropriate to maintain income. Only 9 of the potential 45 tenant lease breaks were exercised.

As a consequence of letting activity, disposal of short term income and acquisitions, especially the longevity of income at Henry Wood House, the average lease length increased from 7.7 years to 8.2 years.

Property review
Portfolio activity

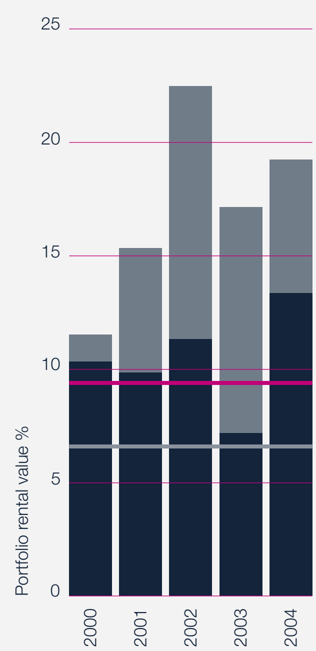
	Approximate net area m²	Rental per annum £m	Headline rental £ per m²	Comments
Principal lettings				
Davidson Building, WC2	2,250	1.00	455	Two lettings: LECG and The British Computer Society.
Berkshire House, WC1	1,150	0.40	325 – 360	Two lettings: DFGW and Thoughtworks.
1 Oliver's Yard, EC2	2,480	0.65	260 – 290	Four lettings including the restaurant unit: Penson Worldwide Settlements, London Eastern Railway, CPA Management Systems and Anakana.
Tea Building, E1	4,800	0.41	110	Various small suites let.
16–19 Gresse Street, W1	2,180	0.38	190	Various office suites let short term pending redevelopment.
The Courtyard, W1	910	0.30	350	Two lettings: Liz Claiborne and Kazoo Communications.
25 Savile Row, W1	510	0.26	500	Part floor let to Robert Turley Associates.
Greencoat and Gordon House, SW1	530	0.15	325	Two suites let: Nations Healthcare and Clareville Capital.
Morley House, W1	890	0.20	290	Various offices suites let.
Suncourt House, N1	775	0.13	170	Two floors let: Gas Clothing and Faithorn Farrell Timms.
Principal rent reviews				
27–32 King Street, WC2	915	0.39	425	Two retail reviews settled to show a 29% increase.
Morelands Buildings, EC1	1,750	0.37	205	Seven rent reviews settled at a 21% increase.
40 Bowling Green Lane, EC1	1,890	0.20	110	Single rent review concluded.
Henry Wood House, W1	750	0.33	440	Two restaurant rent reviews settled following acquisition.

Vacant accommodation by floor area



Available for letting
Refurbishment

Vacant accommodation by rental value



Available for letting
Refurbishment
Refurbishment – five year average
Available for letting – five year average

Refurbishment and redevelopment

Derwent Valley retains a number of properties designated for development. At the year end, these, which were the Johnson Building and the sites at Eastbourne Terrace and Leonard Street, totalled £68.8 million, or 7% of the portfolio, as compared to £4.2 million at last year end. This increase reflects the current emphasis on projects.

We started construction of the Johnson Building in April 2004. This property, acquired in 2000, was income producing until the start on site and is now the subject of a £34 million capital expenditure programme. The design is contemporary, yet in keeping with its local environment. We are developing 13,800m^2 of offices, 400m^2 of workshop space and a self-contained 1,700m^2 residential building. The core of the original building has been removed and the floors opened up around a new atrium, which will link to the new space. The project offers large floor plates, which can be subdivided for maximum flexibility. Completion is scheduled for early 2006.

In March 2004, planning permission was obtained for a 9,700m^2 office development at Telstar House, Eastbourne Terrace, Paddington. Acquired in 2000 as a fully let investment, the building was extensively fire damaged in 2003. Following negotiations with the insurers we received an £18.7 million settlement and obtained vacant possession in November 2004, which will allow redevelopment to commence this year. The scheme is for a lower rise building, only seven storeys rather than the original thirteen, with larger floor plates more suited to the modern user. This location, in the heart of Paddington, is within a regeneration area where there is a concentration of new development and infrastructure improvements.

At Leonard Street, we have planning permission for a 4,500m^2 office development. However, we are considering alternative uses, including residential space, in conjunction with the development of other nearby ownerships, which were acquired as part of the Islington portfolio.

Where development is not appropriate, schemes are often undertaken on a rolling basis, thereby preserving some income. During 2004, we completed phases and let space at the Tea Building, The Courtyard, Berkshire House and Morley House. In addition, we also completed a 4,400m^2 upgrade of The College, an educational building in Noho.

At 50 Rathbone Place, Noho, we have started the 2,500m^2, second phase of our Holden House refurbishment. This follows our initial re-branding of the building, which involved re-siting the entrance and remodelling some of the office space. Now further innovative space is being formed by opening up the lightwells and adding glazed roofs. This project, aimed at the creative sector, is generating letting interest at an early stage.

Looking forward, our project teams are working on the next generation of schemes. In the West End at 16-19 Gresse Street, planning permission is expected this year for a 4,600m^2 office building. In the meantime, we have structured the occupational leases with breaks to allow a 2006 start, if appropriate.

At 55-65 North Wharf Road, Paddington we have an important redevelopment opportunity. Negotiations are gradually progressing with the City of Westminster's planners on the scale and mix of the office and residential space. This project is for the medium term and the building remains fully income producing in the interim. Further west, at Portobello Dock, which we acquired last year, an initial 3,700m^2 planning application is looking positive and a second application is to be submitted on another part of the ownership. Here, offices and residential space, overlooking the canal, are proposed for commencement in 2006, when possession will have been obtained.

We continue to work through the Islington portfolio, acquired in 2003, with 13 of the original 39 properties now sold. During the year, we were able to swap two of the smaller properties as consideration for a lease surrender at 37-42 Compton Street, thereby gaining control of the building to enable an early refurbishment opportunity. We increased our holding at Balmoral Grove and, elsewhere, planning improvement was achieved through two retail permissions. We are progressing seven feasibility studies, for which planning applications will be submitted later this year.

Property review
Refurbishment and redevelopment

Current projects

	Proposed net area m²	Expected completion	Estimated cost to complete £m	Comments
Holborn				
Johnson Building, 78–83 Hatton Garden, EC1	15,900	Mar 06	22.3	Construction progressing on this 13,800m² office, 400m² workshop and 1,700m² residential project.
City borders				
Tea Building, Shoreditch High Street, E1	5,100	Oct 05	1.5	Phased refurbishment to provide office/studio units in this 20,000m² building.
Noho				
Holden and Dumbarton House, 54–68 Oxford Street, W1	2,500	Sep 05	2.8	Final phase to include Dumbarton House office refurbishment and connection with Holden House entrance.
	23,500		26.6	

Future projects

	Existing area m²	Comments
Paddington		
Eastbourne Terrace, W2	9,700	Planning permission obtained for a new office development.
55–65 North Wharf Road, W2	7,800	Medium term redevelopment potential. Planning negotiations ongoing for a 28,000m² office and residential development. Building fully income producing.
Portobello Dock and Kensal House, Ladbroke Grove, W10	4,600	Planning application submitted for a residential and office scheme. Proposed commencement 2006.
Holborn		
19–29 Woburn Place, WC1	9,400	Refurbishment opportunity. Possession 2005.
40–43 Chancery Lane, WC2 and 20–21 Tooks Court, EC4	5,700	Medium term redevelopment or refurbishment opportunity.
Islington		
Balmoral Grove Buildings, N1 and 1–9 Market Road, N7	4,900	Low rise industrial buildings. Initial planning studies indicate the potential for a substantial mixed use scheme of approximately 13,900m².
Noho		
16–19 Gresse Street, W1	3,000	Planning application submitted for a new 4,600m² office building.
Clerkenwell		
The Turnmill, 63 Clerkenwell Road, EC1	4,100	Studies initiated to consider redevelopment or refurbishment.
20–26 Rosebery Avenue and 11 Warner Street, EC1	2,300	Potential to reconfigure and extend existing buildings.
King's Cross		
122–128 Pentonville Road, N1	500	Single storey industrial units with the potential for a mixed use scheme.
City borders		
20 Leonard Street, EC2	–	Site with planning permission for 4,500m² office development. Alternative mixed use residential and office scheme being explored.
	52,000	

Acquisitions and disposals

In a competitive investment market our ability to move swiftly is paramount. This, combined with our market knowledge on a street to street, building to building basis, has enabled us to assemble a portfolio with significant opportunities. Whilst the investment market in 2004 was one of the most competitive seen for a decade, with a shortage of stock and an abundance of buyers, we were still able to make nearly £90 million of acquisitions.

The principal acquisition was in May, when we bought three substantial office properties from Chelsfield for £76.7 million. All are located in our core operating area and offer potential for enhancement either through lease management or refurbishment/redevelopment. In the heart of the West End is the 7,400m^2 Henry Wood House. Here, the majority of the space, which is let to the British Broadcasting Corporation on a long lease at a low office rental of £145 per m^2, has the opportunity for significant reversion at the next rent review in 2006. There is also the potential for the creation of additional space and we have initiated studies to investigate this. At Riverwalk House, Victoria, which occupies an impressive Thames side location, the building density could be considerably improved through redevelopment. In the interim, the 6,900m^2 office building is let to the Secretary of State for the Environment until 2011. There is a more immediate office refurbishment opportunity at the third property, 19-29 Woburn Place, Bloomsbury, which will become vacant this year. We are evaluating our options for this 9,400m^2 building.

As part of a site assembly, we acquired 1-9 Market Road for £2.8 million. This warehouse is located adjacent to our Balmoral Grove holding, which was acquired as part of the Islington portfolio. Initial architectural studies indicate that these predominantly low rise industrial buildings of 4,900m^2 could accommodate a mixed-use development of approaching 13,900m^2.

Our other purchase during the year, The Turnmill, was acquired for £9.1 million. This prominent corner building, at the gateway to Clerkenwell, provides 4,100m^2 of interesting office space. It is multi-let and offers the option of a rolling refurbishment or redevelopment. Initial studies are underway.

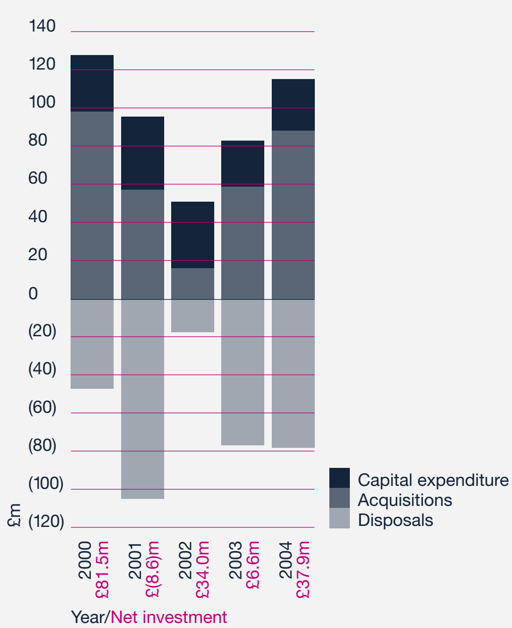
We continued our policy of recycling capital with eight disposals, realising £78.9 million net of costs, a similar level to last year. The largest disposals were Heron House (£29.2 million) and Harcourt House (£27.9 million) both of which performed well during our ownership, producing average annual returns of 10% and 15% per annum respectively. They had undergone phased refurbishment and, with the strong investment appetite and limited future potential for our particular skills, disposal was appropriate. Other sales were 27-32 Old Jewry, our last core city property, Fulcrum House in King's Cross and four of the Islington properties.

J.D. Burns
15th March 2005

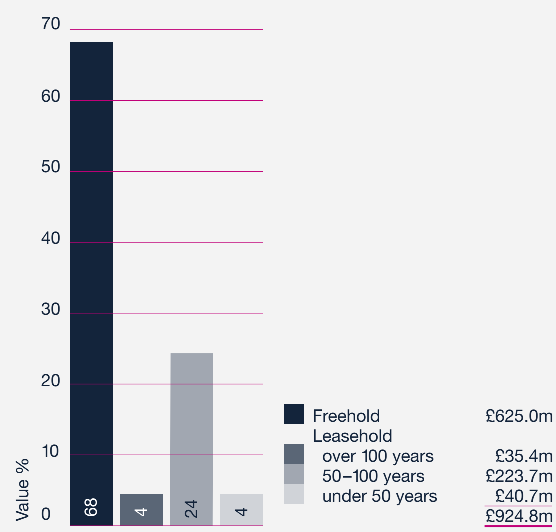
Property review
Acquisitions and disposals

	Approximate net area m²	Comments
Acquisitions		
£88.6 million of Central London acquisitions, reflecting a net initial yield of 6.5%		
Henry Wood House, 3–7 Langham Place and 75–77 Great Portland Street, W1	7,400	A leasehold interest, expiring 2059, comprising 6,600m² of offices let to the British Broadcasting Corporation. There is also 800m² of retail and restaurant space.
Riverwalk House, 155–166 Millbank, SW1	6,900	A leasehold interest, expiring 2063, let to the Government. Located adjacent to the River Thames with redevelopment potential.
19–29 Woburn Place, WC1	9,400	A freehold ten storey Government occupied office building, with the lease expiring in 2005. Refurbishment opportunity.
The Turnmill, 63 Clerkenwell Road, EC1	4,100	A freehold multi-let office building offering refurbishment or redevelopment potential.
1–9 Market Road, N7	1,700	Site assembly. A freehold warehouse located adjacent to our Balmoral Grove Buildings.
	29,500	
Disposals		
8 properties sold for a net £78.9 million at an exit yield of 7.3%.		
Heron House, 319–325 High Holborn, WC1	6,100	Refurbishment of the common areas recently completed.
Harcourt House, 19–19a Cavendish Square, W1	5,600	The building was subject to a rolling refurbishment over a number of years.
Fulcrum House, 2 Killick Street, N1	3,900	Disposal following rent review settlement.
27–32 Old Jewry, EC2	2,200	The building was subject to a recent refurbishment and letting programme.
Islington Estate	1,300	Four properties.
	19,100	

