Derwent Valley Holdings plc
Report & Accounts 2005

Contents

Derwent Valley is a commercial property investor focused on Central London. The group invests mainly 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.

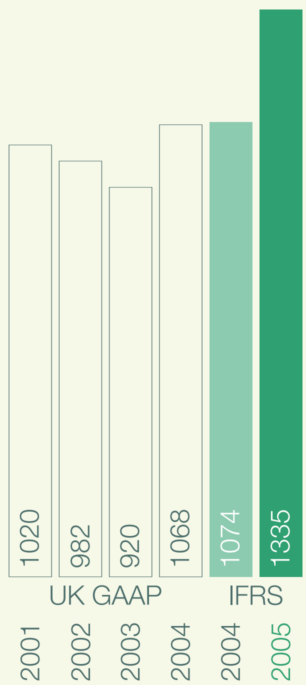
Financial highlights

	2005	2004 Restated	% Increase/ (decrease)
Net property income	£46.6m	£48.0m	(2.9)
Profit before taxation			
Adjusted*	£16.7m	£18.3m	(8.7)
IFRS	£150.4m	£91.1m	65.1
Earnings per share			
Adjusted*	26.23p	29.91p	(12.3)
Basic	218.63p	136.64p	60.0
Dividend per share			
Distribution of 2005 earnings	13.65p	12.50p	9.2
IFRS	12.825p	11.70p	9.6
Net asset value per share			
Adjusted†	1,335p	1,074p	24.3
Basic	1,134p	930p	21.9
Total return	25.5%	17.2%	
Gearing			
Balance sheet	50.1%	68.9%	
Profit and loss	1.84	1.85	

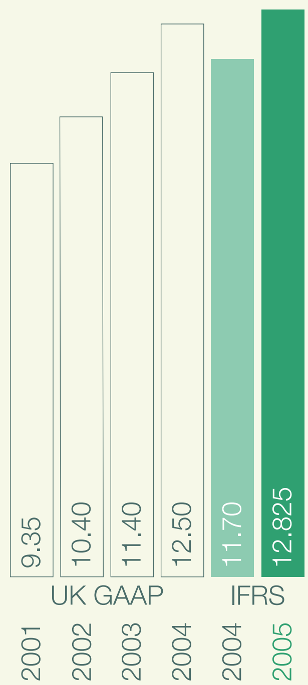
*Excludes the revaluation movement on investment properties and financial instruments, and the profit on disposal of investment properties. Adjusted earnings per share also excludes the related tax effects on these items.
†Excludes the deferred tax on the revaluation surplus and capital allowances as well as the post tax fair value of derivative financial instruments.

Five year review

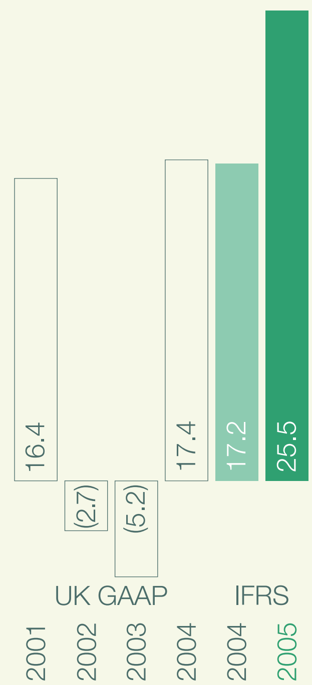
Adjusted net asset value per share
pence



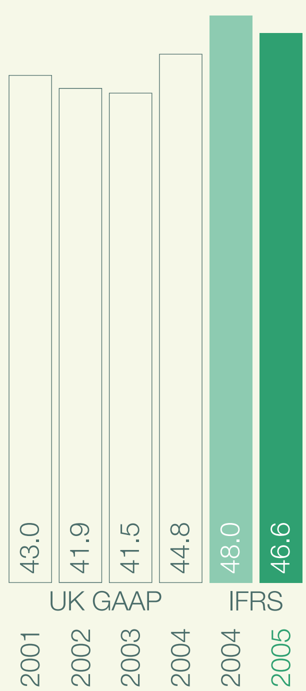
Dividend per share
pence



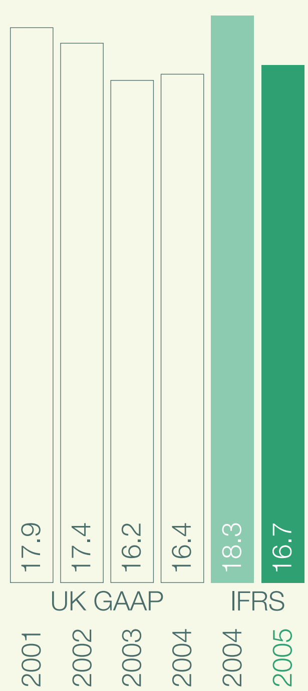
Total return
%



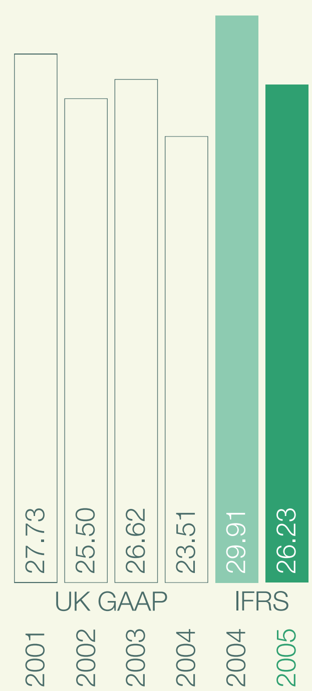
Net property income
£m



Adjusted profit before tax
£m



Adjusted earnings per share
pence



Chairman's statement

Results

A revaluation gain of £124 million brought the value of the group's portfolio to over £1 billion for the first time and took the adjusted net asset value per share up to 1,335p, a rise of 24.3%. Properties held for the full year increased in value by 14.8% compared to 8.3% last year as investment demand strengthened and exerted continued downward pressure on yields.

Advantage was taken of the strong investment market with property disposals of £98 million, net of costs, which realised a profit of £9.6 million against their value at 31st December 2004. As a result of these sales and planned vacancies as schemes moved into the development stage, net property income decreased by £1.4 million to £46.6 million. Adjusted profit before tax was also lower at £16.7 million, compared to £18.3 million in 2004.

Dividend

The directors are recommending a final dividend of 9.725p per share. Together with the 3.925p per share paid in November, this amounts to 13.65p for the whole year and represents an uplift of 9.2% on last year. Shareholders on the register on 12th May 2006 will be eligible for the dividend that will be paid on 5th June 2006.

Review of the year

Within the global real estate sector, Central London offices continued to be one of the most sought after investment classes for investors. Although yield shift remained prominent, rental growth improved during the year and it has been encouraging to see further upward momentum since the year end.

Continued demand for the group's distinctive, design-led product resulted in another highly successful year of letting space. During 2005, 19,100 m^2 was let at an annualised rent of £4.5 million. The portfolio now contains only 9,500 m^2 of space that is available for immediate occupation. However, such success does not mean that the tank is empty; we have a pipeline of future schemes, some of which are already under construction and others which are progressing through the planning process.

Capital expenditure throughout the year totalled £26.5 million, the majority of which was committed to the Johnson Building. With practical completion recently achieved, we are talking to a number of potential tenants. Capital expenditure of £39 million is planned for this year, the principal schemes being at Gresse Street, W1, Portobello Dock, W10, and Horseferry Road, SW1. This last property, a 13,900 m^2 office building in Victoria, was acquired during the year for £32.4 million. Architectural studies have already been completed and a comprehensive refurbishment is planned to commence later this year at a cost of approximately £17 million. Telstar House, W2 is our first externally funded transaction. Here, we are now acting as development managers for Prudential in constructing a new, 9,750 m^2, office building. A right to share in the scheme's profit has been retained.

The board has a strategy of recycling resources and therefore looks to sell properties where its rental aspirations have been reached. As a consequence, the average rents within our portfolio remain low at £250 per m^2. From this level, we can generate rental growth through refurbishment and asset management.

Whilst residential development is unlikely to become a mainstream activity for the group, it is inevitable that, with today's rigid planning regulations which enforce mixed use development, we will have a level of involvement. Our initial scheme provided 14 apartments at the rear of the Johnson Building where we applied our design brand to create light and spacious living accommodation. This approach has paid off with 12 of the units sold and the other two under offer. Further residential schemes may be undertaken, particularly in the Islington portfolio, where designating some properties for residential development is likely to provide the key to unlock the potential at other sites.

The Johnson Building
Holborn, EC1
15,900 m²
Completion:
February 2006

Horseferry House
Victoria, SW1
13,900 m²
Completion:
January 2008

Real Estate Investment Trusts (REITs)

The proposed introduction of REITs is eagerly awaited. However, some of the rules ascribed to date by the Treasury are generally perceived as disappointing in their present form, and are unlikely to be widely attractive to the quoted property sector. Many interested parties have lobbied the Treasury to stress that the proposed model is too restrictive and needs amending. We await the outcome of this and also details of a final crucial component, the conversion charge, which will be levied on companies that convert to REIT status. The imminent budget statement should enable us to have a much clearer view as to the benefits for the group.

The board

Ivan Yeatman, who has been a non-executive director for 10 years, will be standing down at the conclusion of the annual general meeting in May. Ivan has made an excellent and wide ranging contribution to the development and management of the business. We will greatly miss his common sense approach and would like to take this opportunity to thank him for his valuable input and advice. We are pleased to welcome Stuart Corbyn who will join the board after the AGM. Stuart is chief executive of the Cadogan Estate, one of the principal private estates in London, and a former President of the British Property Federation. Like Ivan, he has a wealth of experience across the whole property spectrum and I am sure he will make a valuable contribution.

Simon Silver has been awarded an Honorary Fellowship of the Royal Institute of British Architects in recognition of his contribution to architecture and design. Simon has been the catalyst in evolving the group's innovative approach to creating exciting buildings and we congratulate him on this achievement.

Prospects

With investment demand continuing to be strong, and yields currently showing more signs of contraction than expansion, new acquisitions where value can be added, are likely to remain scarce. We are fortunate that, through our discerning acquisition and stringent sales policies, 50% of the space in our 240,000 m^2 portfolio still retains opportunities for management to use its full complement of skills to enhance value. We remain confident that this feature of our portfolio, and the scope to increase rents from a low base, will enable us to make further strong progress.

J.C. Ivey
21st March 2006

We are well placed to benefit from the strengthening conditions in the Central London office market with the portfolio positioned to deliver high returns from a pipeline of value adding projects over the next few years.

Key achievements in 2005 included:

Planning permissions obtained at 16–19 Gresse Street, Noho and Portobello Dock, Ladbroke Grove.

Significant refurbishment opportunities in the £39.5 million of acquisitions.

75 lettings, totalling 19,100 m^2 at an annualised rental of £4.5 million per annum.

29 rent reviews settled at an uplift of 17% and 34 renewals/regears concluded on 5,900 m^2 of space.

The level of space available for letting reduced from 5.9% to 2.7%.

Recent completion of the 15,900 m^2 Johnson Building, Hatton Garden.

£97.8 million of disposals, achieving £9.6 million profit.

Sale of the 9,750 m^2 Telstar House, Paddington project to Prudential through a funding agreement.

Operating review
Project pipeline

1 The Johnson Building
Holborn, EC1
13,800 m^2 offices and
14 apartments
Completion: February 2006

2 Portobello Dock
Ladbroke Grove, W10
6,400 m^2 mixed use
Completion: September 2007

3 Rosebery Avenue
Clerkenwell, EC1
3,100 m^2 offices
Completion: December 2007

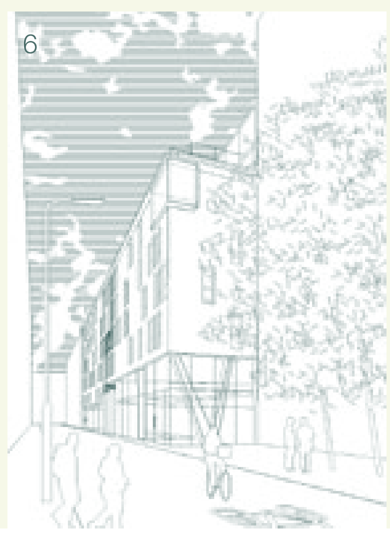
4 Gresse Street
Noho, W1
4,500 m^2 offices
Completion: December 2007

5 Horseferry House
Victoria, SW1
13,900 m^2 offices
Completion: January 2008

6 Leonard Street
City borders, EC2
1,900 m^2 offices and
47 apartments
Completion: April 2008

7 Wedge House
Southbank, SE1
7,300 m^2 offices
Completion: 2010

Derwent Valley has been investing in Central London for over 20 years building a reputation as a highly knowledgeable and discerning property group. Working with inspirational architects, we maximise a building's potential to produce finely detailed, contemporary and interesting office space. We create quality working environments and contribute to London's development. In addition to refurbishment schemes at Rosebery Avenue and Horseferry House, exciting new build projects are to commence at Portobello Dock, Gresse Street and Leonard Street.