Net investment

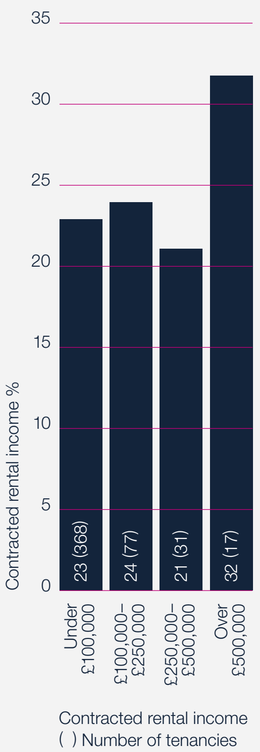


Value of portfolio by tenure

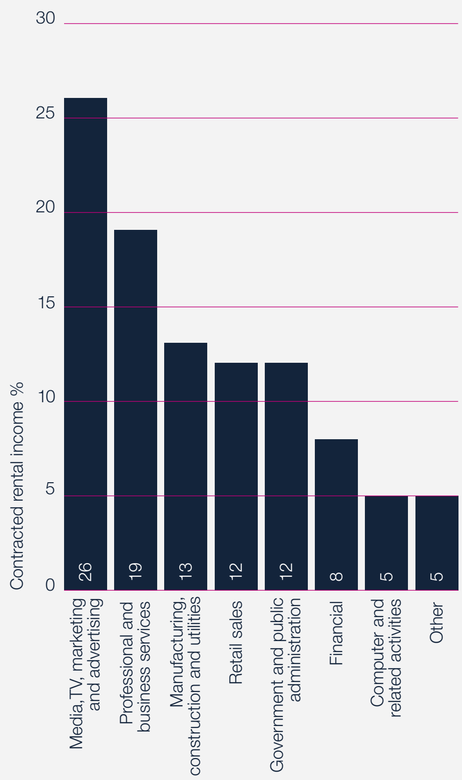


Property review
Rental income analysis

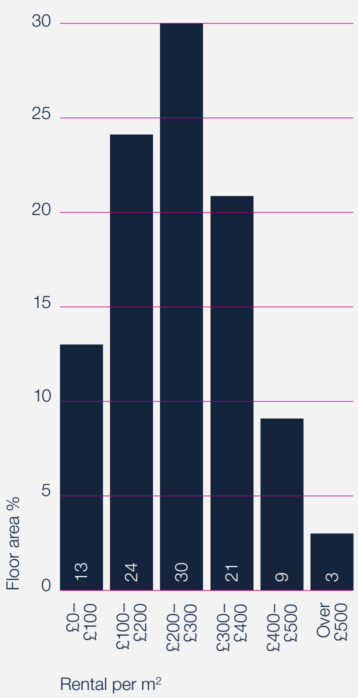
Profile of rental income bands



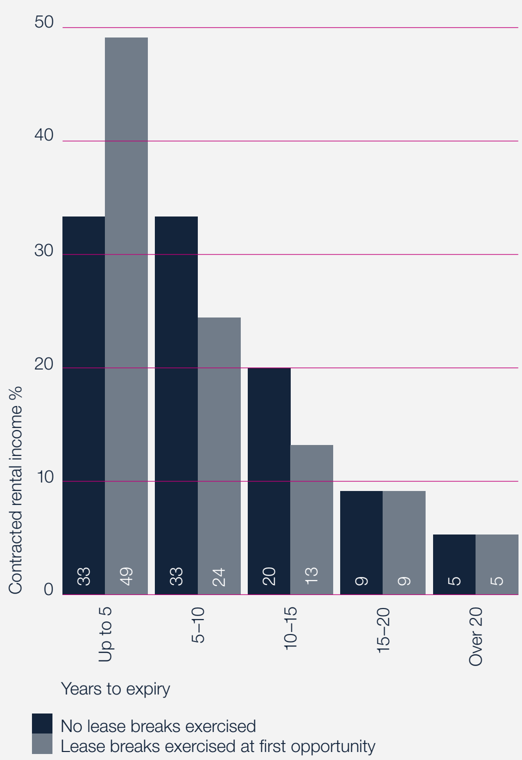
Profile of tenants' business sectors



Profile of occupied floor area



Profile of rental income expiry



Principal properties

	Offices (O) Retail/restaurant (R) Industrial (I)	Approximate net area m²
£30 million and over – 49% of portfolio		
135–155 Charing Cross Road, WC2 and The Courtyard, Sutton Row, W1	O/R	5,900
Covent Garden Estate, WC2:	O/R	6,800
19–26 and 19a Floral Street		
26 and 27–32 King Street		
34 Rose Street		
Davidson Building, 5 Southampton Street, WC2	O/R	3,900
Greencoat and Gordon House, Francis Street, SW1	O	11,100
1–3 Grosvenor Place, SW1	O	7,700
4 Grosvenor Place, SW1	O	7,300
Henry Wood House, 3–7 Langham Place and 75–77 Great Portland Street, W1	O/R	7,400
Holden and Dumbarton House, 54–68 Oxford Street, W1	O/R	8,400
1 Oliver's Yard, EC2	O/R	17,400
Tea Building, Shoreditch High Street, E1	O	20,000
Tower House, 10 Southampton Street, WC2	O/R	4,900
£20-30 million – 21% of portfolio		
Berkshire House, 168–173 High Holborn, WC1	O	4,900
Gresse Street Estate, W1:	O	8,400
The College		
16–19 Gresse Street		
7–8 Rathbone Place		
Middlesex House, 34–42 Cleveland Street, W1	O	6,000
55–65 North Wharf Road, W2	O	7,800
Premier House, 10 Greycoat Place, SW1	O	5,800
Riverwalk House, 155–166 Millbank, SW1	O	6,900
25 Savile Row, W1	O/R	3,900
19–29 Woburn Place, WC1	O	9,400
£10-20 million – 13% of portfolio		
Argosy House, 215–227 Great Portland Street, W1	O	2,800
40–43 Chancery Lane, WC2 and 20–21 Tooks Court, EC4	O	5,700
28–29 Dover Street, W1	O/R	1,400
6–8 Greencoat Place, SW1	O	3,100
Jaeger House, 57 Broadwick Street, W1	O/R	2,300
Morelands Buildings, 5–27 Old Street, EC1	O/R	7,400
Morley House, 314–322 Regent Street, W1	O/R	3,800
Portobello Dock and Kensal House, Ladbroke Grove, W10	O	4,600
The Turnmill, 63 Clerkenwell Road, EC1	O/R	4,100
Under £10 million – 10% of portfolio		
Balmoral Grove Buildings, N1 and 1–9 Market Road, N7	O/I	4,900
40 Bowling Green Lane, EC1	O	3,300
Broadmead and Westcombe House, 19–23 Panton Street, SW1	O/R	1,500
91–121 Caledonian Road, N1	I	5,000
37–42 Compton Street, EC1	O	2,900
122–128 Pentonville Road, N1	I	500
20–26 Rosebery Avenue and 11 Warner Street, EC1	O	2,300
6–7 St Cross Street, EC1	O	3,000
78 St Martin's Lane, WC2	O/R	1,500
Suncourt House, 18–26 Essex Road, N1	O/R	2,500
Wedge House, 30–40 Blackfriars Road, SE1	O	3,600
Development properties – 7% of portfolio		
Johnson Building, 78–83 Hatton Garden, EC1	O	15,900
Eastbourne Terrace, W2		Site
20 Leonard Street, EC2		Site

Financial review

Basis of accounting

The key 2004 figures are summarised in the financial highlights on page 2 of the annual report. These have been prepared under UK financial reporting standards. It is the last year that the group's results will be prepared on this basis because, from 1st January 2005, all European Union listed companies have to adopt International Financial Reporting Standards. On pages 56 to 63 of the annual report, the 2004 audited figures have been restated based on the new accounting convention. This is discussed in more detail at the end of this review.

Financial results

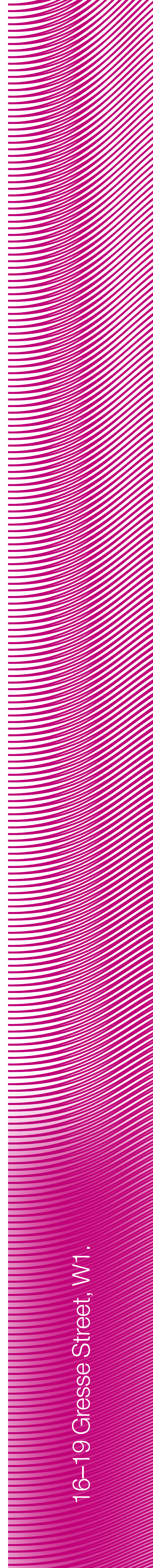
Gross rental income rose £2.0 million year on year to £49.9 million. It benefited not only from lettings achieved in 2004 but also those made at the end of 2003 which had little impact on that year, other than that it bore the cost of such lettings. In total, lettings added £6.5 million to rental income. However, £2.4 million should be netted off this in respect of the surrender premium income from Oliver's Yard which was recognised as rental income in 2003. Rent reviews added £1.7 million with the main increases arising from Premier House (£0.7 million) and the Islington Estate (£0.3 million). However, rental growth was kept in check as voids, mainly created by the group's refurbishment and redevelopment programme, reduced rent by £5.6 million. The buildings where rent was reduced noticeably were the Johnson Building (£2.3 million), 16-19 Gresse Street (£0.6 million) and The College (£0.5 million). Acquisitions added £5.8 million to rental income of which £3.5 million came from the 3 buildings purchased from Chelsfield in May 2004. Disposals, the main ones being Harcourt House and Heron House, removed £4.0 million of rent from the profit and loss account. At the net rental income level, which rose 8% or £3.3 million to £44.8 million, growth was even greater than with gross rents. This was due to lettings in 2003 and 2004 eliminating £1.1 million of service charge voids from the portfolio while, with less vacant space to let in 2004 than in the prior year, transaction costs, predominantly letting fees and the related legal costs, were down £0.7 million. With two of the properties purchased from Chelsfield being leaseholds, ground rent rose £0.4 million year on year and therefore reduced the above savings.

While employment costs rose £0.8 million, including a first time charge for the long term incentive plan of £0.2 million, a reduction in other overheads, notably bank charges and the absence of a charge for the onerous lease, left administrative costs up by only £0.1 million. With increases in both interest rates and borrowings, £3.1 million was added to the interest bill to leave adjusted profit before tax up £0.2 million to £16.4 million, an increase of 1.2%.

Profit realised on the disposal of investment properties was £6.4 million, most of which came from the sales of Heron House (£3.9 million), Old Jewry (£1.5 million) and Killick Street (£1.0 million). This, together with the absence of bid defence costs incurred in 2003, increased FRS3 profit before tax by 33% to £22.8 million.

After taxation and a dividend increased by 9.6% to 12.5p per share, which absorbed £6.7 million of distributable profit, retained earnings of £11.3 million contributed 21p of the growth in net asset value per share.

Net assets rose £77.1 million to £554.7 million at 31st December 2004. The surplus arising from the year end property revaluation, net of the UITF 28 adjustment, was £66.9 million, equivalent to 126p per share. Development properties with a book value of £68.8 million were not revalued at the year end in accordance with group accounting policies. After adding back the deferred taxation provision of £14.4 million, adjusted net asset value per share was 1,068p compared with that at the previous year end of 920p, an increase of 16%. The total return for the year – increase in adjusted net asset value per share plus dividends payable – was 17.4%. The group's five year annualised total return was 9.2%.



16–19 Gresse Street, W1.

Taxation

A reconciliation of the group tax charge can be found in note 8 to the accounts. The total tax charge was £8.1 million compared with £5.8 million in 2003. The profit and loss account bore £4.8 million of the tax charge while the balance – capital gains tax on prior year revaluation surpluses – was passed through the statement of total recognised gains and losses. A further £2.9 million of deferred taxation has been provided in accordance with FRS19, bringing the total to £14.4 million. Nearly all of this provision relates to tax deferred through capital allowance claims and, consequently, it is considered unlikely that this tax will ever become payable.

Cash flow

The group's cash outflow for the year was £17.9 million. After interest payments, the group generated cash of £12.9 million out of which corporation tax of £5.3 million was paid to leave a net inflow of £7.6 million. As ever, capital transactions dominated the cash flow. In 2004, the group spent £88.7 million on acquiring new properties and £26.1 million on refurbishments and redevelopments, the total of which was partly covered by property disposals of £76.9 million to leave a net investment in the business of £37.9 million. This, net of the aforementioned inflow and dividends paid to shareholders in 2004, which amounted to £6.2 million, resulted in a cash outflow of £36.6 million. This was reduced by insurance proceeds of £18.7 million received in November in respect of the 2003 fire damage at Telstar House.

Finance

The cash outflow resulted in an increase in the group's net debt to £319.3 million from £301.8 million at the 2003 year end. Despite the increase in debt, balance sheet gearing fell from 63% to 58% due to the growth in net assets. However, profit and loss gearing, which the company considers to be the more important, fell marginally from 1.87 to 1.76 in 2004 but even at this lower level it remains more than comfortable. As noted last year, these may appear conservative ratios, but they need to be managed in the context of the group's lease term profile and the ongoing refurbishment and redevelopment programme.

During the year, there has been little change in the group's bank facilities, the first of which is not due for renegotiation until 2006. The group prefers to borrow on a secured basis from a limited number of banks with whom, it believes, it has first class relationships. It has no corporate covenants and prefers the flexibility of its two property covenants of loan to value and rent to interest. Such borrowing also has the benefit of lower margins compared with unsecured loans. At the year end, total group facilities were £465 million of which £324 million had been drawn down.

The group uses derivatives to protect itself from adverse interest rate movements. Board policy is that sufficient interest rate derivatives should be entered into so that the total of fixed rate debt and that fixed using such instruments moves within a range of 40% to 75% of total debt, dependent on the perceived risk to the group. At the beginning of March 2005, this percentage was 71, and the all in weighted average cost of debt was 6.6%.

The fair value adjustment figure, arising from the valuation of fixed rate debt and derivatives in accordance with FRS13, was a negative £14.8 million (31st December 2003 : negative £13.8 million) which is equivalent to a reduction in net asset value per share after tax of 19p (31st December 2003 : 18p). The debenture accounts for 15p of this amount and the derivatives a further 4p.

There is no obligation or present intention to reduce the fixed rate debt or any of the hedging instruments other than at normal maturity. Therefore, this amount is unlikely to be realised. However, this is one of the areas which will change as a result of the introduction of International Financial Reporting Standards. Under this convention, the amount of the fair value adjustment relating to the interest rate derivatives (but not the debenture) may be reported in the income statement and not just as a note to the accounts.

International Financial Reporting Standards (IFRS)

As noted above, the group, along with all listed companies, will have to report its results under a new accounting convention from 1st January 2005 with comparative figures for the 2004 prior year. It must be stressed that this new convention will not affect the economic value of the business but it will lead to an enormous difference and future volatility in the level of profits and net assets reported. There have been long arguments over a number of the new standards and not all users of accounts, or indeed accountants, agree with all of them but the group has no option but to adopt them in their entirety. While they are intended to make comparisons between companies worldwide easier, whether a set of accounts is any more transparent and understandable is debateable. Despite the fact that the balance sheet will show a figure closer to the triple net asset value used by financial analysts, already it is apparent that they, and other users of annual reports, are looking to make adjustments to accounts prepared under IFRS to obtain the figures they believe are more relevant. To help users of Derwent Valley's accounts understand the impact of IFRS, a reconciliation has been produced between the 2004 figures, as audited, and those based on IFRS. This can be found towards the end of the annual report. The main items to look out for are:

- the valuation surplus or deficit on investment properties now reported in the income statement rather than as a movement in the revaluation reserve.
- the capital gains tax that would be payable if the investment properties were sold at their current balance sheet valuation now included in the balance sheet as a deferred tax liability. Previously, this was disclosed only as a note to the accounts.
- the grossing up of leasehold property for head lease payments and the establishment of a corresponding financial liability, increasing balance sheet gearing.
- the lease incentives granted to tenants now amortised over the longer period to lease expiry, rather than generally to the next rent review.
- the one off adjustment to net asset value equivalent to the final dividend, because IFRS only permit declared dividends to be included in the accounts and not those proposed as under UK reporting standards. Under the restatement, the 2004 proposed final dividend is excluded.
- the movement in the fair value of derivatives, as noted above, reported in the income statement, if hedge accounting is not applied.

The IFRS reconciliation has been reviewed by our auditors and they have confirmed that they are not aware of any material modifications that are required to this. Whilst it is believed these figures will be our comparative results for 2005, the interpretation of IFRS continues to evolve and this may lead to changes when the 2004 figures are published next year.

Finally, a caveat. The relevant bodies have stated their intention to review and possibly redraft some of these new IFRS. It is to be hoped that at the end of this process, indeed if there is an end, users of accounts will still be able to interpret them and agree on which profits and assets show "a true and fair view".

Group profit and loss account

for the year ended 31st December 2004

	Note	**2004 £m**	2003 £m
Gross rental income			
Group and share of joint ventures		**50.3**	48.2
Less share of joint ventures		**0.4**	0.3
Group gross rental income		**49.9**	47.9
Property outgoings net of recoveries	2	**5.1**	6.4
Net revenue from properties		**44.8**	41.5
Administrative costs			
Recurring administrative costs		**7.0**	6.9
Exceptional cost of possible offer for the group		**–**	0.7
Operating profit		**37.8**	33.9
Share of operating results of joint ventures		**0.4**	0.3
Profit on disposal of investment properties	3	**6.4**	1.6
		44.6	35.8
Interest receivable		**0.3**	0.3
Interest payable	4	**22.1**	19.0
Profit on ordinary activities before taxation	5	**22.8**	17.1
Taxation on profit on ordinary activities	8	**4.8**	2.3
Profit on ordinary activities after taxation	9	**18.0**	14.8
Dividend	10	**6.7**	6.1
Retained profit	23	**11.3**	8.7

All amounts relate to continuing activities

Adjusted earnings per share	11	**23.51p**	26.62p
Basic earnings per share	11	**33.71p**	27.69p
Diluted earnings per share	11	**33.50p**	27.63p
Dividend per share	10	**12.50p**	11.40p
Total return	12	**17.4%**	(5.2%)

The notes on pages 28 to 38 form part of these accounts.

Balance sheets

at 31st December 2004

	Note	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Fixed assets					
Tangible assets	14	**917.2**	807.1	**0.6**	0.6
Investments	15	**–**	–	**186.2**	185.5
Investments in joint ventures					
Share of gross assets		**4.7**	3.1	**–**	–
Share of gross liabilities		**(2.9)**	(2.9)	**–**	–
		1.8	0.2	**–**	–
Current assets					
Debtors falling due within one year	16	**12.9**	11.5	**391.1**	365.5
Debtors falling due after more than one year	16	**6.3**	4.3	**–**	–
Cash and deposits		**4.5**	4.5	**–**	–
		23.7	20.3	**391.1**	365.5
Creditors falling due within one year	17	**50.2**	65.3	**46.9**	74.6
Net current (liabilities)/assets		**(26.5)**	(45.0)	**344.2**	290.9
Total assets less current liabilities		**892.5**	762.3	**531.0**	477.0
Creditors falling due after more than one year	18	**322.5**	272.1	**322.5**	270.9
Provisions for liabilities and charges					
Deferred tax	20	**14.4**	11.5	**–**	–
Other provisions	21	**0.9**	1.1	**0.9**	1.1
		554.7	477.6	**207.6**	205.0
Capital and reserves – equity					
Called up share capital	22	**2.6**	2.6	**2.6**	2.6
Share premium account	23	**154.1**	153.7	**154.1**	153.7
Revaluation reserve	23	**265.7**	208.7	**–**	–
Other reserves	23	**0.2**	–	**0.2**	–
Profit and loss account	23	**132.1**	112.6	**50.7**	48.7
		554.7	477.6	**207.6**	205.0
Adjusted net asset value per share	24	**1,068p**	920p		
Net asset value per share	24	**1,041p**	898p		

J.D. Burns, Director
C.J. Odom, Director
15th March 2005

The notes on pages 28 to 38 form part of these accounts.

Other group primary statements

for the year ended 31st December 2004

Statement of total recognised gains and losses

	2004 £m	2003 £m
Profit for financial year	**18.0**	14.8
Unrealised surplus/(deficit) on revaluation of investment properties	**66.9**	(39.6)
Unrealised surplus on revaluation of joint venture's investment property	**1.5**	–
Long term incentive plan expense transferred to reserves	**0.2**	–
Taxation on realisation of property revaluation gains of previous years	**(3.3)**	(3.5)
Total recognised gains and losses relating to the year	**83.3**	(28.3)

Note of historical cost profit and loss

	2004 £m	2003 £m
Reported profit on ordinary activities before taxation	**22.8**	17.1
Realisation of property revaluation surplus of previous years	**11.4**	14.6
Historical cost profit on ordinary activities before taxation	**34.2**	31.7
Historical cost profit retained after taxation and dividends	**19.4**	19.8

Reconciliation of movements in shareholders' funds

	2004 £m	2003 £m
Profit for financial year	**18.0**	14.8
Other gains and losses relating to the year	**65.3**	(43.1)
Net proceeds of share issue	**0.5**	–
	83.8	(28.3)
Dividend	**(6.7)**	(6.1)
	77.1	(34.4)
Opening shareholders' funds	**477.6**	512.0
Closing shareholders' funds	**554.7**	477.6

The notes on pages 28 to 38 form part of these accounts.

Group cash flow statement

for the year ended 31st December 2004

	Note	£m	2004 £m	£m	2003 £m
Net cash inflow from operating activities	25		**33.6**		30.2
Return on investments and servicing of finance					
Interest received		**0.2**		0.2	
Interest paid		**(20.9)**		(18.7)	
Net cash outflow from return on investments and servicing of finance			**(20.7)**		(18.5)
Taxation					
Corporation tax paid			**(5.3)**		(4.2)
Capital expenditure and financial investment					
Acquisitions		**(88.7)**		(59.1)	
Capital expenditure on properties		**(26.1)**		(24.0)	
Disposal of properties		**76.9**		76.5	
Capital insurance receipt		**18.7**		–	
Purchase of other fixed assets		**(0.1)**		(0.2)	
Net cash outflow from capital expenditure and financial investment			**(19.3)**		(6.8)
Equity dividends paid			**(6.2)**		(5.7)
Cash outflow before management of liquid resources and financing			**(17.9)**		(5.0)
Management of liquid resources					
Increase in cash on deposit			**–**		(4.5)
Financing					
Movement in bank loans	28	**18.1**		8.9	
Net proceeds of share issue	22	**0.5**		–	
Net cash inflow from financing			**18.6**		8.9
Increase/(decrease) in cash in the year	28		**0.7**		(0.6)

The notes on pages 28 to 38 form part of these accounts.

1 Accounting policies

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

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

Net revenue from properties
Gross rental income arises from operating leases. Rent receivable under the terms of the leases is adjusted, in accordance with UITF28 “Operating Lease Incentives”, for the effect of any incentives given, which are spread on a straight line basis up to the time when the prevailing market rent will be payable. Void costs associated with major refurbishment schemes together with the initial letting costs of a development are capitalised in accordance with FRS15 “Tangible Fixed Assets”. All other costs incurred under operating leases are charged to the profit and loss account as they become payable.

Disposal of properties
The disposal of both investment and trading properties is accounted for on completion of contract. On disposal, any gain or loss is calculated by reference to the valuation at the last year end plus subsequent additions in the year.

Surrender premiums
Reverse premiums, after having first allocated an appropriate part of the premium to reinstate the premises to a lettable condition, are recognised in net revenue from properties at a rate equal to the gross rental income under the surrendered lease together with any associated void costs whilst the surrendered space remains vacant. Following reletting, or subject to there being no further significant costs as a result of the surrender, any residual premium is immediately released to the profit and loss account. Premiums paid are capitalised.

Properties
(i) Investment properties

Investment properties, as defined by SSAP19, are revalued annually by independent valuers in accordance with the Appraisal and Valuation Manual published by the Royal Institution of Chartered Surveyors and are included in the balance sheet on the basis of market value less the UITF28 lease incentive debtor. The aggregate surplus or deficit arising from such revaluation is transferred to the revaluation reserve. However, if on an individual property, a deficit arising from a valuation below cost is expected to be permanent, it is charged to the profit and loss account with any subsequent reversal being credited to the same.

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

(ii) Properties held for resale

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

1 Accounting policies (continued)

Investments

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

Depreciation and amortisation

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

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

Financial instruments

Financial instruments are used to manage the interest rate risk associated with the group's business and the financing thereof. No trading in financial instruments is undertaken. Short term debtors and creditors are excluded from the analysis of financial instruments given in note 19.

Deferred tax

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

Pensions

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

Liquid resources

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

2 Property outgoings net of recoveries

	2004 £m	2003 £m
Ground rents	**1.5**	1.1
Vacant property costs	**1.6**	2.7
Property letting costs	**1.7**	2.4
Other property costs	**0.3**	0.2
	5.1	6.4

3 Profit on disposal of investment properties

	2004 £m	2003 £m
Disposal proceeds	**78.9**	76.1
Cost/valuation	**(72.5)**	(74.5)
	6.4	1.6

4 Interest payable

	2004 £m	2003 £m
Bank loans and overdraft wholly repayable within five years	**14.6**	8.1
Bank loans not wholly repayable within five years	**3.6**	7.0
Debenture stock	**3.6**	3.6
Group interest payable	**21.8**	18.7
Share of joint ventures' interest payable	**0.3**	0.3
	22.1	19.0

5 Profit on ordinary activities before taxation

	2004 £m	2003 £m
This is arrived at after charging:		
Exceptional item – cost of possible offer for the group	**–**	0.7
Depreciation and amortisation	**0.1**	0.3
Rent payable under property leases	**1.5**	1.1
Auditors' remuneration		
Audit	**0.1**	0.1
Taxation services	**0.1**	0.1

The exceptional item in 2003 of £0.7m, together with the recurring administrative costs of £6.9m, resulted in total administrative costs of £7.6m for that year.

6 Directors' emoluments

	2004 £m	2003 £m
Remuneration for management services	**1.8**	1.4
Non-executive directors' remuneration	**0.1**	0.1
Gain on exercise of share options	**0.4**	–
Pension contributions	**0.4**	0.4
	2.7	1.9

Details of the directors' remuneration, options granted to the directors under the group share option schemes and awards under the long term incentive plan are given in the report on directors' remuneration on pages 48 to 52.

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 £1.2m (2003: £1.0m), excluding value added tax. This amount included management fees which were rechargeable to tenants of £0.7m (2003: £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 (2003: £0.1m).

7 Employees

	2004 £m	2003 £m
Staff costs, including those of directors:		
Wages and salaries	**2.8**	2.5
Social security costs	**0.5**	0.3
Pension costs	**0.6**	0.5
Long term incentive plan expense	**0.2**	–
	4.1	3.3

The average number of employees during the year, excluding directors, was 23 (2003: 24), all of whom were employed in administrative roles.

8 Taxation on profit on ordinary activities

	2004 £m	2003 £m
Profit on ordinary activities before taxation, excluding the profit on disposal of investment properties	**16.4**	15.5
UK corporation tax thereon, at 30% (2003: 30%)	**4.9**	4.6
Capital allowances	**(2.8)**	(2.7)
Tax on disposal of investment properties	**4.2**	3.9
Other reconciling items	**–**	(0.9)
Corporation tax payable on current year's profit	**6.3**	4.9
Less amount allocated to the statement of total recognised gains and losses	**(3.3)**	(3.5)
Corporation tax charge in respect of current year's profit	**3.0**	1.4
Adjustment in respect of prior years' corporation tax	**(1.1)**	(0.4)
Corporation tax charge	**1.9**	1.0
Deferred tax charge	**2.9**	1.3
	4.8	2.3

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

Profit on ordinary activities after taxation includes £8.6m (2003: £9.7m) which has been dealt with in the accounts of the holding company.