Operating review

Strategy and performance

Derwent Valley is a commercial property company committed to the ownership of a Central London office portfolio. It operates in a market place that employs over 4 million people, 15% of the UK total, and which accounts for about 18% of the country's GDP. London is one of the most dynamic cities in the world – a place for business. Its economic outlook, which is principally service sector driven, is positive with favourable employment trends predicted.

Our strategy, which includes risk management at both property and corporate level, is to produce high total returns from a combination of income and capital growth. To achieve this, we create interesting working environments through the following framework of objectives:

1. Ownership of a portfolio with significant opportunities for value enhancement through refurbishment or redevelopment.
2. Active lease management to improve rental income.
3. To maintain a pipeline of projects that can be delivered according to market conditions.
4. Deliver and let projects on time and on cost.
5. Apply and promote contemporary architecture and forward-thinking techniques through the Derwent Valley design brand.
6. Recycle capital for reinvestment when potential is maximised.

Set against these objectives, 2005 was an excellent year. We achieved a total property return of 20.1%, progressed planning applications and project opportunities and made selective acquisitions and disposals.

Valuation commentary

At 31st December 2005, the investment portfolio was valued at just over £1.0 billion. The valuation surplus for the year was £126.1 million, before deducting the lease incentive adjustment of £2.0 million. The strong investment market experienced further yield compression and this contributed £72.0 million of the surplus, with an additional £44.6 million coming from lease activity and improving rental values. The revaluation of development properties, previously not recognised under UKGAAP, added £8.7 million and the £0.8 million balance came from acquisitions. The underlying valuation increase was 14.8%, compared to 8.3% last year.

West End properties, which represent 74% of the portfolio, increased in value by 14.6% with all the component villages performing well. The Soho/Covent Garden holdings, 20% of the portfolio, produced a 15.9% uplift. Here, a number of prime properties, including the Covent Garden Estate, Tower House, Davidson Building and Charing Cross Road, all benefited from strong yield compression and rental value improvement. The Noho properties, which comprise 17% of the portfolio, saw an uplift of 11.9%, which was driven by pre-lettings of our Holden House project. The Belgravia, Victoria and Paddington properties increased by 15.9%, 13.4% and 7.6% respectively. In Mayfair, the value of our sole property, 25 Savile Row, increased 37.9% following tenure improvement.

The remaining 26% of the group's holdings are in the City borders, in areas such as Holborn, Clerkenwell and Shoreditch. Here, the valuation uplift was 15.2% as the benefits of recent refurbishments and strong letting activity at Oliver's Yard and the Tea Building materialised.

Operating review
Portfolio statistics and performance

	Valuation £m	Weighting %	Valuation performance* %	Number of properties	Floor area m²	Vacant accommodation m²
West End						
Central	677.2	67	15.4	29	121,000	3,500
Outer	70.0	7	7.9	12	30,100	8,500
	747.2	74	14.6	41	151,100	12,000
City						
Outer	262.6	26	15.2	23	90,200	26,100
Total portfolio						
2005	**1,009.8**	**100**	**14.8**	**64**	**241,300**	**38,100**
2004	924.8	100	8.3	75	254,400	53,700

*Properties held throughout 2005.

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

City
Outer: Clerkenwell, Holborn, Shoreditch, Southbank 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	35.1	308	1.1	5.5	41.7	8.6
Outer	2.7	133	1.4	0.5	4.6	10.8
	37.8	281	2.5	6.0	46.3	8.8
City						
Outer	11.5	182	7.1	1.7	20.3	5.3
Total portfolio						
2005	**49.3**	**250**	**9.6**	**7.7**	**66.6**	**8.0**
2004	48.4	249	13.0	6.2	67.6	8.2

† 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		49.3	4.9
Letting 9,500 m² vacant accommodation available at year end	1.8		5.1
Completion and letting 28,600 m² of refurbishments	7.8		5.8
Anticipated rent review and lease renewal reversions	7.7		6.5
Portfolio reversion		17.3	
Potential portfolio rental value		66.6	6.5

‡ Yield based upon the year end valuation and adjusted for costs to complete commenced projects.

Operating review

Portfolio management

The portfolio comprises over 240,000 m^2 of floor space, approaching 500 tenancies, and has an average lease length of 8.0 years. During the year, there were 29 rent reviews settled at an overall uplift of 17%, and 34 lease renewals/regears on 5,900 m^2 of space. In conjunction with this, we have a strategy for each property focused on scheme progression aligned with income management to maximise returns. As an example, last year we retained close to 90% of the income that was subject to lease breaks, without compromising future scheme opportunities.

The company is a partner in New London Architecture, and held exhibitions and presentations during the year to promote London and our projects. The space we create ranges from studio offices (Tea Building and Morelands) to large scale developments (Johnson Building). In each instance, we strive to produce innovative space for the London environment at competitive terms. The emphasis is on contemporary design, offering uncluttered accommodation that can be occupied efficiently. Our attention to detail and hands-on style is respected amongst our professional teams. This focused culture has been at the forefront of the evolution of a Derwent Valley brand of accommodation, which has been advanced by employing emerging architectural practices to promote fresh occupational ideas. A strict environmental policy has been adopted which exerts control over materials and construction methods. Tied in with this, we seek to minimise building running costs which improves the appeal and the efficiency of the space.

Our efforts translate directly into letting activity. Last year, 19,100 m^2 of space was let in 75 units at a rental of £4.5 million per annum. This was a similar level to the previous year and took our five-year letting total to over 87,000 m^2 in 300 transactions. Last year included the pre-letting of 2,300 m^2 at Holden House, Noho at rents of £410 per m^2 compared to the original appraisal levels of £350 per m^2. This latest phase completed the transformation of the property. At the Tea Building, there were 27 lettings, totalling 8,460 m^2, including 2,700 m^2 taken by Soho House, the international private members club. The entire project has been successful in establishing a vibrant complex on the edge of the City of London, specialising in media and creative businesses. In addition, rents have improved significantly from £108 per m^2 to £156 per m^2 over the last two years. Overall, our letting activity reduced the level of space available at the year end to 9,500 m^2, down from 16,900 m^2 the previous year. This represents a vacancy level of 2.7% of the portfolio's rental value, compared to 5.9% at the last year end.

The investment portfolio's annualised contracted rental income, net of ground rent, was £49.3 million at the year end, with a potential rental value of £66.6 million. This £17.3 million reversion is derived from £9.6 million of vacant accommodation and £7.7 million of rent review and lease reversions. The portfolio yield profile on this income stream is initially 4.9% rising to 6.5% at the full estimated rental value.

During the year, competition for space intensified and rents moved forward. The portfolio's underlying rental value increase was 5.4% compared to 2.8% last year. This reflects our strategy of retaining those properties in locations with rental growth potential. The average passing rental level for the portfolio was low at £250 per m^2, with £281 per m^2 for the West End properties. We believe these levels offer a good platform for further growth.

Vacant space, either under refurbishment or identified for refurbishment at the year end, was 28,600 m^2. This included the 15,900 m^2 Johnson Building, Hatton Garden, where practical completion has recently been achieved. At the 4,600 m^2 Portobello Dock, Ladbroke Grove, vacant possession has been obtained and this project is expected to commence in summer 2006. A number of smaller refurbishment projects are proposed which include 1,500 m^2 at St Cross Street, adjacent to the Johnson Building, and 1,200 m^2 at 35 Kentish Town Road, Camden.

Operating review
Portfolio activity

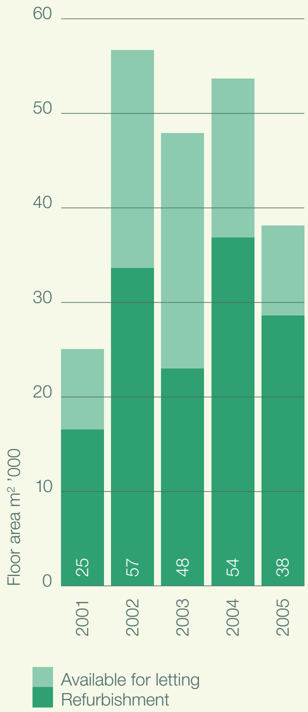
Principal lettings

	Approximate net area m²	Rental per annum £m	Headline rental £ per m²	Comments
Tea Building, E1	5,760	0.62	130–155	Various small suites let.
	2,700	0.50	180	Two floors let to Soho House.
Holden House, W1	2,300	0.90	375–410	Two pre-lettings: H&M Hennes and Envy Post Production.
1 Oliver's Yard, EC2	1,310	0.36	290	Four lettings: The Carphone Warehouse, Penson Financial Services, CPA Management Systems and Morningstar.
Davidson Building, WC2	585	0.27	455	Letting: Constellation Energy Commodities Group.
Greencoat and Gordon House, SW1	690	0.24	380	Two lettings: Modus and VCCP.
Tower House, WC2	580	0.22	375	Letting: Waggener Edstrom.
40–43 Chancery Lane, WC2	920	0.18	195	Short-term lettings pending future project.
Morley House, W1	580	0.15	295	Various office suites let.
135–155 Charing Cross Road, WC2	185	0.13	730	Retail letting: Pret A Manger.

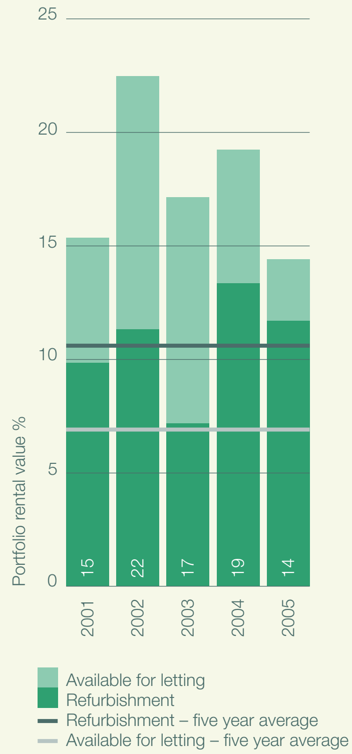
Principal rent reviews

Riverwalk House, SW1	6,900	2.30	325	Single rent review concluded to show a 7% increase.
Premier House, SW1	5,800	1.60	295	Single rent review concluded to show a 74% increase.
Morelands Buildings, EC1	1,580	0.37	235	Eight rent reviews settled at an average increase of 8%.
Holden House, W1	270	0.29	1,080	Retail rent review concluded to show a 26% increase.

Vacant accommodation by floor area



Vacant accommodation by rental value



Refurbishment and redevelopment

The outlook is optimistic for the Central London office sector with increasing enquiries, improving take-up levels, and limited development completions over the next few years. We intend taking advantage of these conditions by completing schemes and implementing the next generation of projects. Delivery of this pipeline is important to the group's future performance and we have identified over 50% of the portfolio floor area for eventual refurbishment or redevelopment.

Last year, capital expenditure was £26.5 million and a further £9.3 million is committed to complete current schemes. Expenditure was incurred at over half of our properties, which illustrates our strategy of continued portfolio improvement. The principal project was the 15,900 m^2 Johnson Building, Hatton Garden. This £36 million development, of which £18 million was spent in the year, is a combination of new and refurbished offices around an impressive central atrium. Letting interest is already encouraging. As a planning requirement, 14 residential units were included in the scheme and 12 have now been sold. Elsewhere, capital expenditure included £2.7 million on the final phase at Holden House and £1.4 million at the Tea Building.

At Telstar House, we departed from our normal practice of financing schemes from our own resources and entered into a funding agreement. Following receipt of planning permission for a 9,750 m^2 development, we sold the site to Prudential, yet retained the role of development manager and a profit participation. Completion is anticipated in autumn 2007, which will make this Paddington's next new office building. We also acquired from Prudential the freehold of 25 Savile Row, Mayfair for £5.0 million plus costs.

On the planning front, a number of important permissions have been obtained and these will form the basis for this year's schemes. At 16–19 Gresse Street, after lengthy negotiations, permission for a 4,500 m^2 office development was granted. This project will replace the 2,900 m^2 existing building, achieving a substantial floor area increase. We propose locating the residential part of the scheme, again a planning requirement, off-site at the adjacent 7–8 Rathbone Place, thereby making the office permission more valuable. At Portobello Dock, planning permission has been obtained to extend this 4,600 m^2 property and create a mixed use development. This canal side project will provide 4,700 m^2 of offices and 1,700 m^2 of residential.

At Rosebery Avenue, Clerkenwell we have combined four properties and obtained permission for their refurbishment and the addition of a new penthouse office floor. This 3,100 m^2 project illustrates our philosophy of buying early into improving locations.

Other forthcoming projects are progressing. As described in more detail later, at the recently acquired 13,900 m^2 Horseferry House, Victoria, design details are being finalised for a comprehensive refurbishment. At Leonard Street, on the City borders, we are in detailed discussions with the planners for a mainly residential scheme of 47 units. Subject to satisfactory planning and possession, a start this year is anticipated at both of these projects.

For the longer term, our largest project is the redevelopment of 55–65 North Wharf Road, Paddington. Here, the planning progress is slow but we anticipate finalising the scope of the development later this year. The existing 7,800 m^2 low-rise building occupies a prime under-utilised site, and we have recently completed an occupational lease re-structure, which enables us to take possession for redevelopment from 2009. Other on-going studies, where there is the potential to substantially increase the floor area, include Wedge House, Southbank, 40–43 Chancery Lane, Holborn and Riverwalk House, Victoria. This evaluation process lays the foundation for future projects.

Operating review
Refurbishment and redevelopment

Current projects

	Proposed net area m²	Practical or expected completion	Estimated cost to complete £m	Comments
Holborn				
Johnson Building, 77 Hatton Garden, EC1	15,900	Feb 06	5.3	This 13,800 m² office, 400 m² workshop and 1,700 m² residential project recently completed.
Paddington				
Portobello Dock and Kensal House, Ladbroke Grove, W10	6,400	Sept 07	9.8	Vacant possession obtained at this 4,600 m² canal-side property. Planning permission obtained and site preparation commenced for an office and residential scheme.
	22,300		15.1	
Paddington				
Telstar House, W2	9,750	Sept 07	n/a	Construction progressing. New office development on behalf of Prudential.

Future projects

	Existing area m²	Comments
Victoria		
Horseferry House, Horseferry Road, SW1	13,900	Comprehensive refurbishment proposed for this 1930's office building. Scheme design being finalised and construction tendering underway.
Noho		
16–19 Gresse Street, W1	2,900	Planning permission obtained for a new 4,500 m² office building.
7–8 Rathbone Place, W1	1,000	Residential scheme comprising 11 units.
Clerkenwell		
20–26 Rosebery Avenue and 11 Warner Street, EC1	2,300	Planning permission obtained for refurbishment and to add an additional floor. Proposed scheme floor area 3,100 m².
City borders		
186–188 City Road, EC1	3,600	Office refurbishment proposed.
20 Leonard Street, EC2	Site	Scheme comprising 1,900 m² of offices and 47 residential units proposed. Planning application submitted.
Commencement expected in 2006	23,700	
Paddington		
55–65 North Wharf Road, W2	7,800	Medium-term redevelopment potential. Planning negotiations progressing for a 28,000 m² office and residential development.
Holborn		
40–43 Chancery Lane, WC2 and 20–21 Tooks Court, EC4	5,700	Medium-term redevelopment or refurbishment opportunity. Planning studies progressing.
Islington		
Balmoral Grove Buildings, N1 and 1–9 Market Road, N7	4,900	Low rise industrial buildings. Planning studies indicate the potential for a substantial mixed-use scheme of approximately 13,900 m².
Clerkenwell		
The Turnmill, 63 Clerkenwell Road, EC1	4,100	Potential for redevelopment or comprehensive refurbishment.
37–42 Compton Street, EC1	2,700	Refurbishment opportunity.
Southbank		
Wedge House, 30–40 Blackfriars Road, SE1	3,600	Redevelopment opportunity in 2010. Studies indicate potential for a 7,300 m² office development.
	52,500	

Acquisitions and disposals

The strong appetite for stock led to Central London investment transactions reaching a record high in 2005, which inevitably made it difficult to source acquisitions. However, we made two classic Derwent Valley style purchases. Both acquisitions are in improving locations, off low capital values, and offer significant refurbishment potential. Firstly, Horseferry House, Victoria was acquired in July for £32.4 million plus costs. This 13,900 m^2 office building occupies a large island site and is ideal for the Derwent Valley refurbishment treatment, which will change the building's identity, with new entrances and the introduction of ground floor retail. The property is leased short-term to a Government department at £2.0 million per annum and vacant possession is anticipated later this year. We are finalising our refurbishment proposals and studies indicate that, by relocating the core into the existing lightwells, the floor area can be increased by up to 10%. Secondly, on the City borders, following exchange of contracts last year, we have recently completed the acquisition of 186 – 188 City Road. The 3,600 m^2 building is likely to be refurbished to improve the rental potential.

In total, there were 13 disposals in 2005 which realised £97.8 million and produced a surplus of £9.6 million after costs. The largest sale was Berkshire House, Holborn, which had been subject to a rolling refurbishment and letting programme. In addition, 19 – 29 Woburn Place, Bloomsbury was sold, having been acquired in 2004 as part of the Chelsfield portfolio. The College, an educational building where we had recently completed a comprehensive refurbishment, was acquired by an owner-occupier. We continued to work through the Islington portfolio. After another seven disposals in 2005, which raised £8.6 million, 19 properties are left with interesting opportunities to exploit.

This activity continues our strategy of disposing of those investment properties where we perceive limited growth, and takes sales over the last five years to in excess of £370 million.

Operating review
Acquisitions and disposals

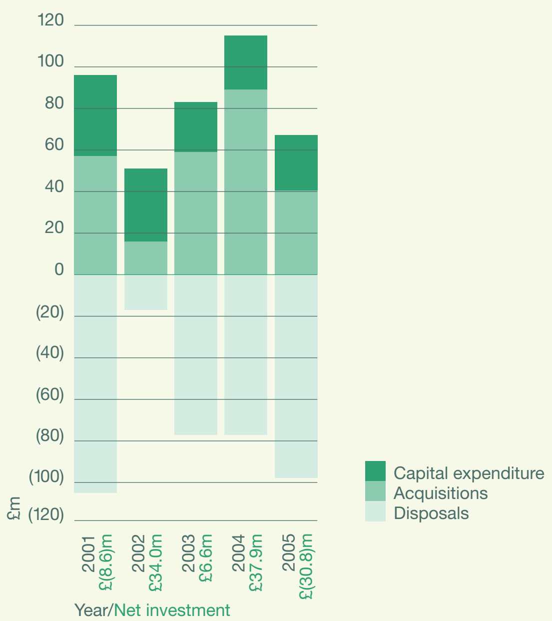
Acquisitions
£39.5 million of Central London acquisitions during the year

Property	Approximate net area m²	Comments
Horseferry House, Horseferry Road, SW1	13,900	A freehold 1930's Government occupied office building, let at a low rental of £143 per m². Potential for vacant possession in 2006. Plans are being finalised for an extensive refurbishment.
25 Savile Row, W1	n/a	Freehold of this 3,900 m² prime asset acquired. The group previously held a 48 year lease interest at a fixed ground rent.
186–188 City Road, EC1	3,600	Acquisition completed February 2006 of this freehold air conditioned office building. The building is let short-term at a low rental of £192 per m² and will be subject to refurbishment at lease expiry.
	17,500	

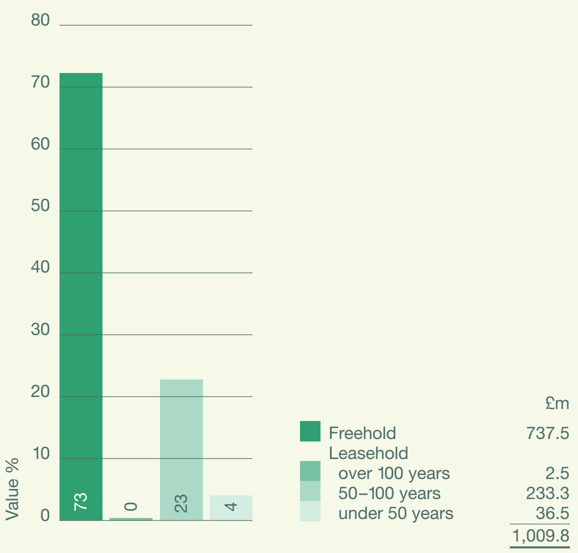
Disposals
13 properties sold for a net £97.8 million

Property	Approximate net area m²	Comments
Berkshire House, 168–173 High Holborn, WC1	4,900	A rolling refurbishment completed.
19–29 Woburn Place, WC1	9,400	Tenant vacating and the building required refurbishment.
Telstar House, W2	Site	Project development agreement with Prudential.
The College, Gresse Street, W1	4,400	Refurbishment of this educational building completed.
28–29 Dover Street, W1	1,400	Limited active management potential.
12 Roger Street, WC1	1,700	Occupational lease restructured.
Islington Estate	4,900	Seven properties.
	26,700	