10 Dividend

	2004 £m	2003 £m
Ordinary shares of 5p each:		
Paid – interim dividend of 3.60p (2003: 3.30p) per share	**1.9**	1.8
Proposed – final dividend of 8.90p (2003: 8.10p) per share	**4.8**	4.3
	6.7	6.1

11 Earnings per share

	Profit after taxation £m	Weighted average shares '000	**2004 Earnings per share p**	Profit after taxation £m	Weighted average shares '000	2003 Earnings per share p
Adjusted	12.5	53,195	**23.51**	14.2	53,166	26.62
Adjustment for cost of possible offer for the group	–	–	**–**	(0.7)	–	(1.29)
Adjustment for disposal of investment properties	5.5	–	**10.20**	1.3	–	2.36
Basic	18.0	53,195	**33.71**	14.8	53,166	27.69
Adjustment for dilutive share options and long term incentive plan awards	–	346	**(0.21)**	–	104	(0.06)
Diluted	18.0	53,541	**33.50**	14.8	53,270	27.63

The adjusted earnings per share excludes the profit or loss after tax arising from the disposal of investment properties and, in 2003, the exceptional cost of the possible offer for the group in order to show the recurring element of the group's profit.

12 Total return

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

13 Gearing

Balance sheet gearing at 31st December 2004 is 57.6% (2003: 63.2%). This is defined as net debt divided by net assets.

Profit and loss gearing for 2004 is 1.76 (2003: 1.87). This is defined as net rental income less administrative costs divided by group net interest payable. The administrative costs for 2003 exclude the exceptional item in order to show only the recurring element of the group's activity.

14 Tangible assets

	Group				Company
	Freehold land and buildings £m	Leasehold property £m	Other fixed assets £m	Total £m	Other fixed assets £m
Cost or valuation:					
At 1st January 2004	580.6	225.9	1.3	807.8	1.3
Acquisitions	31.5	57.1	–	88.6	–
Capital expenditure	21.7	5.4	0.1	27.2	0.1
Additions	53.2	62.5	0.1	115.8	0.1
Disposals	(66.7)	(5.8)	–	(72.5)	–
Revaluation	51.0	15.9	–	66.9	–
At 31st December 2004	618.1	298.5	1.4	918.0	1.4
Amortisation and depreciation:					
At 1st January 2004	–	–	0.7	0.7	0.7
Provision for year	–	–	0.1	0.1	0.1
At 31st December 2004	–	–	0.8	0.8	0.8
Net book value:					
At 31st December 2004	**618.1**	**298.5**	**0.6**	**917.2**	**0.6**
At 31st December 2003	580.6	225.9	0.6	807.1	0.6
Assets stated at cost or valuation:					
Valuation at 31st December 2004	556.2	299.8	–	856.0	–
Prior years' valuation plus subsequent costs	68.8	–	–	68.8	–
Cost	–	–	0.6	0.6	0.6
	625.0	299.8	0.6	925.4	0.6
Adjustment for UITF28 – lease incentive debtors	(6.9)	(1.3)	–	(8.2)	–
	618.1	298.5	0.6	917.2	0.6

Short leasehold property with a value of £40.7m (2003: £37.7m) is included in leasehold property above. Investment property in the course of development with a carrying value of £68.8m (2003: £4.2m) is included in freehold land and buildings above.

The freehold land and buildings and leasehold property, other than those in the course of development, were revalued at 31st December 2004 by either CB Richard Ellis Limited or Keith Cardale Groves (Commercial) Limited, as external valuers, on the basis of market value as defined by the Appraisal and Valuation Manual published by the Royal Institution of Chartered Surveyors.

At 31st December 2004 the historical cost of the freehold land and buildings and leasehold property owned by the group was £652.3m (2003: £598.5m).

15 Investments

	Company Subsidiary undertakings £m	Company Joint ventures £m	Company Total £m
Shares in subsidiary undertakings:			
At 1st January 2004 and 31st December 2004	185.4	–	185.4
Loans:			
At 1st January 2004	–	0.1	0.1
Release of provisions	–	0.7	0.7
At 31st December 2004	–	0.8	0.8
At 31st December 2004	**185.4**	**0.8**	**186.2**
At 31st December 2003	185.4	0.1	185.5

16 Debtors

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Falling due within one year:				
Trade debtors	**7.1**	8.2	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**386.7**	362.3
Other debtors	**0.4**	0.3	**0.1**	–
Prepayments and accrued income	**5.4**	3.0	**0.8**	0.8
Corporation tax	**–**	–	**3.5**	2.4
	12.9	11.5	**391.1**	365.5
Falling due after more than one year:				
Prepayments and accrued income	**6.3**	4.3	**–**	–
	19.2	15.8	**391.1**	365.5

17 Creditors falling due within one year

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Bank loans and overdraft	**1.3**	35.4	**1.1**	33.7
Amounts owed to subsidiary undertakings	**–**	–	**34.5**	30.5
Trade creditors	**1.7**	3.1	**0.1**	0.2
Other creditors	**18.8**	0.1	**–**	–
Other taxation and social security	**1.6**	0.7	**0.1**	0.1
Dividend payable	**4.8**	4.3	**4.8**	4.3
Corporation tax	**2.6**	2.7	**–**	–
Accruals and deferred income	**19.4**	19.0	**6.3**	5.8
	50.2	65.3	**46.9**	74.6

18 Creditors falling due after more than one year

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Accruals and deferred income	**–**	1.2	**–**	–
Bank loans	**288.0**	236.5	**288.0**	236.5
10⅛% First Mortgage Debenture Stock 2019	**34.5**	34.4	**34.5**	34.4
	322.5	272.1	**322.5**	270.9

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 £0.5m (2003: £0.6m).

19 Net debt

	Group 2004 £m	2003 £m	Company 2004 £m	2003 £m
Financial liabilities – Secured				
Bank loans wholly repayable:				
between 1–2 years	**62.0**	–	**62.0**	–
between 2–5 years	**151.0**	94.5	**151.0**	94.5
more than 5 years	**75.0**	142.0	**75.0**	142.0
10⅛% First Mortgage Debenture Stock 2019	**34.5**	34.4	**34.5**	34.4
	322.5	270.9	**322.5**	270.9
Financial liabilities – Unsecured				
Bank loans and overdraft wholly repayable:				
less than 1 year	**1.3**	35.4	**1.1**	33.7
Total financial liabilities	**323.8**	306.3	**323.6**	304.6
Financial assets				
Cash and short term deposits	**(4.5)**	(4.5)	**–**	–
Net debt	**319.3**	301.8	**323.6**	304.6

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

Undrawn committed bank facilities

	Group 2004 £m	2003 £m	Company 2004 £m	2003 £m
Maturity dates:				
between 1–2 years	**38.0**	–	**38.0**	–
between 2–5 years	**74.0**	105.5	**74.0**	105.5
more than 5 years	**25.0**	83.0	**25.0**	83.0
	137.0	188.5	**137.0**	188.5

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

	Floating rate £m	Hedged £m	Fixed rate £m	Gross debt £m	Weighted average cost of debt %	Weighted average life Years
At 31st December 2004	**79.3**	**210.0**	**34.5**	**323.8**	**6.70**	**5.44**
At 31st December 2003	121.9	150.0	34.4	306.3	6.24	6.14

19 Net debt (continued)

Fixed interest rate and hedged debt

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

	Principal £m	Weighted average interest rate %	Weighted average life Years	Fair value £m	Fair value adjustment £m
10⅛% First Mortgage Debenture Stock 2019	35.0	10.125	14.59	46.7	(11.7)
Interest rate swaps	200.0	5.588	2.80	3.2	(3.2)
Interest rate cap	10.0	6.010	6.46	(0.1)	0.1
At 31st December 2004				**49.8**	**(14.8)**
10⅛% First Mortgage Debenture Stock 2019	35.0	10.125	15.59	46.1	(11.1)
Interest rate swaps	150.0	5.756	2.75	2.7	(2.7)
At 31st December 2003				48.8	(13.8)

Book value and fair value are the same for other financial assets and liabilities in both 2004 and 2003.

10⅛% First Mortgage Debenture Stock 2019

The market price for the debenture at 31st December 2004 was £133.493 (2003: £131.775) which gave rise to a value of £46,723,000 (2003: £46,121,000). At this price, the gross redemption yield on the debenture was 6.53% (2003: 6.79%) implying a margin of 2% (2003: 2%) over the 8% Treasury 2015 gilt. The fair value adjustment effectively represents the net present value of the difference between the contracted fixed rate of the debenture and the gross redemption yield on the benchmark gilt plus the implied margin at 31st December 2004.

Interest rate swaps

The fair value represents the net present value of the difference between the contracted fixed rates and the fixed rates payable if the swaps were to be replaced on 31st December 2004 for the period to the contracted expiry dates.

Interest rate cap

The fair value represents the net cost of replacement on identical terms at prices prevailing on 31st December 2004.

Further information on interest rate risk management is given in the financial review on page 22.

20 Deferred tax

	2004 £m	2003 £m
At 1st January 2004	**11.5**	10.2
Provided during the year	**2.7**	2.7
Released on disposal of properties during the year	**(0.5)**	(1.6)
Other movements	**0.7**	0.2
At 31st December 2004	**14.4**	11.5

There is no deferred tax liability for the company (2003: £nil).

A taxation liability of approximately £62.4m (2003: £52.7m) would arise on the disposal of land and buildings at the valuation shown in the balance sheet. This is equivalent to 117p per share (2003: 99p). In accordance with FRS19 "Deferred Tax", no provision has been made for this. No such liability exists for the company (2003: £nil).

21 Other provisions

	Group and company £m
At 1st January 2004	1.1
Released during the year	(0.2)
At 31st December 2004	**0.9**

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 2004 and 31st December 2004	3.55	**2.6**

The number of 5p ordinary shares in issue at the year end was 53,268,076 (2003: 53,167,150). During the year, 100,926 shares were issued as a result of the exercise of share options, which realised proceeds of £0.5m. The number of outstanding share options and other share awards granted are disclosed in the report on directors' remuneration on pages 50 and 51.

23 Reserves

	Share premium account £m	Revaluation reserve £m	Other reserves £m	Profit and loss account £m
Group				
At 1st January 2004	153.7	208.7	–	112.6
Premium on issue of shares	0.5	–	–	–
Surplus on property revaluation	–	66.9	–	–
Surplus on joint venture's property revaluation	–	1.5	–	–
Profit realised on disposal of investment properties	–	(11.4)	–	11.4
Tax attributable to revaluation surplus realised on disposal of investment properties	–	–	–	(3.3)
Amortisation of discount and costs on issue of debenture	(0.1)	–	–	0.1
Long term incentive plan expense transferred to reserves	–	–	0.2	–
Retained profit for year	–	–	–	11.3
At 31st December 2004	**154.1**	**265.7**	**0.2**	**132.1**
Company				
At 1st January 2004	153.7	–	–	48.7
Premium on issue of shares	0.5	–	–	–
Amortisation of discount and costs on issue of debenture	(0.1)	–	–	0.1
Long term incentive plan expense transferred to reserves	–	–	0.2	–
Retained profit for the year	–	–	–	1.9
At 31st December 2004	**154.1**	**–**	**0.2**	**50.7**

24 Net asset value per share

	2004 Net assets £m	2004 Shares '000	2004 Net asset value per share p	2003 Net assets £m	2003 Shares '000	2003 Net asset value per share p
Basic	554.7	53,268	**1,041**	477.6	53,167	898
Adjustment for deferred tax	14.4	–	**27**	11.5	–	22
Adjusted	569.1	53,268	**1,068**	489.1	53,167	920

Adjusted net assets excludes the deferred tax provided in accordance with FRS19 on the basis that is unlikely that this liability will crystallise.

25 Net cash inflow from operating activities

	2004 £m	2003 £m
Cash received from:		
Tenants	**47.1**	43.9
Cash payments in respect of:		
Direct property expenses	**(6.3)**	(6.9)
Wages and salaries	**(3.7)**	(3.4)
Administrative costs	**(3.5)**	(3.2)
Properties held for resale	**–**	(0.2)
	33.6	30.2

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

	2004 £m	2003 £m
Operating profit	**37.8**	33.9
Long term incentive plan expense transferred to reserves	**0.2**	–
Depreciation charge	**0.1**	0.3
Increase in debtors	**(3.4)**	(1.7)
Increase/(decrease) in creditors	**17.2**	(3.1)
Effect of other deferrals and accruals on operating activity cash flow	**(18.3)**	0.8
Net cash inflow from operating activities	**33.6**	30.2

The increase in creditors includes £18.5m of the £18.7m received in respect of the insurance settlement for the fire damage at Telstar House. This has been carried forward in other creditors to be set-off against the cost of the future redevelopment of the property. This is not an operating cash flow and, therefore, is adjusted within the £18.3m effect of other deferrals and accruals on operating activity cash flow.

27 Reconciliation of net cash flow to movement in net debt

	2004 £m	2003 £m
(Increase)/decrease in cash in the year	**(0.7)**	0.6
Increase in cash on deposit	**–**	(4.5)
Cash inflow from movement in bank loans	**18.1**	8.9
Amortisation of discount and costs on issue of debenture	**0.1**	–
Movement in net debt in the year	**17.5**	5.0
Opening net debt	**301.8**	296.8
Closing net debt	**319.3**	301.8

28 Movement in net debt

	1st January 2004 £m	Cash flow £m	Other £m	**31st December 2004 £m**
Overdraft	2.0	(0.7)	–	**1.3**
Bank loans wholly repayable:				
less than 1 year	33.4	(33.4)	–	**–**
between 1–2 years	–	32.0	30.0	**62.0**
between 2–5 years	94.5	(0.5)	57.0	**151.0**
more than 5 years	142.0	20.0	(87.0)	**75.0**
	269.9	18.1	–	**288.0**
10⅛% First Mortgage Debenture Stock 2019	34.4	–	0.1	**34.5**
Gross debt	306.3	17.4	0.1	**323.8**
Cash and short term deposits	(4.5)	–	–	**(4.5)**
Net debt	301.8	17.4	0.1	**319.3**

29 Principal operating companies

The principal operating companies within the group are:

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

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

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

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

30 Capital commitments

Contracts for capital expenditure entered into by the group at 31st December 2004 and not provided for in the accounts amounted to £26.2m (2003: £6.5m).