Net investment

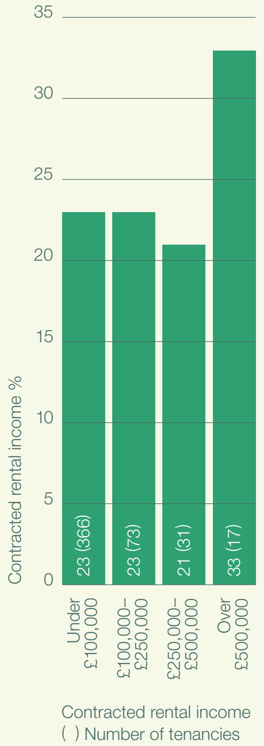


Value of portfolio by tenure

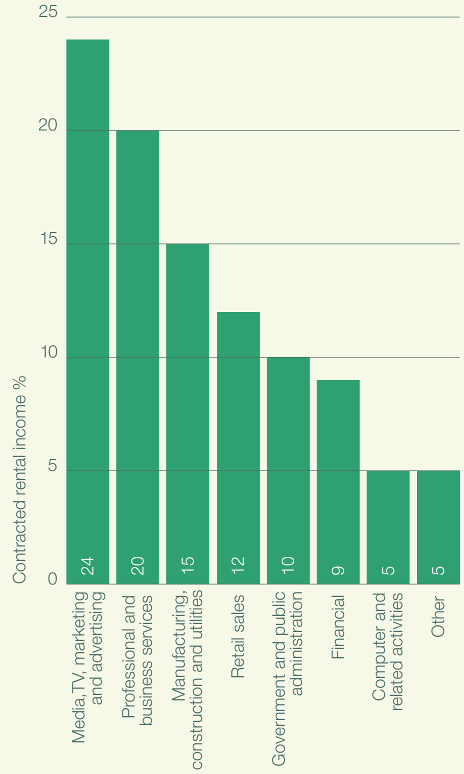


Operating review
Rental income analysis

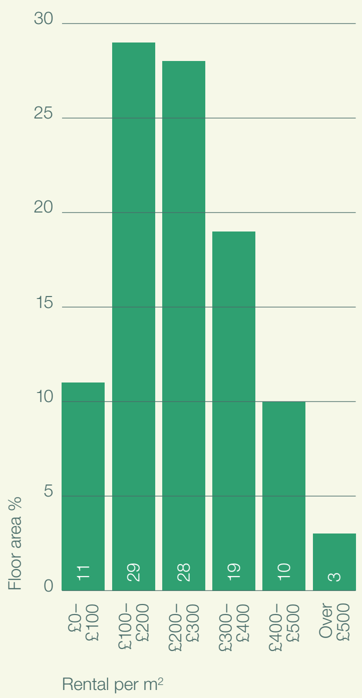
Profile of rental income bands



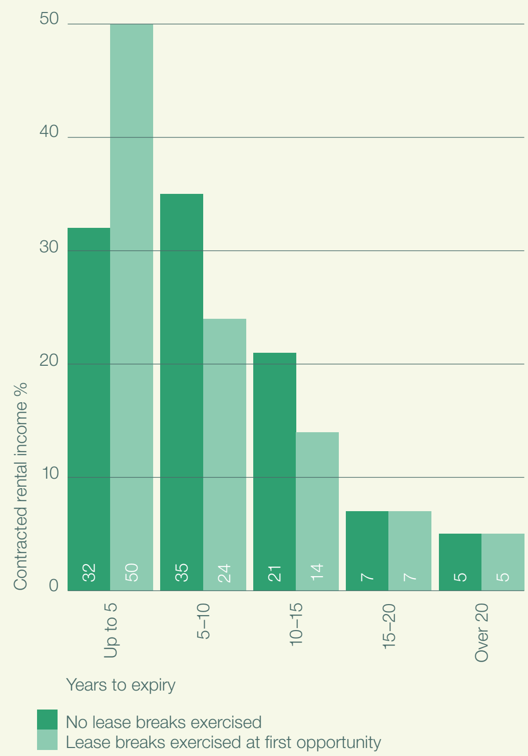
Profile of tenants' business sectors



Profile of occupied floor area



Profile of rental income expiry



Operating review
Principal properties

	Offices (O) Retail/restaurant (R) Industrial (I)	Freehold (F) Leasehold (L)	Approximate net area m^2
£30 million and over – 64% of portfolio			
135–155 Charing Cross Road, WC2 and The Courtyard, Sutton Row, W1	O/R	F	5,800
Covent Garden Estate, WC2:	O/R	F	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	F	3,900
Greencoat and Gordon House, Francis Street, SW1	O	F	11,100
1–3 Grosvenor Place, SW1	O	L	7,700
4 Grosvenor Place, SW1	O	L	7,300
Henry Wood House, 3–7 Langham Place and 75–77 Great Portland Street, W1	O/R	L	7,400
Holden and Dumbarton House, 54–68 Oxford Street, W1	O/R	F	8,400
Horseferry House, Horseferry Road, SW1	O	F	13,900
Middlesex House, 34–42 Cleveland Street, W1	O	F	6,000
1 Oliver's Yard, EC2	O/R	F	17,400
25 Savile Row, W1	O/R	F	3,900
Tea Building, Shoreditch High Street, E1	O	F	20,000
Tower House, 10 Southampton Street, WC2	O/R	F	4,900
£20–30 million – 8% of portfolio			
55–65 North Wharf Road, W2	O	L	7,800
Premier House, 10 Greycoat Place, SW1	O	F	5,800
Riverwalk House, 155–166 Millbank, SW1	O	L	6,900
£10–20 million – 12% of portfolio			
Argosy House, 215–227 Great Portland Street, W1	O	L	2,800
40–43 Chancery Lane, WC2 and 20–21 Tooks Court, EC4	O	F/L	5,700
6–8 Greencoat Place, SW1	O	F	3,100
16–19 Gresse Street and 7–8 Rathbone Place, W1	O	F/L	3,900
Jaeger House, 57 Broadwick Street, W1	O/R	F	2,300
Morelands Buildings, 5–27 Old Street, EC1	O/R	L	7,400
Morley House, 314–322 Regent Street, W1	O/R	L	3,800
The Turnmill, 63 Clerkenwell Road, EC1	O/R	F	4,100
Under £10 million – 9% of portfolio			
Balmoral Grove Buildings, N1 and 1–9 Market Road, N7	O/I	F	4,900
40 Bowling Green Lane, EC1	O	L	3,300
Broadmead and Westcombe House, 19–23 Panton Street, SW1	O/R	F	1,500
91–121 Caledonian Road, N1	I	F	5,000
37–42 Compton Street, EC1	O	F	2,700
20–26 Rosebery Avenue and 11 Warner Street, EC1	O	F	2,300
6–7 St Cross Street, EC1	O	F	3,000
78 St Martin's Lane, WC2	O/R	L	1,500
Suncourt House, 18–26 Essex Road, N1	O/R	F	2,500
Wedge House, 30–40 Blackfriars Road, SE1	O	F	3,600
Development properties – 7% of portfolio			
Johnson Building, 77 Hatton Garden, EC1	O	F	15,900
Portobello Dock and Kensal House, Ladbroke Grove, W10	O	F	4,600
20 Leonard Street, EC2	–	F	Site

Basis of accounting

These are the first results reported by the group in full compliance with International Financial Reporting Standards (IFRS), adoption of which became compulsory for companies listed on a regulated market with effect from 1st January 2005. However, the changed format of these accounts and the new definitions for key figures, such as profits and net assets, should be no surprise. The 2005 interim results, published last September, were prepared on this basis and, at that time, a full explanation of the differences between the IFRS figures and those prepared under the previous accounting rules (UKGAAP) was made available. As a foretaste of these accounts, the 2004 Report and Accounts also showed the 2004 results on both an IFRS and UKGAAP basis. For completeness, the IFRS figures for 2004 are again reconciled back to those reported last year under UKGAAP and these can be found on pages 63 to 68 of these accounts. The accounting policies, revised in accordance with IFRS, are set out in note 1.

Results commentary

Profit before tax

As in previous years, profit before tax has been adjusted to show a figure which better reflects the underlying business trend. This adjusted profit of £16.7 million was lower than the IFRS restated figure for 2004 of £18.3 million. The key influences on the adjusted profit are discussed below.

Year on year, gross property income (GPI) fell from a restated £52.1 million to £49.5 million. As in prior years, the level of this important figure is, firstly, the result of a balance between growth from lettings and rent reviews, and income forgone from properties under refurbishment or redevelopment. In a market that is currently favourable, and is expected to be so for the immediate future, the board has pressed on with a number of value adding schemes, for which planning consent had been achieved. Consequently, income was £3.2 million lower in 2005 compared with 2004. This reduction was exceeded marginally by income from lettings and rent reviews, at £3.2 million and £0.3 million respectively. A second balance that affects GPI is that between acquisitions and disposals of properties. It is not surprising that, in a year in which property values have risen strongly, income from properties sold of £5.2 million exceeded that acquired of £2.8 million.

The net reduction in GPI, including other minor factors, was £2.6 million. However, lower property expenditure meant that, at the net property income level, the decline was only £1.4 million to £46.6 million, compared with the restated £48.0 million of 2004. This was a result of lettings achieved in 2004 and 2005 which, in addition to generating GPI, also had the effect of reducing the group's void costs. These fell £0.6 million year on year. Additionally, due to the timing of scheme completions in 2005, there was less vacant space to let and transaction costs, mainly legal and letting fees, were consequently reduced by £0.2 million.

Administrative expenses rose £1.7 million, entirely due to increased employment costs. While all categories of these costs rose, the two largest increases, both of £0.7 million, related to incentive schemes run by the group. The long-term incentive plan, which has an in-built three-year cycle, was only introduced two years ago. Therefore, 2005 bore the cost of two years' worth of share allocations compared with one year in 2004. A further rise in the charge for this scheme will occur in 2006, after which the annual cost should stabilise. Additionally, the strong rise in the company's share price during the year has required further national insurance provisions to be made in respect of share-based remuneration.

The group also operates a benchmarked bonus scheme for staff and directors, the level of awards from which can only be determined after the group has announced its results. This led to an over accrual in 2003 which lowered the 2004 charge by £0.2 million and an under accrual of £0.2 million in 2004 which has been charged in 2005 while the 2005 provision has been increased.

Finally, net finance costs were down £1.6 million due mainly to borrowings repaid by disposal proceeds.

The net effect of these movements accounts for the £1.6 million reduction in adjusted profit before tax. To arrive at the profit before tax of £150.4 million, reported in the group income statement, two other figures need to be considered. The largest item in the income statement is the £124.1 million surplus on revaluation of the group's properties. This is £77.7 million up on last year and a discussion of this can be found in the operating review. Under UKGAAP, this figure would have

Rosebery Avenue
Clerkenwell, EC1
3,100 m²
Completion:
December 2007

been shown as a reserve movement. It is not a realised profit and is not taken into account when setting the dividend. The second item is the profit on disposal of investment properties. This was £9.6 million in 2005, compared with £24.9 million in 2004, which included the insurance receipt of £18.5 million in respect of a fire damaged building. The scale of the above figures, together with the movement in the fair value of interest rate derivatives, which in these accounts was not a factor year on year, shows how volatile profit before tax may be under IFRS and why the group continues to report an adjusted profit before tax to best reflect underlying trends.

Tax expense

Full details of the £33.7 million tax expense can be found in the tax note. The largest item is the £29.1 million deferred tax charge. The cash flow shows that the actual tax paid in the year was only £4.2 million.

Dividend

The dividend is now reported on a paid and not payable basis as previously under UKGAAP. It is also no longer shown in the group income statement as a distribution of the year's earnings but as a deduction from reserves. Details of the dividend can be found in notes 12 and 27 to the financial statements.

Net assets

Net assets rose £110.7 million to £606.2 million at 31st December 2005, mainly due to the surplus arising from the year end property revaluation noted above.

As with UKGAAP, an adjusted net asset value per share is reported. This figure rose to 1,335p per share in 2005, an increase of 24.3% from last year's restated 1,074p. The basis of the adjustment is shown in note 28.

Total return

The growth in net asset value is reflected in the total return for the year of 25.5% (2004: 17.2%).

Cash flow

The group had a cash inflow for the year, after the payment of dividends, of £34.5 million, compared with an outflow in 2004 of £17.9 million. In a year when value adding acquisitions were difficult to secure, and demand for property from all sectors of the market was high, advantage was taken of the latter, such that proceeds from the disposal of investment properties (£97.8 million) exceeded acquisitions (£40.3 million) and capital expenditure (£26.7 million) by £30.8 million. In 2004, the reverse was true in that disposals only part financed investment outflows. Cash generated from the underlying business before tax was £14.7 million. After payment of tax and distributions to shareholders, this was reduced to £3.7 million, an insignificant amount when set against capital expenditure demands. This demonstrates the importance of maintaining committed bank facilities.

Financing

Sources of finance

In addition to its share capital, the group is financed by a series of bi-lateral, medium-term, revolving credit facilities from a number of banks with whom the group has long-term relationships. Outside of its existing lenders, close relationships are maintained with a second tier of banks to satisfy future debt requirements. Sources of finance, which would provide an alternative to bank debt, are also reviewed and considered. While the group expects to borrow competitively in line with its credit standing, the margin is only one negotiable element in a financing arrangement and other items, such as covenants and flexibility, are equally important. The group continues to borrow on a secured basis with only loan to value and interest to rent covenants. There are no corporate covenants given to support its borrowing.

During the year, the bank facility that was due to expire in April 2006 was renegotiated on improved terms. Amongst other matters which were reviewed, the term of the loan was extended for seven years, such that the loan now matures in 2013. There is now no loan due for renegotiation until late 2008. At the year end, total group bank facilities were £430 million, of which £264 million had been drawn down. Therefore, the group has sufficient facilities to fund its next two year's capital expenditure, estimated to be about £70 million, while allowing it to move quickly when prospective acquisitions are identified. The group also has a £35 million listed debenture which is due for repayment in 2019.

Debt and gearing

With a cash inflow of £34.5 million, net debt fell year on year from £341.5 million to £303.9 million. In addition to the debenture and bank loans, these figures include the leasehold liabilities that are treated as debt under IFRS. In terms of managing the group's debt liabilities, these are irrelevant and considered a property matter as they are derived from ground rent payable.

The decrease in debt levels and the growth in property values had reduced balance sheet gearing to 50% from 69% at the December 2004 year end. However, profit and loss gearing for the year was effectively unchanged from 2004 at 1.84. This demonstrates why it is the more important figure for the board to manage when it is reviewing the group's risk profile, particularly in respect of the ongoing refurbishment and redevelopment programme and the average lease length profile.

Liability risk management

The group uses derivatives to protect itself from adverse interest rate movements. Board policy is that sufficient hedging should be entered into such that the total of fixed rate debt, and that fixed using derivative instruments, is within a range of 40% to 75% of total debt. The actual percentage is dependent on the perceived risk to the group. At the year end, 67% of debt was covered, which gave a weighted average cost of debt of 6.4%.

Under IFRS, the difference between the year end valuations of the interest rate derivatives is included in the group income statement as part of the interest charge and the valuation itself shown in the balance sheet. Although the interim results showed a charge of £1.4 million in respect of this, the valuation had fallen back to its 31st December 2004 figure of £3.1 million by the 2005 year end. At both December 2004 and 2005 this is equivalent to 4p per share after tax. The fair value of the debenture continues to be shown in a note to the financial statements as the company is carrying it at amortised cost in accordance with its accounting policies, and has no obligation or present intention to redeem the debenture other than at normal maturity. The fair value adjustment figure for the debenture shown with other details in note 23 was a negative £14.1 million compared with a negative £11.7 million at the 2004 year end. This is equivalent to 18p per share after tax (2004: 15p per share).

Outlook

In considering the current financial year (2006), the movement in net property income will continue to be a balance between the letting of completed schemes and voids caused by the group's refurbishment and redevelopment programme. The group's major expense is employment costs. Salaries will rise as the group needs to attract and retain the best staff to grow its business, while incentive payments are dependent on the group's relative performance against its peers and various indices. Details of these can be found in the remuneration committee report. Any change in interest rates will have only a modest impact on profits due to the group's hedging policy. In terms of net asset growth, although rental levels are moving upwards, the factor which will determine the year's outturn is likely to be the direction which property yields take during the year.

As stated at the beginning, these are the first full set of financial statements to be prepared under IFRS. Accounts already published under this basis have been found useful by some, but they have not been met with universal acclaim. Certainly, most commentators in the real estate sector are adjusting both profits and net assets to provide something they find more useful and, consequently, these financial statements show these figures for those who wish to use them. This may indicate that, despite all the work that went in to producing IFRS, the right answer may not have been found yet.

However, it is early days with IFRS. It will take time before users of the financial statements become familiar with the new format and definitions, although the length and complexity will deter some. Further immediate changes to the standards, or technicians reading into them unintended consequences, should be avoided. Compliance with IFRS has been costly and time consuming for companies and a period of reflection would be beneficial, not least because any more changes to definitions of key figures would strain credibility as to which are the correct or "true and fair" ones.

On behalf of the board

J.D. Burns
21st March 2006

Group income statement

for the year ended 31st December 2005

	Note	2005 £m	2004 Restated £m
Gross property income		**49.5**	52.1
Property outgoings	3	**(2.9)**	(4.1)
Net property income		**46.6**	48.0
Administrative expenses		**(8.8)**	(7.1)
		37.8	40.9
Revaluation surplus		**124.1**	46.4
Profit on disposal of investment properties	4	**9.6**	24.9
Profit from operations		**171.5**	112.2
Finance income	5	**0.4**	0.3
Finance costs	5	**(21.5)**	(23.0)
Share of results of joint ventures	6	**–**	1.6
Profit before tax	7	**150.4**	91.1
Tax expense	10	**(33.7)**	(18.5)
Profit for the year	11	**116.7**	72.6
Basic earnings per share	13	**218.63p**	136.64p
Diluted earnings per share	13	**216.81p**	135.76p

Statements of recognised income and expense

for the year ended 31st December 2005

	2005 £m	2004 Restated £m
Group		
Profit for the year	**116.7**	72.6
Recognition of financial instruments at 1st January 2005 at fair value under IFRS1 transitional rule	**(2.2)**	–
Total recognised income and expense relating to the year	**114.5**	72.6
Company		
Profit for the year	**7.7**	8.6
Recognition of financial instruments at 1st January 2005 at fair value under IFRS1 transitional rule	**(2.2)**	–
Total recognised income and expense relating to the year	**5.5**	8.6

All amounts are attributable to the equity holders of the parent company.

The notes on pages 28 to 44 form part of these financial statements.

Balance sheets

as at 31st December 2005

	Note	Group 2005 £m	2004 Restated £m	Company 2005 £m	2004 Restated £m
Non-current assets					
Investment property	16	**1,015.6**	915.6	**–**	–
Property, plant and equipment	17	**0.4**	0.6	**0.4**	0.6
Investments	18	**1.8**	1.8	**186.3**	186.2
Deferred tax asset	24	**–**	–	**2.5**	–
Other receivables	19	**13.3**	11.0	**–**	–
		1,031.1	929.0	**189.2**	186.8
Current assets					
Trade and other receivables	20	**12.3**	12.9	**387.3**	387.6
Corporation tax asset		**–**	–	**1.7**	3.5
Cash and cash equivalents		**14.7**	4.5	**10.2**	–
		27.0	17.4	**399.2**	391.1
Total assets		**1,058.1**	946.4	**588.4**	577.9
Current liabilities					
Bank overdraft		**2.0**	1.3	**0.1**	1.1
Trade and other payables	21	**20.7**	22.9	**73.3**	40.9
Corporation tax liability		**3.0**	2.6	**–**	–
Provisions	22	**0.1**	0.1	**0.1**	0.1
		25.8	26.9	**73.5**	42.1
Non-current liabilities					
Financial liabilities	23	**319.7**	344.7	**299.6**	322.5
Provisions	22	**1.2**	0.9	**1.2**	0.9
Deferred tax liability	24	**105.2**	78.4	**–**	–
		426.1	424.0	**300.8**	323.4
Total liabilities		**451.9**	450.9	**374.3**	365.5
Total net assets		**606.2**	495.5	**214.1**	212.4
Equity attributable to equity holders of the parent company	25				
Share capital	26	**2.6**	2.6	**2.6**	2.6
Share premium	27	**155.1**	154.1	**155.1**	154.1
Other reserves	27	**2.3**	0.3	**2.3**	0.3
Retained earnings	27	**446.2**	338.5	**54.1**	55.4
Total equity		**606.2**	495.5	**214.1**	212.4

J.D. Burns, Director
C.J. Odom, Director
21st March 2006

The notes on pages 28 to 44 form part of these financial statements.

Group cash flow statement

for the year ended 31st December 2005

	Note	2005 £m	2004 Restated £m
Operating activities			
Cash received from tenants		**46.3**	47.1
Direct property expenses		**(3.0)**	(6.3)
Cash paid to and on behalf of employees		**(4.5)**	(3.7)
Other administrative expenses		**(2.8)**	(3.5)
Interest received		**0.4**	0.2
Interest paid		**(21.7)**	(20.9)
Tax expense paid in respect of operating activities		**(1.0)**	(0.6)
Net cash from operating activities		**13.7**	12.3
Investing activities			
Acquisition of investment properties		**(40.3)**	(88.7)
Capital expenditure on investment properties		**(26.7)**	(26.1)
Disposal of investment properties		**97.8**	76.9
Capital insurance receipt		**–**	18.7
Purchase of property, plant and equipment		**–**	(0.1)
Tax expense paid in respect of investing activities		**(3.2)**	(4.7)
Net cash from/(used in) investing activities		**27.6**	(24.0)
Financing activities			
Movement in bank loans		**(26.0)**	18.1
Net proceeds of share issues	26	**1.0**	0.5
Dividends paid	12	**(6.8)**	(6.2)
Net cash (used in)/from financing activities		**(31.8)**	12.4
Increase in cash and cash equivalents in the year		**9.5**	0.7
Cash and cash equivalents at the beginning of the year		**3.2**	2.5
Cash and cash equivalents at the end of the year	29	**12.7**	3.2

The notes on pages 28 to 44 form part of these financial statements.

Company cash flow statement

for the year ended 31st December 2005

	Note	2005 £m	2004 Restated £m
Operating activities			
Cash received from tenants		**0.2**	0.2
Direct property expenses		**–**	(0.2)
Cash paid to and on behalf of employees		**(4.5)**	(3.7)
Other administrative expenses		**(2.8)**	(3.4)
Interest received		**0.3**	0.2
Interest paid		**(20.4)**	(20.9)
Net cash used in operating activities		**(27.2)**	(27.8)
Investing activities			
Purchase of property, plant and equipment		**–**	(0.1)
Net cash used in investing activities		**–**	(0.1)
Financing activities			
Movement in intercompany loans		**70.2**	14.7
Movement in bank loans		**(26.0)**	18.1
Net proceeds of share issues	26	**1.0**	0.5
Dividends paid	12	**(6.8)**	(6.2)
Net cash from financing activities		**38.4**	27.1
Increase/(decrease) in cash and cash equivalents in the year		**11.2**	(0.8)
Cash and cash equivalents at the beginning of the year		**(1.1)**	(0.3)
Cash and cash equivalents at the end of the year	29	**10.1**	(1.1)

The notes on pages 28 to 44 form part of these financial statements.

1 Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as adopted by the European Union and with those parts of the Companies Act 1985 applicable to companies preparing their accounts under IFRS. This is the first time the company has prepared its financial statements in accordance with IFRS, having previously prepared its financial statements in accordance with UK GAAP. Details of how the transition from UK GAAP to IFRS has affected the group's reported financial position and performance and the company's financial position are given on pages 63 to 68. In preparing these results, certain of the exemptions allowed by IFRS1, First-time Adoption of IFRS, have been taken. These are:

- The comparative year has not been restated for IAS39, Financial Instruments: Recognition and Measurement, in respect of derivative financial instruments. The fair value of these instruments at the start of 2005 was passed through reserves, and the subsequent movement for 2005 is reported in the group income statement. The group has not applied the hedge accounting treatment that would allow such movements to be deferred in equity.
- IFRS2, Share-based Payment, has not been applied to share options granted on or before 7th November 2002.

The principal accounting policies are described below.

Basis of consolidation

The group financial statements incorporate the financial statements of Derwent Valley Holdings plc and all of its subsidiaries, together with the group's share of the results of its joint ventures.

Revenue

(i) Rental income

Rental income arises from operating leases granted to tenants. An operating lease is a lease other than a finance lease. A finance lease is one whereby substantially all the risks and rewards of ownership are passed to the lessee.

Rental income is recognised in the group income statement on a straight-line basis over the term of the lease. This includes the effect of lease incentives to tenants, which are normally in the form of rent free periods or capital contributions in lieu of rent free periods.

For income from property leased out under a finance lease, a lease receivable asset is recognised in the balance sheet at an amount equal to the net investment in the lease, as defined in IAS17, Leases. Minimum lease payments receivable, again defined in IAS17, are apportioned between finance income and the reduction of the outstanding lease receivable so as to produce a constant periodic rate of return on the remaining net investment in the lease. Contingent rents, being the difference between the rent currently receivable and the minimum lease payments when the net investment in the lease was originally calculated, are recognised in property income in the years in which they are receivable.

(ii) Reverse surrender premiums

Payments received from tenants to surrender their lease obligations are recognised immediately in the group income statement.

(iii) Dilapidations

Dilapidations monies received from tenants in respect of their lease obligations are recognised immediately in the group income statement.

Expenses

(i) Lease payments

Where investment properties are held under operating leases, the leasehold interest is classified as if it were held under a finance lease, which is recognised at its fair value on the balance sheet, within the investment property carrying value. Upon initial recognition, a corresponding liability is included as a finance lease liability. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining finance lease liability. Contingent rents payable, being the difference between the rent currently payable and the minimum lease payments when the lease liability was originally calculated, are charged as expenses within property expenditure in the years in which they are payable.

(ii) Other property expenditure

Vacant property costs and other property costs are expensed in the year to which they relate.

1 Accounting policies (continued)

Employee benefits

(i) Share-based remuneration

The company operates a long-term incentive plan and share option scheme. The fair value of the conditional awards of shares granted under the long-term incentive plan and the options granted under the share option scheme are determined at the date of grant. This fair value is then expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest. At each reporting date, the non-market based performance criteria of the long-term incentive plan are reconsidered and the expense is revised as necessary. In respect of the share option scheme, the fair value of options granted is calculated using a binomial model.

Under the transitional provisions of IFRS1, no expense is recognised for options or conditional shares granted on or before 7th November 2002.

(ii) Pensions

The company operates a defined contribution pension scheme. The contributions payable to the scheme are expensed in the year to which they relate.