31 Lease commitments

At 31st December 2004, annual commitments under property leases expiring in more than 5 years were £2.0m (2003: £1.4m).

32 Post balance sheet events

On 2nd March 2005, the group exchanged contracts for the acquisition of a property. Completion will be within two years, but it is not expected to take place in 2005. Total consideration for the acquisition will be £6.8m excluding costs.

33 Contingent liabilities

The company and its subsidiary undertakings are party to cross guarantees securing the overdraft and certain bank loans. At 31st December 2004 the maximum liability that could arise for the company from the cross guarantees amounted to £1.0m (2003: £1.7m). The company has guaranteed its share of a loan to Primister Limited, the contingent liability for which at 31st December 2004 amounted to £2.8m (2003: £2.8m). In addition, the company guarantees its share of interest payable on this loan which amounts to £0.3m per annum (2003: £0.3m).

The directors present their report and the financial statements for the year ended 31st December 2004.

Results and dividend

Profit before taxation from ordinary activities was £22.8m (2003: £17.1m) and profit after taxation amounted to £18.0m (2003: £14.8m). The directors recommend a final dividend of 8.90p per ordinary share. This, when taken with the interim dividend of 3.60p per share, paid on 1st November 2004, gives a total dividend of 12.50p (2003: 11.40p) per ordinary share for the year ended 31st December 2004, amounting to £6.7m. After ordinary dividends, £11.3m (2003: £8.7m) 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 2004	31st December 2003	**31st December 2004**	31st December 2003
J.C. Ivey	**79,072**	79,072	**–**	–
J.D. Burns	**691,536**	691,536	**163,250**	203,257
S.P. Silver	**301,359**	301,359	**136,750**	171,181
C.J. Odom	**12,650**	12,650	**131,521**	131,521
N.Q. George	**4,153**	4,153	**100,895**	100,895
P.M. Williams	**5,622**	5,622	**90,000**	107,988
I. Yeatman	**–**	–	**–**	–
S.J. Neathercoat	**1,000**	1,000	**–**	–
R.A. Farnes	**3,066**	3,066	**–**	–

There have been no changes in directors' shareholdings between the year end and 15th March 2005. During the year, directors exercised options over 14,350 shares at an exercise price of 237p; 19,576 shares at an exercise price of 345p and 58,500 shares at an exercise price of 569p. No new options were granted to directors during the year as the option scheme was replaced by a long term incentive plan. Full details of this and the options held by directors are given in the report on directors' remuneration which commences on page 48.

In accordance with the articles of association, Messrs S. P. Silver, I. Yeatman and C. J. Odom, who retire by rotation, being eligible, offer themselves for re-election. Mr Yeatman has served on the board for nine years and his re-election for a further term is being sought to ensure a smooth transition whilst a new non-executive director is appointed. Consequently, he is likely to serve for only a short additional period. Biographies of all the directors are given on page 47.

Other than as disclosed in note 6, the directors have no interest in any material contracts of the company.

Fixed assets

The group's freehold and leasehold investment properties were professionally revalued at 31st December 2004, resulting in a surplus of £66.9m. The freehold and leasehold investment properties are included in the group balance sheet at a carrying value of £916.6m.

Charitable donations

During the year, the group made charitable donations amounting to £56,000.

Substantial shareholders

In addition to those of the directors disclosed above, the company has been notified of the following interests in the issued ordinary share capital as at 15th March 2005.

	Number of shares	Percentage of issued share capital
Stichting Pensioenfonds ABP	3,774,032	7.08
ISIS Asset Management	3,352,127	6.29
Standard Life Investments Limited	2,625,905	4.93
Scottish Widows Investment Partnership	2,070,822	3.89
Prudential plc	1,985,896	3.73
Legal and General Investment Management Limited	1,627,195	3.05

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 2004, the average payment period for trade creditors was 24 days (2003: 21 days).

Corporate governance

Compliance

The board supports the principles of good governance and believes that the company has, except as noted, complied with the main and supporting principles of the Combined Code on Corporate Governance published by the Financial Reporting Council and which is appended to the Listing Rules of the Financial Services Authority. The company has not complied with code provision A.3.2 concerning the proportion of independent non-executive directors on the board or code provision C.3.4 concerning 'whistle blowing' procedures. An explanation of the composition of the board is given below. With regards to code provision C.3.4, to date the board has been satisfied that the existing, informal procedures addressed this matter satisfactorily. However, the audit committee has recommended that the issue be reconsidered during 2005. A number of other code provisions were not applicable in the current year.

The board

Throughout 2004, the board comprised Mr Ivey, the non-executive chairman, five executive directors, Messrs Burns, Silver, Odom, George and Williams and three non-executive directors, Messrs Neathercoat, Farnes and Yeatman. Having regard to the guidance on independence contained in code provision A.3.1, the company is aware that three of the non-executive directors are not automatically considered independent. Mr Ivey and Mr Yeatman have both served on the board for more than nine years; Mr Ivey shares a cross directorship at The Davis Service Group plc with Mr Burns and Mr Farnes was senior partner at CB Hillier Parker, one of the group's valuers, until 31st December 2002. In accordance with principle A.6 of the code, the board has reviewed the roles and performance of all directors. This review considered, amongst other matters, the independence of Mr Ivey, Mr Yeatman and Mr Farnes. In each case it was decided that the expertise they bring and the manner in which they carried out their duties was such that shareholders should have no cause for concern that their judgement or responsibilities were in any way impaired. Furthermore, the directors have considered the composition of the board and although recognising that it is not compliant with code provision A.3.2 believes it has sufficient breadth of skills, experience and balance to adequately satisfy the requirements of good corporate governance.

A formal schedule which sets out the division of responsibilities between the chairman, who is responsible for the effectiveness of the board, and the managing director, who is responsible for the day to day operations of the business, was approved by the board during the year. Mr Neathercoat is the senior independent director.

The board is responsible for setting the company's strategic aims, ensuring that adequate resources are available to meet its objectives and reviewing management performance. The formal list of matters reserved for the full board's approval was revised and approved during the year. Four meetings of the full board are scheduled each year with extra meetings arranged if necessary. Additionally, the executive board, which consists of the executive directors, meets on a monthly basis. The directors are provided with comprehensive papers in a timely manner to ensure that they are fully briefed on matters to be discussed at meetings of both the full and executive boards.

Cover is maintained by the company in respect of directors' and officers' liability insurance.

Since 1993, the board has maintained a number of board committees. The terms of reference of each committee were updated during the year and are available on the group's website. Details of the membership and duties of the three principal committees are set out below.

- Remuneration committee
  Throughout the year, the committee consisted of Mr Yeatman and Mr Neathercoat under the chairmanship of Mr Farnes. The committee is responsible for establishing the company's remuneration policy and individual remuneration for the executive directors. There were 9 meetings of the committee in 2004. The report on directors' remuneration is set out on pages 48 to 52.

- Audit committee
  Mr Farnes and Mr Yeatman served on the committee throughout 2004 with Mr Neathercoat as chairman. The committee is responsible for considering the application of financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors. The committee met 4 times during 2004. The report of the audit committee is on page 53.

- Nomination committee
  Mr Ivey is chairman of this committee which consisted of all of the non-executive directors. The committee's responsibilities include identifying external candidates for appointment as directors and, subsequently, recommending their appointment to the board and, if requested, making a recommendation concerning an appointment to the board from within the company. The committee also carries out the annual appraisal of the performance and effectiveness of the board and its three committees. The committee met once during the period under review.

Directors' attendance at board and committee meetings during the period under review was as follows:

	Full board	Executive board	Remuneration committee	Audit committee	Nomination committee
Number of meetings	4	12	9	4	1
Executive directors					
J.D. Burns	4	12	–	–	–
S.P. Silver	4	8	–	–	–
C.J. Odom	4	11	–	–	–
P.M. Williams	4	10	–	–	–
N.Q. George	4	11	–	–	–
Non-executive directors					
J.C. Ivey	4	–	–	–	1
S.J. Neathercoat	4	–	9	3	1
I. Yeatman	4	–	9	4	1
R.A. Farnes	4	–	9	4	1

Performance evaluation
The nomination committee carried out a formal appraisal of the performance of the board and its committees early in 2005. The remuneration committee performed appraisals of each of the executive directors as part of the salary review process. The performance of the chairman was evaluated by the non-executive directors under the chairmanship of the senior independent director. All of the appraisals were conducted internally using questionnaires based on the guidance contained in the Higgs Report.

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

If considered appropriate, new directors are sent on an external training course addressing their role and duties as a director of a quoted public company. Existing directors monitor their own continued professional development and attend those courses that are necessary to keep their market and regulatory knowledge current. All directors have access to the services of the company secretary and 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. Regular contact with institutional shareholders and fund managers is maintained, principally by the executive directors, through presentations and visits to the group's property assets. The board receives regular reports of these meetings. 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. An alternative channel of communication to the board is available through the senior independent director.

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 the effectiveness and efficiency of 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 as a whole retains responsibility for the group's system of internal controls and risk management and performs an annual review of the effectiveness of the system. Following this year's review, it believes that an ongoing process for identifying, evaluating and managing the significant risks faced by the group has been in place from 1st January 2004 to 15th March 2005. During the period, the board has continued to monitor the operation of the system with a view to further integrating it into the business processes where possible and to address any areas for improvement as they are identified. One such improvement was the establishment of a credit committee, which meets weekly to undertake an assessment of each new tenant's credit worthiness.

The board has considered the need for an internal audit function but continues to believe that this is unnecessary given the size and complexity of the group.

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

Corporate social responsibility (CSR)
The board recognises that the group's activities have an impact on the economy, community and environment within which it operates. These matters are considered to be the responsibility of the whole board and the potential risks arising therefrom are monitored by the group's system of internal control.

In assessing whether the group's controls are adequate to manage the risks to the group, the board gives due consideration to key characteristics of the group's business, for example:

- the group does not operate in any countries which have unacceptable human rights records.
- there are only 27 employees, all based at the group's single office in Central London.
- the group manages, refurbishes and redevelops a portfolio of Central London properties.

Accordingly, it continues to believe that formal policies are only required concerning the environment and health and safety, these being the elements of CSR that present significant risks to the group. Details of the measures taken by the group in these areas, together with the informal policies adopted in other areas of CSR, are given below.

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

  The group's environmental policy document, which is issued to all appropriate professional advisers and members of staff, was updated during the year. A full environmental audit is carried out prior to any acquisition or redevelopment.

  The group's major environmental impact stems from its refurbishment/redevelopment programme as, after a property is fully let, its ability to influence the tenants' behaviour is limited. No two projects are the same and consequently the board, together with its environmental consultants, has not identified any measures that would enable meaningful, year on year, comparisons to be made. Specific initiatives at each project can be used to reduce the environmental impact of the group's activities and monitoring systems can be implemented to ensure that, where the impact is already low, it remains at this level.

Set out below are those areas that the board considers to have the most significant impact on the environment, together with the actions taken:

– Timber. The group's objective is not to use hard woods in its refurbishments. Where such use is unavoidable, certification that the wood came from sustainable sources is sought.

– Ozone depleters. All such materials have been removed from the group's portfolio.

– Energy. Where possible, energy efficient plant and equipment is specified when undertaking a redevelopment or refurbishment and due regard is given to Part L of the building regulations. Such plant often benefits from favourable tax treatment. In new developments, consideration is given to installing displacement air conditioning which uses significantly less energy than traditional systems. Energy use in the common parts of the group's properties is monitored but it is accepted that this represents only a small part of the total energy consumed at any property. At new developments, the group works with the local authority to promote the Green Travel Plan.

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

– Water. The group aims to have water meters installed throughout the portfolio so as to promote reduced usage. Currently 67% of the portfolio has meters installed.

– Asbestos. An audit of the group's portfolio was completed during the year. No immediate problems were identified and, where appropriate, a monitoring regime and/or a plan for removal was adopted.

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

• Health and safety
A formal health and safety policy, which is reviewed at regular intervals and revised as necessary, has been adopted by the board and embedded in the management regime for the group's refurbishment and redevelopment sites. To ensure compliance with the policy, an executive is assigned to each scheme to monitor the performance of the main contractor who, in turn, monitors the subcontractors and reports back to the executive. All sites are registered with, and inspected under, the Considerate Contractors' Scheme. The board receives regular reports from each site together with notification of any accidents that require reporting under the Health and Safety regulations. There were no reportable incidents during 2004.

Following the extension of the Disability Discrimination Act (1995), the portfolio was audited to assess compliance. Implementation of the changes required is now well advanced. New schemes are all audited to ensure that they comply with the requirements of the act.

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

The group continued to support Teenage Cancer Trust throughout 2004, providing coordinated advice for the trust's development programme. The group has recently agreed to sponsor a postgraduate student at the London Contemporary Dance School in Camden.

Annual general meeting

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

Resolution 8 renews the authority under Section 80 of the Companies Act 1985 for the directors to allot shares up to an aggregate nominal amount of £887,801.30 representing about one third of the issued share capital (excluding treasury shares) at the date of the notice of meeting. The directors have no present intention of issuing shares except on the exercise of options under the company's share option scheme. The authority will expire at the conclusion of the next annual general meeting after the passing of the resolution.