Investment properties

(i) Valuation

Investment properties are those that are held either to earn rental income or for capital appreciation or both, including those that are undergoing redevelopment. They are reported on the group balance sheet at fair value adjusted for the carrying value of leasehold interests and lease incentive debtors. Fair value is the amount for which an investment property could be exchanged between knowledgeable and willing parties in an arm's length transaction. The valuation is undertaken by independent valuers who hold recognised and relevant professional qualifications and have recent experience in the locations and categories of properties being valued.

Surpluses or deficits resulting from changes in the fair value of investment property are reported in the group income statement in the year in which they arise.

(ii) Capital expenditure

Capital expenditure, being costs directly attributable to the redevelopment or refurbishment of an investment property, up to the point of it being completed for its intended use, are capitalised in the carrying value of that property. Borrowing costs that are directly attributable to such expenditure are expensed in the year in which they arise.

(iii) Disposal

The disposal of investment properties is accounted for on completion of contract. On disposal, any gain or loss is calculated as the difference between the net disposal proceeds and the carrying value at the last year end plus subsequent capitalised expenditure during the year.

Property, plant and equipment

Property, plant and equipment, is depreciated at a rate of between 10% and 25% per annum which is calculated to write off the cost, less estimated residual value of the individual assets, over their expected useful lives.

Investments

Investments in joint ventures, being those entities over whose activities the group has joint control, as established by contractual agreement, are included in the group's balance sheet at cost together with the group's share of post acquisition reserves, on a net equity basis. Investments in subsidiaries and joint ventures are included in the company's balance sheet at the lower of cost and their net asset value.

Cash and cash equivalents

Cash comprises cash in hand and on-demand deposits less overdrafts. Cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

1 Accounting policies (continued)

Trade receivables
Trade receivables are recognised and carried at the original transaction value.

Trade payables
Trade payables are recognised and carried at the original transaction value.

Financial liabilities
(i) Bank loans and overdrafts
Bank loans and overdrafts are included as financial liabilities on the balance sheet at the amounts drawn on the particular facilities. Interest payable is expensed as a finance cost in the year to which it relates.

(ii) Debenture loan
The debenture loan is included as a financial liability on the balance sheet net of the unamortised discount and costs on issue. The difference between this carrying value and the redemption value is recognised in the group income statement over the life of the debenture on an effective interest basis. Interest payable to debenture holders is expensed in the year to which it relates.

(iii) Finance lease liabilities
Finance lease liabilities arise for those investment properties held under a leasehold interest and accounted for as investment property. The liability is initially calculated as the present value of the minimum lease payments, reducing in subsequent years by the apportionment of payments to the lessor, as described above under the heading for lease payments.

(iv) Interest rate derivatives
The group uses derivative financial instruments to manage the interest rate risk associated with the financing of the group's business. No trading in financial instruments is undertaken.

At each reporting date, these interest rate derivatives are measured at fair value, being the estimated amount that the group would receive or pay to terminate the agreement at the balance sheet date, taking into account current interest rates and the current credit rating of the counterparties. The gain or loss at each fair value remeasurement is recognised in the group income statement.

Deferred tax
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the tax computations, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. In respect of the deferred tax on the revaluation surplus, this is calculated on the basis of the chargeable gains that would crystallise on the sale of the investment portfolio as at the reporting date. The calculation takes account of indexation on the historic cost of the properties and any available capital losses.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the group income statement, except when it relates to items charged or credited directly to equity, in which case it is also dealt with in equity.

Dividends
Dividends payable on the ordinary share capital are recognised in the year in which they are declared.

2 Segmental information

The group has only one business activity, that being property investment, refurbishment and redevelopment and operates only in Central London.

3 Property outgoings

	2005 £m	2004 Restated £m
Ground rents	**0.2**	0.3
Other property costs	**2.7**	3.8
	2.9	4.1

4 Profit on disposal of investment properties

	2005 £m	2004 Restated £m
Disposal proceeds	**97.8**	78.9
Carrying value	**(90.1)**	(72.5)
Leasehold liabilities	**1.9**	–
	9.6	6.4
Insurance receipt from fire damaged building	**–**	18.5
	9.6	24.9

5 Finance income and costs

	2005 £m	2004 Restated £m
Finance income		
Bank interest received	**0.4**	0.3
Finance costs		
Bank loans and overdraft wholly repayable within five years	**8.4**	14.6
Bank loans not wholly repayable within five years	**8.2**	3.6
Debenture stock	**3.6**	3.6
Finance leases	**1.3**	1.2
	21.5	23.0

6 Share of results of joint ventures

	2005 £m	2004 Restated £m
Profit from operations before revaluation surplus	**–**	0.1
Revaluation surplus	**–**	1.5
	–	1.6

	2005 £m	2004 Restated £m
7 Profit before tax		
This is arrived at after charging:		
Depreciation and amortisation	**0.1**	0.1
Rent payable under property leases	**0.2**	0.3
Auditors' remuneration		
Audit	**0.1**	0.1
Tax compliance services	**0.1**	0.1

	2005 £m	2004 Restated £m
8 Directors' emoluments		
Remuneration for management services	**2.2**	2.0
Adjustment in respect of prior years' incentive schemes	**0.2**	(0.2)
Non-executive directors' remuneration	**0.1**	0.1
Gain on exercise of share options	**1.2**	0.4
Pension contributions	**0.4**	0.4
	4.1	2.7

Details of the directors' remuneration, awards under the long-term incentive plan and options held by the directors under the group share option schemes are given in the report on directors' remuneration on pages 53 to 57.

	2005 £m	2004 Restated £m
9 Employees		
Staff costs, including those of directors:		
Wages and salaries	**3.8**	2.8
Social security costs	**0.9**	0.5
Pension costs	**0.6**	0.6
Share-based payments expense relating to equity-settled schemes	**0.7**	0.2
	6.0	4.1

The average number of employees during the year, excluding directors, was 23 (2004: 23). All were employed in administrative roles.

Employee costs are wholly incurred by the company.

	2005 £m	2004 Restated £m
10 Tax expense		
Corporation tax expense		
UK corporation tax and income tax on profits for the year	**4.0**	6.3
Adjustment for under/(over) provision in prior years	**0.6**	(1.1)
	4.6	5.2
Deferred tax expense		
Origination and reversal of temporary differences	**30.9**	12.4
Adjustment for (over)/under provision in prior years	**(1.8)**	0.9
	29.1	13.3
	33.7	18.5

The tax for both 2005 and 2004 is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2005 £m	2004 Restated £m
Profit before tax	150.4	91.1
Expected tax expense based on the standard rate of corporation tax in the UK of 30% (2004: 30%)	45.1	27.3
Indexation relief on investment properties	(8.0)	(10.4)
Difference between tax and accounting profit on disposals	(1.4)	2.2
Other differences	(0.8)	(0.4)
Tax expense on current year's profit	34.9	18.7
Adjustments in respect of prior years' tax	(1.2)	(0.2)
	33.7	18.5
Tax charged directly to reserves		
Deferred tax on fair value of derivative financial instruments	(0.9)	–
Deferred tax on share-based payments	(1.4)	–
	(2.3)	–

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

The company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own income statement in these financial statements. Profit for the year includes £7.7m (2004: £8.6m) which has been dealt with in the accounts of the company.

	2005 £m	2004 Restated £m
12 Dividend		
Final dividend of 8.90p (2004: 8.10p) per ordinary share declared during the year relating to the previous year's results	**4.8**	4.3
Interim dividend of 3.925p (2004: 3.60p) per ordinary share declared during the year	**2.0**	1.9
	6.8	6.2

The directors are proposing the payment of a final dividend in respect of the current year's results of 9.725p (2004: 8.90p) per ordinary share which would total £5.2m (2004: £4.8m). This dividend has not been accrued at the balance sheet date.

13 Earnings per share

	Profit for the year £m	Weighted average number of shares '000	Earnings per share p
Year ended 31st December 2005			
Basic	116.7	53,378	**218.63**
Adjustment for dilutive share-based payments	–	447	**(1.82)**
Diluted	116.7	53,825	**216.81**
Year ended 31st December 2004			
Basic	72.6	53,195	136.64
Adjustment for dilutive share-based payments	–	346	(0.88)
Diluted	72.6	53,541	135.76
Year ended 31st December 2005			
Basic	116.7	53,378	**218.63**
Adjustment for deferred tax on capital allowances	(0.8)	–	**(1.50)**
Adjustment for disposal of investment properties	(7.0)	–	**(13.11)**
Adjustment for group revaluation surplus	(94.9)	–	**(177.79)**
Adjusted	14.0	53,378	**26.23**
Year ended 31st December 2004			
Basic	72.6	53,195	136.64
Adjustment for deferred tax on capital allowances	2.2	–	4.13
Adjustment for disposal of investment properties	(20.7)	–	(38.89)
Adjustment for group revaluation surplus	(36.7)	–	(69.15)
Adjustment for share of joint ventures' revaluation surplus	(1.5)	–	(2.82)
Adjusted	15.9	53,195	29.91

The adjusted earnings per share excludes the after tax effect of fair value adjustments to the carrying value of assets and liabilities, together with the profit or loss after tax arising from the disposal of investment properties, in order to show the underlying trend. The adjusted earnings per share figure also excludes the deferred tax charge provided in respect of capital allowances claimed, on the basis that it is unlikely that a liability will ever crystallise.

14 Total return

	2005 %	2004 Restated %
Total return	**25.5**	17.2

Total return is the movement in adjusted net asset value per share as derived in note 28 plus the dividend per share paid during the year, expressed as percentage of the adjusted net asset value per share at the beginning of the year.

15 Gearing

Balance sheet gearing is 50.1% (2004: 68.9%). This is defined as net debt divided by net assets.

Profit and loss gearing is 1.84 (2004: 1.85). This is defined as net property income less administrative costs divided by net interest payable, having reversed the reallocation of ground rent payable on leasehold investment properties to interest payable of £1.3m (2004: £1.2m).

16 Investment property

Group

	Freehold £m	Leasehold £m	Total £m
Carrying value			
At 1st January 2005	595.4	320.2	915.6
Transfer	23.2	(23.2)	–
Acquisitions	39.3	0.2	39.5
Capital expenditure	25.3	1.2	26.5
Additions	64.6	1.4	66.0
Disposals	(55.4)	(34.7)	(90.1)
Revaluation	96.4	27.7	124.1
At 31st December 2005	**724.2**	**291.4**	**1,015.6**
At 1st January 2004	578.0	238.0	816.0
Acquisitions	31.5	67.1	98.6
Capital expenditure	21.7	5.4	27.1
Additions	53.2	72.5	125.7
Disposals	(66.7)	(5.8)	(72.5)
Revaluation	30.9	15.5	46.4
At 31st December 2004	595.4	320.2	915.6
Adjustments from fair value to carrying value			
At 31st December 2005			
Fair value	737.5	272.3	1,009.8
Adjustment for rents recognised in advance	(13.3)	(1.0)	(14.3)
Adjustment for grossing up of headlease liabilities	–	20.1	20.1
Carrying value	724.2	291.4	1,015.6
At 31st December 2004			
Fair value	606.4	299.8	906.2
Adjustment for rents recognised in advance	(11.0)	(1.8)	(12.8)
Adjustment for grossing up of headlease liabilities	–	22.2	22.2
Carrying value	595.4	320.2	915.6

The investment properties were revalued at 31st December 2005 at £1,009.8m (2004: £906.2m) 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 2005, the historical cost of investment property owned by the group was £635.6m (2004: £652.3m).

	2005 £m	2004 Restated £m
17 Property, plant and equipment		
Group and Company		
Net book value		
At 1st January	**0.6**	0.6
Additions	**–**	0.1
Disposals	**(0.1)**	–
Depreciation	**(0.1)**	(0.1)
At 31st December	**0.4**	0.6
Net book value at 31st December		
Cost	1.3	1.4
Accumulated depreciation	(0.9)	(0.8)
	0.4	0.6

18 Investments

Group

The group has 50% interests in the joint ventures, Primister Ltd and Dorrington Derwent Holdings Ltd, which have been accounted for by the equity method. The following amounts have been recognised in the group's balance sheet relating to these joint ventures.

	2005 £m	2004 Restated £m
Non-current assets	**4.5**	4.5
Current assets	**0.3**	0.2
Current liabilities	**(0.2)**	(0.1)
Non-current liabilities	**(2.8)**	(2.8)
Net assets	**1.8**	1.8
Income	**0.4**	1.9
Expenses	**(0.4)**	(0.3)
Profit for the year	**–**	1.6

	Subsidiaries £m	Joint ventures £m	Total £m
Company			
Shares in subsidiaries:			
At 1st January 2004, 1st January 2005 and 31st December 2005	185.4	–	185.4
Loans:			
At 1st January 2004	–	0.7	0.7
Release of provisions	–	0.1	0.1
At 1st January 2005	–	0.8	0.8
Release of provisions	–	0.1	0.1
At 31st December 2005	–	0.9	0.9
At 31st December 2005	**185.4**	**0.9**	**186.3**
At 31st December 2004	185.4	0.8	186.2

19 Other receivables (non-current)

	Group 2005 £m	2004 Restated £m	Company 2005 £m	2004 Restated £m
Accrued income	**13.3**	11.0	**–**	–

20 Trade and other receivables

	Group 2005 £m	2004 Restated £m	Company 2005 £m	2004 Restated £m
Trade receivables	**8.1**	7.1	**–**	–
Amounts owed by subsidiaries	**–**	–	**386.2**	386.7
Other receivables	**0.5**	0.4	**0.2**	0.1
Prepayments	**2.7**	3.5	**0.9**	0.8
Accrued income	**1.0**	1.9	**–**	–
	12.3	12.9	**387.3**	387.6

21 Trade and other payables

	Group 2005 £m	2004 Restated £m	Company 2005 £m	2004 Restated £m
Trade payables	**1.8**	1.7	**0.1**	0.1
Amounts owed to subsidiaries	**–**	–	**66.6**	34.5
Other payables	**0.1**	0.3	**–**	–
Sales and social security taxes	**0.6**	1.6	**0.1**	0.1
Accruals and deferred income	**18.2**	19.3	**6.5**	6.2
	20.7	22.9	**73.3**	40.9

22 Provisions

Group and Company

	Onerous contract £m	National insurance on share-based payments £m	2005 Total £m	Onerous contract £m	National insurance on share-based payments £m	2004 Total £m
At 1 January	0.9	0.1	**1.0**	1.0	–	1.0
Charged to profit or loss	–	0.4	**0.4**	–	0.1	0.1
Utilised in year	(0.1)	–	**(0.1)**	(0.1)	–	(0.1)
At 31st December	0.8	0.5	**1.3**	0.9	0.1	1.0
Due within one year	0.1	–	**0.1**	0.1	–	0.1
Due after more than one year	0.7	0.5	**1.2**	0.8	0.1	0.9
	0.8	0.5	**1.3**	0.9	0.1	1.0

The onerous contract relates to the excess of rents payable over rents receivable on a lease which expires in 2014 and reflects the discounted present value of future net payments under that lease.

National insurance is payable on gains made by employees on the exercise of share-based payments granted to them. The eventual liability to national insurance is dependent on:

- the market price of the company's shares at the date of exercise;
- the number of equity instruments that will be exercised; and
- the prevailing rate of national insurance at the date of exercise.

	Group 2005 £m	2004 Restated £m	Company 2005 £m	2004 Restated £m

23 Financial liabilities

Non-current financial liabilities

	Group 2005 £m	2004 Restated £m	Company 2005 £m	2004 Restated £m
Bank loans	**262.0**	288.0	**262.0**	288.0
10⅛% First Mortgage Debenture Stock 2019	**34.5**	34.5	**34.5**	34.5
Leasehold liabilities	**20.1**	22.2	**–**	–
Derivative financial instruments	**3.1**	–	**3.1**	–
	319.7	344.7	**299.6**	322.5

In accordance with IAS39, Financial Instruments: Recognition and Measurement, the £35m 10⅛% First Mortgage Debenture Stock 2019 is shown net of the unamortised discount and costs on issue of £0.5m (2004: £0.5m). The 2004 figure has not been restated for IAS39 in respect of derivative financial instruments as the company has taken advantage of the exemption allowed by IFRS1.

Total financial liabilities

	Group 2005 £m	2004 Restated £m	Company 2005 £m	2004 Restated £m
Secured				
Bank loans wholly repayable:				
between 1–2 years	–	62.0	–	62.0
between 2–3 years	60.0	–	60.0	–
between 3–4 years	65.0	85.0	65.0	85.0
between 4–5 years	–	66.0	–	66.0
more than 5 years	137.0	75.0	137.0	75.0
10⅛% First Mortgage Debenture Stock 2019	34.5	34.5	34.5	34.5
	296.5	322.5	296.5	322.5
Unsecured				
Overdrafts repayable in less than 1 year	2.0	1.3	0.1	1.1
Gross debt	298.5	323.8	296.6	323.6
Leasehold liabilities repayable in more than 5 years	20.1	22.2	–	–
Derivative financial instruments	3.1	–	3.1	–
	321.7	346.0	299.7	323.6

Certain of the group's properties are charged against the bank loans. The debenture is secured by charges on certain of the group's properties and a short-term deposit.

Undrawn committed bank facilities

	Group 2005 £m	2004 Restated £m	Company 2005 £m	2004 Restated £m
Maturity dates:				
between 1–2 years	–	38.0	–	38.0
between 2–3 years	40.0	–	40.0	–
between 3–4 years	60.0	15.0	60.0	15.0
between 4–5 years	–	59.0	–	59.0
more than 5 years	63.0	25.0	63.0	25.0
	163.0	137.0	163.0	137.0

23 Financial liabilities (continued)

Fixed interest rate and hedged debt

Details of the group's and company's fixed rate debt, which comprises 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	13.59	49.1	(14.1)
Interest rate swaps	160.0	5.387	2.37	3.1	(3.1)
Interest rate cap	10.0	6.010	5.46	–	–
At 31st December 2005				52.2	(17.2)
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)

In both 2005 and 2004 there was no difference between the book value and the fair value of all other financial assets and liabilities.

10⅛% First Mortgage Debenture Stock 2019

The market price for the debenture at 31st December 2005 was £140.229 (2004: £133.493) which gave rise to a value of £49,080,000 (2004: £46,723,000). At this price, the gross redemption yield on the debenture was 4.08% (2004: 6.53%) implying a margin of 1.72% (2004: 2.00%) 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 2005.

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 2005 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 2005.

Interest rate exposure

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

	Floating rate £m	Hedged £m	Fixed rate £m	Gross debt £m	Weighted average cost of debt %	Weighted average life Years
Group						
At 31st December 2005	**94.0**	**170.0**	**34.5**	**298.5**	**6.41**	**6.16**
At 31st December 2004	79.3	210.0	34.5	323.8	6.70	5.44
Company						
At 31st December 2005	**92.1**	**170.0**	**34.5**	**296.6**	**6.42**	**6.19**
At 31st December 2004	79.1	210.0	34.5	323.6	6.70	5.44

Further information on interest rate risk management is given in the financial review on page 23.

24 Deferred tax

	Revaluation surplus £m	Capital allowances £m	Other £m	Total £m
Group				
Deferred tax liability				
At 1st January 2005	62.4	14.4	1.6	78.4
Adjustment to reserves in respect of deferred tax on fair value of derivative financial instruments at 31st December 2004	–	–	(0.9)	(0.9)
Adjustment to reserves in respect of deferred tax on share-based payments	–	–	(1.4)	(1.4)
Provided during the year	29.2	(0.8)	0.7	29.1
At 31st December 2005	**91.6**	**13.6**	**–**	**105.2**
Company				
Deferred tax asset				
At 1st January 2005			–	–
Adjustment to reserves in respect of deferred tax on fair value of derivative financial instruments at 31st December 2004			0.9	0.9
Adjustment to reserves in respect of deferred tax on share-based payments			1.4	1.4
Provided during the year			0.2	0.2
At 31st December 2005			**2.5**	**2.5**

Deferred tax on the revaluation surplus is calculated on the basis of the chargeable gains that would crystallise on the sale of the investment property portfolio as at 31st December 2005. The calculation takes account of indexation on the historic cost of the properties and any available capital losses.

25 Changes in shareholders' equity

	Group 2005 £m	2004 Restated £m	**Company 2005 £m**	2004 Restated £m
Total recognised income and expense relating to the year	**114.5**	72.6	**5.5**	8.6
Dividends paid	**(6.8)**	(6.2)	**(6.8)**	(6.2)
Share-based payment transferred to reserves	**0.6**	0.3	**0.6**	0.3
Deferred tax asset in respect of share-based payments	**1.4**	–	**1.4**	–
Premium on issue of shares	**1.0**	0.5	**1.0**	0.5
	110.7	67.2	**1.7**	3.2
Equity attributable to equity holders of the parent company at 1st January	**495.5**	428.3	**212.4**	209.2
Equity attributable to equity holders of the parent company at 31st December	**606.2**	495.5	**214.1**	212.4

26 Share capital

	Authorised £m	Issued and fully paid £m
At 1st January 2004, 31st December 2004, and 31st December 2005	3.55	**2.6**

The number of 5p ordinary shares in issue at the year end was 53,472,492 (2004: 53,268,076). During the year, 204,416 shares were issued as a result of the exercise of share options, which realised proceeds of £1.0m. The number of outstanding share options and other share awards granted are disclosed in the report on directors' remuneration on pages 55 and 56.

27 Reserves

	Share premium £m	Other reserves £m	Retained earnings £m
Group			
At 1st January 2005	154.1	0.3	338.5
Fair value of derivative financial instruments at 31st December 2004	–	–	(3.1)
Deferred tax asset in respect of the fair value of derivative financial instruments at 31st December 2004	–	–	0.9
Premium on issue of shares	1.0	–	–
Share-based payments expense transferred to reserves	–	0.6	–
Deferred tax asset in respect of share-based payments	–	1.4	–
Profit for the year	–	–	116.7
Dividends paid	–	–	(6.8)
At 31st December 2005	**155.1**	**2.3**	**446.2**
At 1st January 2004	153.7	–	272.1
Premium on issue of shares	0.4	–	–
Share-based payments expense transferred to reserves	–	0.3	–
Profit for the year	–	–	72.6
Dividends paid	–	–	(6.2)
At 31st December 2004	154.1	0.3	338.5
Company			
At 1st January 2005	154.1	0.3	55.4
Fair value of derivative financial instruments at 31st December 2004	–	–	(3.1)
Deferred tax asset in respect of the fair value of derivative financial instruments at 31st December 2004	–	–	0.9
Premium on issue of shares	1.0	–	–
Share-based payments expense transferred to reserves	–	0.6	–
Deferred tax asset in respect of share-based payments	–	1.4	–
Profit for the year	–	–	7.7
Dividends paid	–	–	(6.8)
At 31st December 2005	**155.1**	**2.3**	**54.1**
At 1st January 2004	153.7	–	53.0
Premium on issue of shares	0.4	–	–
Share-based payments expense transferred to reserves	–	0.3	–
Profit for the year	–	–	8.6
Dividends paid	–	–	(6.2)
At 31st December 2004	154.1	0.3	55.4

The following describes the nature and purpose of each reserve within owners' equity:

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value.
Other	Fair value of equity instruments granted but not yet exercised under share-based payments.
Retained earnings	Cumulative net gains and losses recognised in the group income statement.

28 Net asset value per share

	Net assets £m	Number of shares '000	Net asset value per share p
At 31st December 2005			
Basic	606.2	53,472	**1,134**
Adjustment for deferred tax on capital allowances	13.6	–	**26**
Adjustment for deferred tax on revaluation surplus	91.6	–	**171**
Adjustment for post tax fair value of derivative financial instruments	2.2	–	**4**
Adjusted	713.6	53,472	**1,335**
At 31st December 2004			
Basic	495.5	53,268	930
Adjustment for deferred tax on capital allowances	14.4	–	27
Adjustment for deferred tax on revaluation surplus	62.4	–	117
Adjusted	572.3	53,268	1,074

Adjusted net assets excludes the deferred tax provided in respect of capital allowances claimed, on the basis that it is unlikely that this liability will ever crystallise. The deferred tax on the revaluation surplus and the post tax fair value of derivative financial instruments are also excluded, on the basis that these amounts are not relevant when considering the group as an ongoing business.