Resolution 9 is a special resolution, proposed annually, renewing the directors' authority under Section 95 of the Companies Act 1985. The resolution empowers the directors to allot or, now that the company may hold shares as treasury shares (as further described below), sell shares for cash in connection with pre-emptive offers with modifications to the requirements set out in Section 89 of the Companies Act 1985. The resolution further empowers the directors to allot or, in the case of treasury shares, sell shares for cash, otherwise than on a pre-emptive basis, up to an aggregate nominal value of £133,170.20 which is equivalent to approximately 5% of the issued share capital at 31st December 2004 and 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 10, a special resolution, is proposed to renew the authority enabling the company to purchase its own shares. This authority enables the directors to act quickly, if, having taken account of all major factors such as the effect on earnings and net asset value per share, gearing levels and alternative investment opportunities, such purchases are considered to be in the company's and shareholders' best interest while maintaining an efficient capital structure. The resolution gives the directors authority to purchase up to 10% of the company's ordinary shares and specifies the maximum and minimum prices at which shares may be bought.

The Companies Act 1985 now permits the company to hold any such bought-back shares in treasury, with a view to possible re-issue at a future date, as an alternative to immediately cancelling them (as had previously been required by the legislation). Accordingly, if the company purchases any of its shares pursuant to resolution 10, the company may cancel those shares or hold them in treasury. Such decision will be made by the directors at the time of purchase on the basis of the company's and shareholders' best interest. As at the date of the notice of meeting, the company held no shares in treasury.

The total number of options to subscribe for ordinary shares outstanding at 15th March 2005 was 709,166, which represented 1.33% of the issued share capital (excluding treasury shares) at that date. If the company was to purchase the maximum number of ordinary shares permitted by this resolution, the options outstanding at 15th March 2005 would represent 1.48% of the issued share capital (excluding treasury shares).

Auditors

BDO Stoy Hayward LLP have expressed their willingness to continue in office and accordingly a resolution to re-appoint them and to authorise the directors to determine their remuneration will be proposed at the annual general meeting. This is resolution 7 set out in the notice of meeting.

By order of the board

T.J. Kite, ACA
Secretary
15th March 2005

Statement of directors' responsibilities

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

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

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

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

Directors

J.C. Ivey, 63
Non-executive chairman
A chartered accountant, Mr Ivey, is chief executive of The Davis Service Group plc and has served on the board since 1984. He chairs the nomination committee.

J.D. Burns, 60
Managing director
Mr Burns has been a director of the company since 1984 and has overall responsibility for group strategy, business development and day to day operations. He is a non-executive director of The Davis Service Group plc and a partner in Pilcher Hershman & Partners, estate agents.

S.P. Silver, 54
Mr Silver has overall responsibility for acquisitions, design and development projects. He became a director in 1986 and is a partner in Pilcher Hershman & Partners.

C.J. Odom, 54
Mr Odom joined the board in 1988. He is a chartered accountant and has overall responsibility for financial strategy, treasury, taxation and financial reporting.

N.Q. George, 41
A chartered surveyor, Mr George was appointed to the board in 1998. He has responsibility for acquisitions and investment analysis.

P.M. Williams, 45
Mr Williams is a chartered surveyor and was appointed to the board in 1998. His responsibilities include asset management and supervision of refurbishment and development projects.

S.J. Neathercoat, 56
Senior independent director
Mr Neathercoat is a chartered accountant. He joined the board in March 1999 and is a member of the audit, remuneration and nomination committees. He is chairman of the audit committee.

R.A. Farnes, 59
Non-executive director
Mr Farnes is a chartered surveyor. He was previously the chairman of CB Hillier Parker and joined the board on 1st April 2003. He is a member of each of the audit and nomination committees and chairs the remuneration committee.

I. Yeatman, 67
Non-executive director
Mr Yeatman is a chartered surveyor. He joined the board in 1995 and is a member of the audit, remuneration and nomination committees.

Remuneration committee

The committee consisted of Mr Yeatman and Mr Neathercoat and was chaired by Mr Farnes. None of the members has any personal interest in the matters decided by the committee, nor any day to day involvement in the running of the business and, therefore, they are considered to be independent. The committee meets at least 3 times a year to consider the terms and conditions of employment of the executive directors, to set remuneration levels and to operate the group's performance related bonus scheme and equity based long term incentive schemes.

During the year, New Bridge Street Consultants LLP provided the performance statistics required to operate the share option scheme. They also advised the committee with regard to the long term incentive plan, which was approved by shareholders at the company's annual general meeting in May 2004, and the revised bonus arrangements that were introduced at the same time. They provide no other services to the company. No director had any involvement in determining his own remuneration although some of the matters considered by the committee were discussed with Mr Burns.

Policy

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

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

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

Service contracts

The service contracts of Messrs Burns, Silver and Odom are dated 20th May 1997, whilst those of Messrs George and Williams are dated 31st March 1999. The contracts have no stated termination date but require 12 months' notice of termination and include provision for the company to pay, by way of liquidated damages, a cash amount equivalent to 12 months salary and benefits in kind plus a pension contribution of at least 20% of basic salary. The remuneration committee reviews the service contracts periodically. The non-executive directors do not have service contracts and are appointed for three year terms which expire as follows: Mr Ivey, 12th December 2005; Mr Yeatman, 30th November 2005; Mr Neathercoat, 28th February 2008 and Mr Farnes, 28th March 2006.

Basic salary and benefits

Basic salaries for executive directors are reviewed annually by the remuneration committee having regard to the remuneration policy set out above. Pension contributions for the five executive directors are based solely on basic salaries and paid into a defined contribution scheme. The principal benefits in kind comprise a company car and medical insurance.

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

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

Table 1

	Salary and fees £000	Estimated bonus £000	Benefits in kind £000	Gain on exercise of share options £000	**2004 Total £000**	**2004 Pension and life assurance £000**	Under provision of 2003 bonus £000	2003 Revised total £000	2003 Pension and life assurance £000
Executive									
J.D. Burns	378	95	34	151	**658**	**100**	18	431	97
S.P. Silver	315	79	30	130	**554**	**109**	15	360	105
C.J. Odom	237	59	11	–	**307**	**68**	11	256	65
N.Q. George	193	48	14	–	**255**	**48**	9	204	44
P.M. Williams	215	54	13	115	**397**	**55**	10	227	50
Non-executive									
J.C. Ivey	40	–	–	–	**40**	**–**	–	40	–
I. Yeatman	30	–	–	–	**30**	**–**	–	25	–
S.J. Neathercoat	30	–	–	–	**30**	**–**	–	25	–
R.A. Farnes	30	–	–	–	**30**	**–**	–	19	–
	1,468	335	102	396	**2,301**	**380**	63	1,587	361

The under provision of the 2003 bonus, which has been recognised in the 2004 results, is the amount by which the final award under the bonus scheme, which could only be ascertained once the results of all the comparator companies had been announced, exceeded the estimated amount included in the 2003 results. The total remuneration for 2003, which was previously disclosed as £1,524,000, has been revised to allow a correct comparison to be made between the two years.

Mr Burns received fees of £30,000 in respect of his position as a non-executive director of The Davis Service Group plc. In accordance with the remuneration committee's policy, the fees were retained by Mr Burns.

Bonus scheme

During 2004 a new group bonus scheme was introduced with a bonus potential, in normal circumstances, of 2/3 of base salary, determined by reference to targets linked to net asset value growth. No bonus will become payable for below median performance. A further 1/3 of base salary will be available by determination of the remuneration committee but only where performance is considered truly exceptional.

Share option schemes

Following the approval of the Derwent Valley Holdings plc Performance Share Plan by shareholders on 20th May 2004, no further grants will be made to directors under the 1997 Executive Share Option Scheme.

Details of the options held by directors and employees under the group's share option schemes at 31st December 2004 are given in table 2 below:

Table 2

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
2.370	12/4/98	11/4/05	–	–	–	18,450	14,350	–	32,800
3.450	26/4/99	25/4/06	8,507	7,431	7,021	5,945	3,638	–	32,542
5.690	15/4/01*	14/4/08	31,500	27,000	21,500	10,500	13,500	8,500	112,500
5.530	16/4/02*	15/4/09	25,250	21,500	16,500	8,750	10,750	6,750	89,500
5.015	14/4/03*	13/4/10	30,000	25,000	19,000	11,000	13,000	8,000	106,000
7.235	12/4/04*	11/4/11	42,000	35,000	26,500	15,000	18,000	12,500	149,000
6.725	15/4/05*	14/4/12	24,000	20,250	15,000	10,750	12,250	10,500	92,750
4.265	22/4/06*	21/4/13	42,000	35,000	26,000	20,500	22,500	21,500	167,500
Outstanding at 1st January 2004			203,257	171,181	131,521	100,895	107,988	67,750	782,592
Options granted during 2004									
8.590	5/7/07*	4/7/14	–	–	–	–	–	27,500	27,500
Options exercised during 2004									
Exercise price £		Market price at date of exercise £							
2.370		8.98	–	–	–	–	(14,350)	–	(14,350)
3.450		8.98	(8,507)	(7,431)	–	–	(3,638)	–	(19,576)
5.690		8.98	(31,500)	(27,000)	–	–	–	(8,500)	(67,000)
Outstanding at 31st December 2004			163,250	136,750	131,521	100,895	90,000	86,750	709,166

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

The exercise of options already granted under the 1997 Executive Share Option Scheme is subject to a three year performance criteria. This states that a year's options can only be exercised once the growth of the group's net asset value per share over a subsequent three year period exceeds the increase of the IPD Central London Office Capital Growth Index over the same period by 6% or more. Those exercisable on 15th April 2001, 16th April 2002, 14th April 2003 and 12th April 2004 have met this criteria. Subsequent options have yet to be tested.

The market price of the 5p ordinary shares at 31st December 2004 was £11.25. During the year, they traded in a range between £7.10 and £11.53.

Long term incentive plan

Under the Derwent Valley Holdings plc Performance Share Plan, selected individuals may receive a conditional award of shares, which will normally be released after three years subject to continued employment and the achievement of the performance conditions set out below. The rules limit annual awards to 100% of an executive's salary and details of entitlements under the scheme are as set out below in table 3:

Table 3

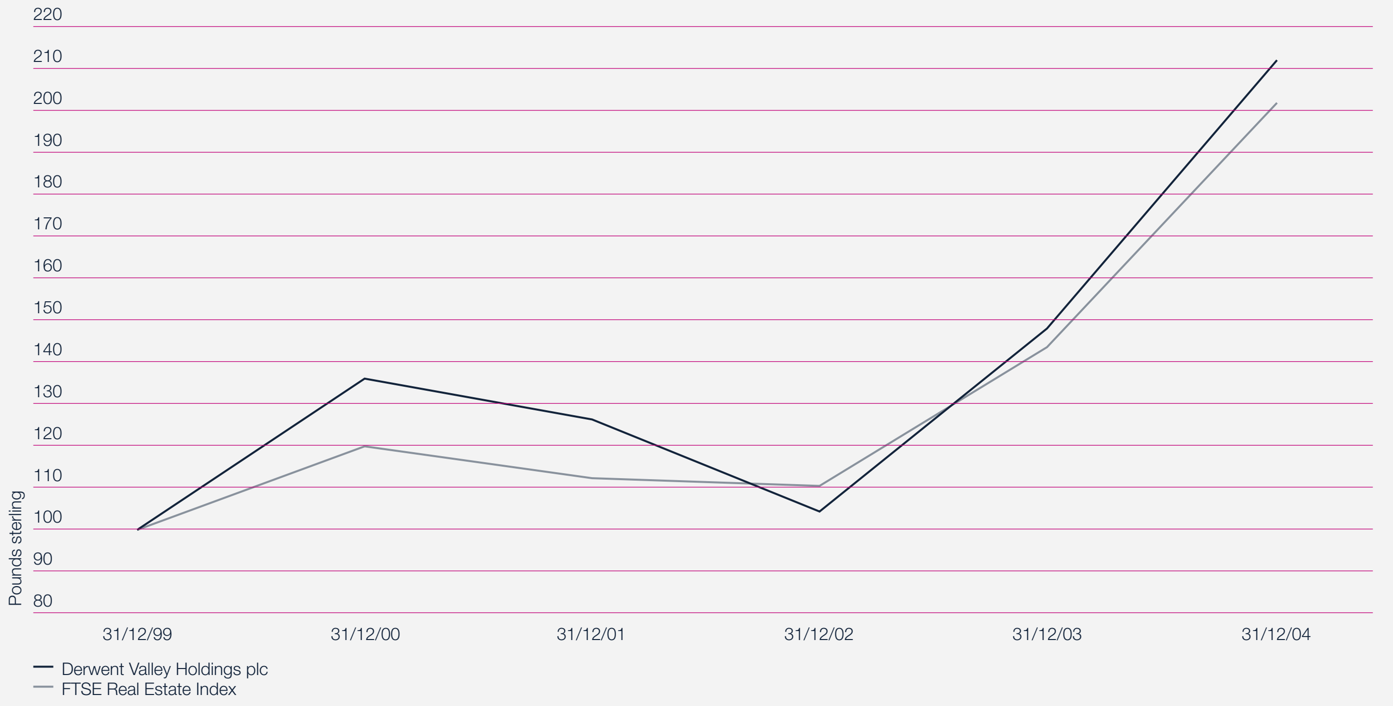
		Directors						
		J.D. Burns	S.P. Silver	C.J. Odom	N.Q. George	P.M. Williams	Employees	Total number of shares
Interest as at 1st January 2004		–	–	–	–	–	–	–
Shares conditionally awarded during 2004:								
Market price at award date £	Vesting date							
8.740	15/6/07	43,000	36,000	27,000	22,000	24,500	12,500	165,000
Interest as at 31st December 2004		43,000	36,000	27,000	22,000	24,500	12,500	165,000

Half the shares representing an award (Part A) vest according to the group's performance as measured by total shareholder return (TSR) compared to a defined comparator group comprising the constituents, as at the date of grant, of the FTSE Real Estate Index. At the median level of performance, 25% of Part A will vest (i.e. 12.5% of the total award). At or above upper quartile performance, 100% of Part A will vest (i.e. 50% of the total award). Between these two points, vesting will accrue on a straight line basis. This element will only vest if the remuneration committee is also satisfied that the TSR performance reflects underlying financial performance.

The other half of the award (Part B) will vest according to the group's growth in net asset value (NAV) compared to the IPD Central London Offices Total Return Index ("the IPD Index") for the same period. If the growth in NAV is less than the IPD Index, no proportion of Part B will vest. If growth in NAV is equal to the IPD Index, 25% of Part B will vest (i.e. 12.5% of the total award) and the entitlement will then increase on a sliding scale up to 100% (50% of the total award) which is achieved when NAV growth equals or exceeds the upper quartile figure for the IPD Index.

Performance graph

Total shareholder return compared to the FTSE Real Estate Index.



This graph shows the value, by the end of 2004, of £100 invested in Derwent Valley Holdings plc on 31st December 1999 compared to that of £100 invested in the FTSE Real Estate Index. This index has been chosen by the committee as it is considered the most appropriate benchmark against which to assess the relative performance of the company. To produce a 'fair value', each point is a 30 day average of the return.

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

On behalf of the board

R. A. Farnes
Chairman of the remuneration committee
15th March 2005

Report of the audit committee

Membership

The audit committee consists of Mr Yeatman and Mr Farnes under the chairmanship of Mr Neathercoat. All three members are considered independent by the company, having no day to day involvement with the company. Mr Neathercoat is a member of The Institute of Chartered Accountants in England and Wales and is considered to have appropriate recent and relevant financial experience.

Roles and responsibilities

The terms of reference for the committee were updated during the year and are available on the company's website.

Meetings

The committee meets at least three times a year to discharge its responsibilities. Meetings are attended by the group's external auditors and the group's finance director, when invited.

Work of the committee

During the year, the committee has carried out the following:

- Reviewed the interim and annual financial statements and considered the appropriateness of the accounting policies used, assumptions adopted and estimates made.
- Held meetings with the group's external valuers.
- Reviewed the scope of the annual audit and the level of associated fees.
- Considered the adequacy of the auditors' statement of independence and implemented a policy regarding the use of the external auditors for non-audit work to protect the auditors' independence and objectivity.
- Recommended the re-appointment of the group's external auditors after due consideration of the conduct of the audit and the matters raised in the management letter.
- Considered the future impact of the implementation of International Financial Reporting Standards on the results of the group.
- Reviewed the group's informal 'whistle blowing' procedures and concluded that, despite the statutory rights that exist, consideration should be given to introducing a more formal procedure.

S. J. Neathercoat
Chairman of the audit committee
15th March 2005

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 2004 on pages 24 to 38 which have been prepared under the accounting policies set out on pages 28 and 29. We have also audited the information in the report on directors' remuneration that is described as having been audited.

Respective responsibilities of directors and auditors

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

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

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

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

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the directors' report, the unaudited part of the report on directors' remuneration, the report of the audit committee, the chairman's statement, the property review and the financial review. 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.

Report of the independent auditors

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the group and the company at 31st December 2004 and of the profit of the group for the year then ended; and
- the financial statements and the part of the Report on Directors' Remuneration to be audited have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward LLP
Chartered Accountants and Registered Auditors
London
15th March 2005

Reconciliation of UK GAAP to IFRS for the year ended 31st December 2004

Introduction

The results previously presented in this annual report are the last that will be prepared under UK Financial Reporting Standards (UK GAAP). From 1st January 2005, all groups with capital listed on a stock market within the European Union are required to adopt International Financial Reporting Standards (IFRS). Therefore, the first results we announce under IFRS will be the 2005 interim report and it is a requirement to include a reconciliation from UK GAAP to IFRS within that report, for both the half year and full year comparative reporting periods. In advance of that requirement, this section of the annual report illustrates the effect that the conversion to IFRS will have on the 2004 results. The subsequent pages detail the individual differences in accounting treatment and how the income statement (formerly the profit and loss account) and balance sheet will be changed.

This reconciliation is excluded from the audit opinion included in the report of the independent auditors on pages 54 and 55. However, the auditors have reviewed the reconciliation on the subsequent pages and have confirmed that they are not aware of any material modifications that are required to this.

Basis of preparation

The 2004 figures have been restated on the basis of all IFRS currently applicable, which includes International Accounting Standards (IAS) and Interpretations issued by the International Accounting Standards Board (IASB) and its committees. This restatement reflects our current interpretation of IFRS and there is a possibility that conventions will evolve within the property sector which differ from our current interpretation. IFRS are also subject to ongoing amendment and, as a result, the amounts disclosed herein will be subject to revision for any change to IFRS that the group may decide to adopt early.

The group has taken advantage of the specific exemption in IFRS1, First-time Adoption of International Financial Reporting Standards, to only apply IAS39, Financial Instruments: Recognition and Measurement, from 1st January 2005 and not to restate the comparative information.

Key changes

The main differences to UK GAAP for 2004 are:

- Revaluation surplus on investment properties is reported in the income statement. Previously, this was reported as a movement on the revaluation reserve.
- Contingent tax on the revaluation surplus reported as part of the tax charge. Previously, this amount was disclosed in the notes.
- Headlease liabilities capitalised and included within net debt, and the carrying value of leasehold investment properties grossed up. Previously, leasehold investment properties were reported net of the leasehold liability.
- Lease incentives amortised over the term of the lease. Previously, these incentives were amortised generally to the first rent review.
- Dividends not declared by the year end are excluded from the results for that year. Previously, proposed dividends were included as a deduction from profit in the year, prior to being declared at the subsequent annual general meeting.

Another area that will be affected is the reporting of financial instruments in accordance with IAS39, in particular interest rate derivatives. As noted above, it is not a requirement for 2004 figures to be restated for this and it will only be included for the first time in the 2005 results. IFRS will require such instruments to be carried at fair value and for movements in fair value over time to be reported in the income statement, unless an effective hedging relationship existed, in which case the movement will be carried in equity, i.e. as a movement in other reserves. Hedging relationships were established and documented for all hedging instruments during 2004 and all of these were proven to be effective prospectively. Previously, the fair value of such derivatives was disclosed in the notes.

Other areas that specifically affect the property sector, but which do not change the group's results for 2004 are:

- Development properties categorised as investment properties and revalued. Previously, applying the group accounting policy under UK GAAP, such properties were carried at their last valuation prior to being designated as a development property, plus subsequent costs. Upon practical completion, they would be classified as investment property once again and revalued. Whilst the group's development properties have now been categorised as investment properties under IFRS and revalued, this has not resulted in any revaluation surplus being reported in 2004.
- Finance leases to tenants, whereby substantially all of the risks and rewards of ownership have passed from the group to the tenants, cannot be categorised as investment property. Instead, at the time of granting the lease, the asset would be categorised as a lease receivable calculated on the basis of the present value of the minimum lease payments, which would not be subject to periodic revaluations. Instead of reporting rental income from the lease, this would be recategorised as part interest receivable and part repayment of the lease asset. Having carried out a review of all of the leases in the portfolio we have concluded that there are no finance leases.

Reconciliation of UK GAAP to IFRS for the year ended 31st December 2004

Performance reporting

The key performance measures we report are adjusted net asset value and adjusted profit before tax, the changes to which are noted below.

	2004 UK GAAP	Change inc/(dec)	2004 IFRS
Net assets (£m)	554.7	(59.2)	495.5
Net assets per share (p)	1,041	(111)	930
Adjusted net assets (£m)	569.1	3.2	572.3
Adjusted net assets per share (p)	1,068	6	1,074
Adjusted profit before tax (£m)	16.4	1.9	18.3

Whilst the IFRS balance sheet net asset value more closely approximates to the triple net asset value used by many analysts and commentators, this will be adjusted to exclude the contingent tax on the revaluation surplus and also for the fair value of the interest rate derivatives. This results in a similar adjusted net asset value to UK GAAP, with the main difference being the one off gain from not including the final dividend in the results. The main difference between UK GAAP adjusted profit before tax and IFRS adjusted profit before tax is the additional income reported in the early years of a lease as a result of spreading lease incentives over a longer period. These adjustments can be seen on the reconciliations on the subsequent pages.

Cash flow

An important point to note is that despite all the changes to reporting assets, liabilities and performance, the cash flows that underly the business will remain exactly the same. However, the cash flow statement reported under IFRS will differ presentationally from the UK GAAP cash flow statement in terms of how cash is defined and how items are categorised. A cash flow reconciliation is not included because the IFRS definition of cash does not affect the reported cash flow for 2004 and because the most appropriate categorisation of cash flows is still being considered.

Dividend policy and distributable reserves

As well as cash flow being unaffected by the change to IFRS, the group's dividend policy will also remain unchanged. Fundamental to this is the effect of IFRS on distributable profit. As noted previously, the surplus on the investment property portfolio together with the contingent tax thereon are now reported in the income statement and, hence, revenue reserves. However, neither of these affect distributable profits. Consequently, it has been concluded that the conversion to IFRS will not hinder the ability of the group to continue with the current dividend policy.

Net debt and lending covenants

The impact of grossing up for headlease liabilities, together with the fair value reporting of interest rate derivatives will change reported net debt. However, the group does not have any corporate borrowing covenants that would be affected by such a change. The value and income covenants as defined within the current loan agreements are not subject to the effects of these changes to financial reporting and consequently the debt risk of the group is not affected by the change to IFRS.

Taxation

Although the group tax charge will reflect the conversion to IFRS, the actual tax payments made will not differ from that under UK GAAP. This is because the subsidiary companies are the taxable entities that would principally be affected by IFRS. We currently intend to continue to report under UK GAAP for the subsidiaries, and they will be taxed on that basis, i.e. only the group and holding company results will be reported under IFRS. The subsequent schedules show the tax adjustments to the group position as deferred tax, to distinguish from the corporation tax that will actually be payable.

Reconciliations

Pages 58 to 61 reconcile the profit and net assets from UK GAAP to IFRS. What was referred to as the profit and loss account under UK GAAP is now called the income statement, but it is otherwise very similar. The balance sheet also looks similar, but distinguishes total assets, total liabilities and total equity, with no disclosure of net current assets or liabilities.

Reconciliation of UK GAAP to IFRS for the year ended 31st December 2004 Income statement

	Note	2004 UK GAAP £m	IFRS adjustments 1 Revaluation surplus reported in income statement £m	2 Contingent tax on revaluation surplus £m	3 Rent payable on headlease reclassified £m	4 Insurance receipt from fire damaged building £m
Gross property income		**49.9**				
Ground rent		**(1.5)**			1.2	
Net property expenditure		**(3.6)**				
Net property income		**44.8**	–	–	1.2	–
Administrative costs		**(7.0)**				
Operating profit before investment property profit		**37.8**	–	–	1.2	–
Profit on disposal of investment properties		**6.4**				18.5
Group revaluation surplus		**–**	66.9			(18.5)
Operating profit		**44.2**	66.9	–	1.2	–
Interest receivable		**0.3**				
Interest payable		**(22.1)**			(1.2)	
Share of results of joint ventures		**0.4**	1.5			
Profit on ordinary activities before taxation		**22.8**	68.4	–	–	–
Taxation on profit on ordinary activities		**(4.8)**		(9.7)		
Profit for the financial year		**18.0**	68.4	(9.7)	–	–
Dividend		**(6.7)**				
		11.3	68.4	(9.7)	–	–

Adjusted profit before taxation reconciliation

Statutory profit before taxation		**22.8**	68.4	–	–	–
Adjustments						
Profit on disposal of investment properties		**(6.4)**				(18.5)
Group revaluation surplus		**–**	(66.9)			18.5
Share of joint venture's revaluation surplus		**–**	(1.5)			
Derivative fair value movement		**–**				
Adjusted profit before taxation		**16.4**	–	–	–	–

5 Lease incentives amortised over period to lease expiry £m	6 Dilapidations reported in income statement £m	7 Development property letting fees reported in income statement £m	8 Share option expense £m	9 Joint ventures single line equity accounting £m	10 STRGL tax reported in income statement £m	11 Dividend not declared by the year end £m	**Total adjustments** £m	**2004 IFRS** **£m**
1.6	0.6						2.2	**52.1**
							1.2	**(0.3)**
		(0.2)					(0.2)	**(3.8)**
1.6	0.6	(0.2)	–	–	–	–	3.2	**48.0**
			(0.1)				(0.1)	**(7.1)**
1.6	0.6	(0.2)	(0.1)	–	–	–	3.1	**40.9**
							18.5	**24.9**
(1.6)	(0.6)	0.2					46.4	**46.4**
–	–	–	(0.1)	–	–	–	68.0	**112.2**
							–	**0.3**
				0.3			(0.9)	**(23.0)**
				(0.3)			1.2	**1.6**
–	–	–	(0.1)	–	–	–	68.3	**91.1**
(0.5)	(0.2)				(3.3)		(13.7)	**(18.5)**
(0.5)	(0.2)	–	(0.1)	–	(3.3)	–	54.6	**72.6**
						0.5	0.5	**(6.2)**
(0.5)	(0.2)	–	(0.1)	–	(3.3)	0.5	55.1	**66.4**
–	–	–	(0.1)	–	–	–	68.3	**91.1**
							(18.5)	**(24.9)**
1.6	0.6	(0.2)					(46.4)	**(46.4)**
							(1.5)	**(1.5)**
							–	**–**
1.6	0.6	(0.2)	(0.1)	–	–	–	1.9	**18.3**

Reconciliation of UK GAAP to IFRS for the year ended 31st December 2004 Balance sheet

		2004 UK GAAP		IFRS adjustments		
	Note	At start of year £m	**At end of year £m**	1 Revaluation surplus reported in income statement £m	2 Contingent tax on revaluation surplus £m	3 Grossing up of headlease liabilities £m
Non-current assets						
Fixed assets and investments		807.3	**919.0**			22.2 12.6
Current assets		20.3	**23.7**			
Total assets		827.6	**942.7**	– –	– –	22.2 12.6
Current liabilities		(65.3)	**(50.2)**			
Non-current liabilities						
Leasehold liability		–	**–**			(22.2) (12.6)
Deferred tax		(11.5)	**(14.4)**		(62.4) (52.7)	
Borrowings and other long term creditors and provisions		(273.2)	**(323.4)**			
Total liabilities		(350.0)	**(388.0)**	– –	(62.4) (52.7)	(22.2) (12.6)
Net assets		477.6	**554.7**	– –	(62.4) (52.7)	– –
Capital and reserves – equity						
Share capital		2.6	**2.6**			
Share premium		153.7	**154.1**			
Revaluation reserve		208.7	**265.7**	(265.7) (208.7)		
Other reserves		–	**0.2**			
Profit and loss – distributable		112.6	**132.1**			
Profit and loss – non-distributable				265.7 208.7	(62.4) (52.7)	
Total equity		477.6	**554.7**	– –	(62.4) (52.7)	– –
Adjusted net assets reconciliation						
Balance sheet net assets		477.6	**554.7**	– –	(62.4) (52.7)	– –
Adjustments						
Deferred tax on capital allowances		11.5	**14.4**			
CGT on revaluation surplus					62.4 52.7	
Mark to market on hedging		–				
Adjusted net assets		489.1	**569.1**	– –	– –	– –

	4 Insurance receipt from fire damaged building £m	5 Lease incentives amortised over period to lease expiry £m	6 Dilapidations reported in income statement £m	7 Development property letting fees reported in income statement £m	8 Share option expense £m	11 Dividend not declared by the year end £m	Total adjustments At start of year £m	Total adjustments At end of year £m	2004 IFRS At start of year £m	2004 IFRS **At end of year £m**
	(18.5)	(4.7)						(1.0)		918.0
		(3.1)					9.5		816.8	
		4.7						4.7		28.4
		3.1					3.1		23.4	
	(18.5)	–	–	–	–	–		3.7		946.4
	–	–	–	–	–	–	12.6		840.2	
	18.5					4.8		23.3		(26.9)
						4.3	4.3		(61.0)	
								(22.2)		(22.2)
							(12.6)		(12.6)	
		(1.4)	(0.2)					(64.0)		(78.4)
		(0.9)					(53.6)		(65.1)	
							–	–	(273.2)	(323.4)
	18.5	(1.4)	(0.2)	–	–	4.8		(62.9)		(450.9)
	–	(0.9)	–	–	–	4.3	(61.9)		(411.9)	
	–	(1.4)	(0.2)	–	–	4.8		(59.2)		495.5
	–	(0.9)	–	–	–	4.3	(49.3)		428.3	
							–	–	2.6	2.6
							–	–	153.7	154.1
								(265.7)		–
							(208.7)		–	
					0.1			0.1		0.3
							–		–	
	18.5	(1.4)	0.4	(0.2)	(0.1)	4.8		22.0		154.1
		(0.9)				4.3	3.4		116.0	
	(18.5)		(0.6)	0.2				184.4		184.4
							156.0		156.0	
	–	(1.4)	(0.2)	–	–	4.8		(59.2)		495.5
	–	(0.9)	–	–	–	4.3	(49.3)		428.3	
	–	(1.4)	(0.2)	–	–	4.8		(59.2)		495.5
	–	(0.9)	–	–	–	4.3	(49.3)		428.3	
								–		14.4
							–		11.5	
								62.4		62.4
							52.7		52.7	
							–	–	–	–
	–	(1.4)	(0.2)	–	–	4.8		3.2		572.3
	–	(0.9)	–	–	–	4.3	3.4		492.5	

Reconciliation of UK GAAP to IFRS for the year ended 31st December 2004 Notes

1 Revaluation surplus reported in the income statement

IAS40, Investment Property, requires that the surplus or deficit on the revaluation of investment properties is reported in the income statement. This amounts to £66.9 million from the revaluation of the group's investment properties in 2004, and a further £1.5 million from the group's share of the revaluation surplus on a property held in a joint venture. In accordance with IAS31, Interests in Joint Ventures, this is included in the single line entry on the income statement. See note 9 below.

The balance sheet on page 60 shows the consequent reclassification of the UK GAAP revaluation reserve to the income reserve, formerly the profit and loss account reserve, at the beginning and end of 2004. This income reserve has been split between distributable and non-distributable for this reconciliation to highlight those IFRS adjustments that will affect distributable reserves. This particular change in accounting will not affect distributable reserves.

Previously, revaluation surpluses or deficits, to the extent that any deficit was not permanent, were reported as a movement in the revaluation reserve.

2 Contingent tax on the revaluation surplus reported as part of the tax charge

IAS12, Income Taxes, requires a provision for the capital gains tax that would be payable if the portfolio was sold. Based on the December 2004 valuation this amounted to £62.4 million, compared to £52.7 million at the previous year end, which is included within deferred tax and is a reduction in net assets. The increase of £9.7 million in the year is reported as part of the 2004 tax charge in the income statement.

Previously under UK GAAP, FRS19, Deferred Tax, specifically prohibited this provision being made.

3 Grossing up of headlease liabilities

IAS17, Leases, requires that the liability to make future lease payments on a leasehold investment property is provided for in full, based on the present value of the minimum lease payments. This liability is included within net debt and the investment property is reported gross of the liability.

The rent paid on such leases is recategorised, split between interest payable and repayment of the lease liability. For 2004, £1.2 million of the total £1.5 million rent payable has been reclassified as interest payable. The lease liability repayment is less than £50,000, so does not appear on the schedule. As the unexpired term of these leasehold properties decreases, the balance between interest payable and lease liability repayment will begin to reverse. The remaining £0.3 million reported as ground rent under IFRS is what is referred to as contingent rent. This is rent currently payable that exceeds the minimum payable when the liability was first calculated as a result of, for example, review increases.

The balance sheet on page 60 shows that at the beginning of 2004, the leasehold liability amounted to £12.6 million, increasing to £22.2 million at the year end. During the year, the acquisition of two leasehold investment properties increased this by £11.2 million and the disposal of a leasehold investment property reduced the liability by £1.6 million.

Previously, leasehold investment properties were reported net of the leasehold liability.

4 Insurance receipt from fire damaged building

In 2003, a freehold investment property, Telstar House, was severely damaged by fire. The tenant had an obligation under the lease to reinstate the damaged building and continue to pay rent to the group under the terms of their lease. Consequently, the group continued to report this building as an investment property, as would also be the case under IFRS.

In 2004, the group negotiated a surrender of the tenant's lease and received an insurance settlement, which after recovering all rent liabilities up to the date of surrender, totalled £18.5 million. Under UK GAAP, applying the group's accounting policy, this receipt was deferred within current liabilities to be set off against the future redevelopment costs, as incurred. IAS40, Investment Property, does not allow this deferral, but requires compensation from third parties for investment property that was impaired to be recognised within profit or loss when such compensation becomes receivable. This can be seen on the adjustments to the income statement and balance sheet on pages 58 and 61, together with the reduction in the carrying value of the investment property of £18.5 million. It then becomes a revalued development property within the investment portfolio.

Previously, applying the group's UK GAAP accounting policy, Telstar House, as a development property, was carried at its last valuation plus subsequent net costs.

Reconciliation of UK GAAP to IFRS for the year ended 31st December 2004 Notes

5 Lease incentives amortised over period to lease expiry

SIC15, Operating Leases – Incentives, requires lease incentives granted to tenants, including those arising before 1st January 2000, to be spread over the term of the lease. Previously, under UITF28, Lease Incentives, these were spread to the first rent review, or lease expiry if there was no rent review. UITF28 only applied to incentives granted after 1st January 2000.

This spreading of incentives over a longer period results in £1.6 million being added to rental income in 2004, in addition to £3.1 million of rental income that would have been recognised in earlier years had this convention always applied. The same adjustments are deducted from the carrying value of investment property. Also shown is the tax provision required on the additional income recognised of £0.9 million prior to 2004 and an additional £0.5 million for 2004.

6 Dilapidations reported in the income statement

Such receipts are required to be reported in the income statement once they are receivable. Previously, certain such receipts would be deferred into a future period to set against subsequent expenditure. Adjustment column 6 shows the effect of this, adding £0.6 million to property income under IFRS. This would also be taxable and a provision of £0.2 million is included.

7 Development property letting fees reported in income statement

IAS40, Investment Property, classifies such costs, which include payments to letting agents and lawyers, as start-up costs and does not allow these to be capitalised. Such costs amounted to £0.2 million in 2004.

The group's previous accounting policy was to capitalise letting fees as part of the cost of the development.

8 Share option expense

IFRS2, Share-based Payment, requires an expense to be reported, based on the fair value of the options granted to directors and employees of the group, to be spread over the vesting period of the options. This only applies to options granted after 7th November 2002, and results in an expense of £0.1 million in 2004.

9 Joint ventures single line equity accounting

This is a presentational change only. As described previously in note 1, the interest in, and share of results of, joint ventures is shown as a single line on the balance sheet and income statement, including the group's share of the revaluation surplus.

Previously, the group's share of the results of joint ventures was split between operating profit and interest payable. The group's share of rental income was also separately disclosed on the profit and loss account, which is not shown on the income statement on page 58.

10 STRGL tax reported in income statement

As IFRS now requires investment property revaluation gains to be reported in the income statement, tax on the realisation of gains on property disposals will also be included in the income statement as part of the tax charge. Under UK GAAP, that part of the tax charge that related to gains which had previously passed through the revaluation reserve were reported in the Statement of Total Recognised Gains and Losses (STRGL).

Adjustment column 10 on page 59 shows the £3.3 million STRGL allocation of the tax charge on property disposals being included in the income statement.

11 Dividends not declared by the year end

IAS10, Events after the Balance Sheet Date, requires that dividends not declared by the year end are excluded from the results. Previously, proposed dividends were included as a deduction from profit in the year, prior to being declared at the subsequent annual general meeting.

Adjustment column 11 on page 61 shows the benefit to net assets of £4.8 million at the end of 2004, being the proposed final dividend for the year.

Notice of annual general meeting

Notice is hereby given that the twenty-first annual general meeting of Derwent Valley Holdings plc will be held at The Westbury Hotel, Bond Street, London, W1A 4UH on 19th May 2005 at 10.30am for the following purposes:

Ordinary business

1 To receive the report of the directors and the accounts for the year ended 31st December 2004 and the auditors' report thereon;
2 To declare a final dividend of 8.90p per ordinary share for the year ended 31st December 2004;
3 To approve the report of the remuneration committee for the year ended 31st December 2004;
4 To re-elect Mr S.P. Silver as a director;
5 To re-elect Mr I. Yeatman as a director;
6 To re-elect Mr C.J. Odom as a director;
7 To re-appoint BDO Stoy Hayward LLP 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 its remuneration.

Special business

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

8 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 £887,801.30 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;

9 That the directors be and they are hereby empowered, pursuant to Section 95 of the Companies Act 1985, to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to the authority conferred upon them by the previous resolution and/or where such allotment constitutes an allotment of equity securities by virtue of Section 94(3A) of the said Act as if Section 89(1) of the said Act did not apply to such allotment, provided that the power conferred by this resolution shall be limited to:

(i) the allotment of equity securities in connection with a rights issue, open offer or any other pre-emptive offer in favour of ordinary shareholders (excluding any shareholder holding shares as treasury shares) where the equity securities respectively attributable to the interests of such ordinary shareholders on a fixed record date are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them, subject to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal or practical difficulties arising in any overseas territory, or by virtue of the requirements of any regulatory body or stock exchange or any other matter whatsoever; and
(ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal amount of £133,170.20,

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;

10 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 5,326,808;
(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
13th April 2005

25 Savile Row
London
W1S 2ER

Notes:
Entitlement to attend and vote.
The company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the company as at 6pm on 17th May 2005 shall be entitled to attend or vote at the annual general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6pm on 17th May 2005 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.

Appointment of proxies through CREST
CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the annual general meeting to be held on 19th May 2005 and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a “CREST Proxy Instruction”) must be properly authenticated in accordance with CRESTCo’s specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer’s agent (ID7RA01) by the latest time(s) for receipt of proxy appointments, being 10.30am on 17th May 2005. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer’s agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

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

Five year summary

	2004 £m	2003 £m	2002 £m	2001 £m	2000 £m
Group gross rental income	**49.9**	47.9	46.5	46.9	39.5
Net revenue from properties	**44.8**	41.5	41.9	43.0	35.9
Adjusted profit before taxation	**16.4**	16.2	17.4	17.9	11.7
Profit/(loss) on disposal of investments	**6.4**	1.6	(2.0)	3.8	–
Profit before taxation	**22.8**	17.1	15.4	21.7	11.7
Net assets	**554.7**	477.6	512.0	533.7	462.3
Investment property valuation	**924.8**	812.1	831.9	833.5	770.4
Surplus/(deficit) on revaluation of investment properties	**66.9**	(39.6)	(29.3)	68.3	81.9
Net borrowings	**319.3**	301.8	296.8	271.0	283.4
Cash flow	**(17.9)**	(5.0)	(25.8)	12.5	(74.3)
Net cash inflow from operating activities less interest	**12.9**	11.7	23.5	15.2	14.8
Acquisitions	**88.7**	59.1	15.9	57.3	98.3
Capital expenditure on properties	**26.1**	24.0	35.0	38.6	29.8
Disposals	**76.9**	76.5	16.9	104.5	46.6
Adjusted earnings per share (p)	**23.51**	26.62	25.50	27.73	16.57
Dividend per share (p)	**12.50**	11.40	10.40	9.35	8.50
Adjusted net assets per share (p)	**1,068**	920	982	1,020	884
Net assets per share (p)	**1,041**	898	963	1,004	870
Total return (%)	**17.4**	(5.2)	(2.7)	16.4	24.0
Gearing					
Balance sheet (%)	**57.6**	63.2	58.0	50.8	61.3
Profit and loss	**1.76**	1.87	1.96	1.95	1.63

Financial calendar

Annual general meeting	19th May 2005
Payment of 2004 final dividend	6th June 2005
Announcement of 2005 interim results These will be the first set of results prepared in accordance with International Financial Reporting Standards.	September 2005
Payment of 2005 interim dividend	November 2005
Announcement of 2005 preliminary results These will be the first full year results prepared in accordance with International Financial Reporting Standards.	March 2006
Payment of debenture interest	31st January & 31st July

Advisers

Auditors
BDO Stoy Hayward LLP

Solicitors
Slaughter and May

Stockbrokers
UBS

Clearing bankers
HSBC Bank plc

Registrars
Lloyds TSB Registrars

Debenture stock trustee
Royal Exchange Trust Company Limited

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