29 Cash and cash equivalents

	Group 2005 £m	Group 2004 Restated £m	**Company 2005 £m**	Company 2004 Restated £m
Overdrafts	**(2.0)**	(1.3)	**(0.1)**	(1.1)
Short-term deposits	**14.7**	4.5	**10.2**	–
	12.7	3.2	**10.1**	(1.1)

30 Principal operating companies

The principal operating companies within the group are:

	Class of shares	Principal activity
Subsidiaries		
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.

	Class of shares	Principal activity
Joint ventures		
Primister Limited	Ordinary	Property investment
Dorrington Derwent Holdings Limited	Ordinary	Holding company

The company owns 50% of the ordinary shares and controls 50% of the voting rights of each of the joint ventures which are accounted for and disclosed in accordance with IAS31, Interests in Joint Ventures.

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

31 Share-based payments

Details of the options held by directors and employees under the group's share option schemes are given in the report on directors' remuneration on pages 55 and 56.

The following information is relevant in the determination of the fair value of options granted during the year under the equity-settled option scheme operated by the group.

	2005	2004
Option pricing model used	**Binomial lattice**	Binomial lattice
Share price at date of grant	**£10.710**	£8.590
Exercise price	**£10.710**	£8.590
Number granted	**27,000**	27,500
Contractual life	**10 years**	10 years
Risk free interest rate	**4.6%**	5.1%
Volatility	**18%**	17%
Dividend yield	**1.2%**	1.4%

For both the 2005 and 2004 grants, additional assumptions have been made that there is no employee turnover before vesting and 4% after vesting, and 50% of employees exercise early when the share options are 20% in the money.

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily prices over the last five years.

32 Capital commitments

Contracts for capital expenditure entered into by the group at 31st December 2005 and not provided for in the accounts amounted to £10.6m (2004: £26.2m).

33 Leases

The group has the following future minimum lease receipts under the operating leases entered into with its tenants:

	2005 £m	2004 Restated £m
Future minimum lease receipts on operating leases expiring:		
less than 1 year	**4.0**	3.9
between 1–5 years	**49.1**	50.8
more than 5 years	**347.4**	351.4
	400.5	406.1

34 Post balance sheet events

On 27th February 2006, the group completed the purchase of an investment property for £6.8m excluding costs.

35 Contingent liabilities

The company and its subsidiaries are party to cross guarantees securing the overdraft and certain bank loans.
At 31st December 2005 the maximum liability that could arise for the company from the cross guarantees amounted to £2.0m (2004: £1.0m). The company has guaranteed its share of a loan to Primister Limited, the contingent liability for which at 31st December 2005 amounted to £2.8m (2004: £2.8m). In addition, the company guarantees its share of interest payable on this loan which amounts to £0.3m per annum (2004: £0.3m).

36 Related party transactions

Details of directors' remuneration are given in the report on directors' remuneration on pages 53 to 57 and note 8. Other related party transactions are as follows:

Group

Messrs J.D. Burns and S.P. Silver are partners in Pilcher Hershman and Partners, estate agents, which received fees at a commercial rate in respect of the management, letting, acquisition and disposal of certain properties owned by the group of £1.1m, during the year (2004: £1.2m). This amount includes management fees which were rechargeable to tenants of £0.7m (2004: £0.7m). Pilcher Hershman and Partners occupy offices owned by the group for which they paid a commercial rent in the year of £0.1m (2004: £0.1m).

Company

The company received dividends, and received or paid interest on the inter-company balances with some of its subsidiaries during the year. These transactions are detailed below:

	Dividend received		Interest received/(paid)		Balance owed/(owing)	
	2005 £m	2004 Restated £m	2005 £m	2004 Restated £m	2005 £m	2004 Restated £m
Related party						
Derwent Valley Central Ltd	15.5	14.0	8.6	7.5	175.5	202.2
Derwent Valley London Ltd	–	1.0	6.5	6.7	114.6	105.5
Derwent Valley Property Developments Ltd	2.0	2.0	4.2	3.4	67.5	77.7
Derwent Valley Property Investments Ltd	1.5	2.0	(2.0)	(2.1)	(37.8)	(33.0)
Derwent Valley Property Trading Ltd*	–	–	–	–	(0.2)	(0.2)
Derwent Valley Railway Company*	–	–	–	–	(0.2)	(0.2)
Derwent Valley Properties Ltd*	–	–	–	–	(1.1)	(1.1)
Itkin Properties (London) Ltd*	–	–	–	–	1.3	1.3
	19.0	19.0	17.3	15.5	319.6	352.2

*dormant companies

The group has not made any provision for bad or doubtful debts in respect of related party debtors.

Directors' report

The directors present their report and the financial statements for the year ended 31st December 2005.

Results and dividend

Profit before tax was £150.4m (2004: £91.1m) and profit for the year amounted to £116.7m (2004: £72.6m). The directors recommend a final dividend of 9.725p per ordinary share. This, when taken with the interim dividend of 3.925p per share, paid on 7th November 2005, gives a total dividend of 13.65p (2004: 12.50p) per ordinary share payable in respect of the results for the year ended 31st December 2005, amounting to £7.2m. Ordinary dividends paid during 2005 amounted to £6.8m (2004: £6.2m), after which £109.9m (2004: £66.4m) was added to retained earnings.

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, operating 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 2005	31st December 2004	**31st December 2005**	31st December 2004
J.C. Ivey	**79,072**	79,072	**–**	–
J.D. Burns	**691,536**	691,536	**108,000**	163,250
S.P. Silver	**271,359**	301,359	**90,250**	136,750
C.J. Odom	**12,650**	12,650	**103,000**	131,521
N.Q. George	**4,153**	4,153	**66,000**	100,895
P.M. Williams	**5,622**	5,622	**76,500**	90,000
I. Yeatman	**–**	–	**–**	–
S.J. Neathercoat	**1,000**	1,000	**–**	–
R.A. Farnes	**3,066**	3,066	**–**	–

On 4th January 2006, Mr Silver sold 44,920 ordinary shares. This reduced his holding to 226,439 ordinary shares. There have been no other changes in directors' shareholdings between the year end and 21st March 2006. During the year, directors exercised options over 18,450 shares at an exercise price of 237p; 12,966 shares at an exercise price of 345p; 45,500 shares at an exercise price of 569p; 46,750 shares at an exercise price of 553p and 55,000 shares at an exercise price of 501.5p. No new options were granted to directors during the year. Full details of the options held by directors, together with their interests in the group's long-term incentive plan, are given in the report on directors' remuneration, which commences on page 53.

In accordance with the articles of association, Messrs Ivey, Burns and Farnes retire by rotation, and, being eligible, offer themselves for re-election. Biographies of all the directors are given on page 62.

Other than as disclosed in note 36, the directors have no interest in any material contracts of the company.

Non-current assets

The group's freehold and leasehold investment properties were professionally revalued at 31st December 2005, resulting in a surplus of £126.1m, before deducting the lease incentive adjustment of £2.0m. The freehold and leasehold investment properties are included in the group balance sheet at a carrying value of £1,015.6m.

Financial instruments

Details about the use of financial instruments by the group and the company are set out in note 23 of the financial statements and are discussed in the financial review on page 23.

Charitable donations

During the year, the group made charitable donations amounting to £53,000.

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 21st March 2006.

	Number of shares	Percentage of issued share capital
Stichting Pensioenfonds ABP	3,774,032	7.06
ISIS Asset Management	3,352,127	6.27
Standard Life Assurance Company	2,625,905	4.91
Scottish Widows Investment Partnership	2,164,775	4.05
Third Avenue Management	1,631,825	3.05
Legal & General Investment Management Ltd	1,627,195	3.04

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 2005, the average payment period for trade creditors was 19 days (2004: 24 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. The company's position is described in the following section. The company has also only complied with code provision C.3.4 since 9th December 2005 when, on the recommendation of the audit committee, the board implemented a 'whistle blowing' procedure. A number of other code provisions were not applicable in the current year.

The board

Throughout 2005, 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, Yeatman and Farnes. In assessing the independence of the non-executive directors with regard to the guidance on independence contained in code provision A.3.1, there have been a number of developments since last year's report. Firstly, as stated in the chairman's statement, Mr Corbyn is to join the board after the Annual General Meeting as a non-executive director and, after ten years service on the board, Mr Yeatman will not be seeking re-election; secondly, Mr Ivey has retired from The Davis Service Group plc; and finally, three years have elapsed since Mr Farnes retired from his position at CB Hillier Parker, and, consequently, he now meets all the criteria in code provision A.3.1. Therefore, Mr Ivey is the only non-executive director not automatically deemed independent as a result of having served on the board for more than nine years. 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, and again concluded that his expertise and the manner in which he carried out his duties was such that shareholders should have no cause for concern that his independence was in any way impaired. Further more, 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 has been approved by the board, 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. Mr Neathercoat is the senior independent director. Biographies of the directors are given on page 62.

Directors' report

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. A formal list of matters reserved for the full board's approval is maintained and reviewed periodically. 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, met nine times in 2005. The board is provided with comprehensive papers in a timely manner to ensure that the directors are fully briefed on matters to be discussed at these meetings.

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 are available on the group's website. Set out below are details of the membership and duties of the three principal committees.

- Remuneration committee
  The committee is comprised of Mr Yeatman and Mr Neathercoat under the chairmanship of Mr Farnes. It is responsible for establishing the company's remuneration policy and individual remuneration packages for the executive directors. There were three meetings of the committee in 2005. The report on directors' remuneration is set out on pages 53 to 57.

- Audit committee
  Mr Farnes and Mr Yeatman served on the committee throughout 2005 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 four times during 2005. The report of the audit committee is on page 58.

- Nominations 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 three times during the period under review. The nominations committee report is on page 59.

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

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

Directors' report

Performance evaluation
During 2005, the nominations committee carried out a formal appraisal of the performance of the board and its committees. 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 nominations committee, whilst internal promotion is a matter decided by the board unless it is considered appropriate for a recommendation to be requested from the nominations committee. All new directors must stand for 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 listed public company. Existing directors monitor their own continued professional development and are encouraged to attend those courses that keep their professional 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 effective and efficient operations, internal financial control and compliance with laws and regulations. Such a system can only manage business risk, not eliminate it, and cannot provide absolute assurance against material misstatement or loss. Accordingly, the system is designed to provide reasonable assurance that material risks and problems are identified and appropriate remedial measures taken on a timely basis.
The board 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 2005 to 21st March 2006. During the period, the board has continued to monitor the operation of the system with a view to further integrating it into the business processes where possible and to address any areas for improvement as they are identified.

The board has considered the need for an internal audit function but continues to believe that this 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 gave due consideration to key characteristics of the group's business:

- the group does not operate in any countries which have unacceptable human rights records;
- there are 28 employees at the group's single office in Central London; and
- 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.

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

The group's major environmental impact stems from its refurbishment/redevelopment programme as, once a property is fully let, its ability to influence the tenants' behaviour is limited. No two projects are the same. 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 comes 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 the revised Part L of the building regulations. Such plant often benefits from favourable tax treatment. In new developments, consideration is given to using renewable sources such as biomass boilers or photovoltaic cells or installing more energy efficient systems, such as displacement air-conditioning. 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 by the property. At new developments, the group works with local authorities to promote the Green Travel Plan.

- Waste – at refurbishment and redevelopment schemes all waste is sorted and recycled where appropriate. Recycling points for paper and plastic are provided throughout the portfolio 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, 70% of the group's properties have meters installed.

- Asbestos – an external 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 on request and a summary can be found on the group's website.

Health and safety
The group's formal health and safety policy has been updated and reissued and is embedded in the management regime for the group's redevelopment sites. To ensure compliance with the policy, an executive is assigned to each project 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 Contractor Scheme. The board receives regular reports from each site together with notification of any incidents that require reporting under the Health and Safety regulations.

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

Following the implementation of the Disability Discrimination Act, the group had an external audit of the portfolio carried out and has completed all the changes identified. New developments are all audited by independent access consultants to ensure that they comply with the requirements of the Act.

Community/society
No formal policy has been adopted concerning this aspect of CSR. 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. The group supports the Crossrail link, which will represent a major addition to London's transport infrastructure. The group is represented in the New West End Company, the Westminster Property Owners Association, and the Paddington Business Improvement District, 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 recognised the problems that could arise from a confrontational relationship between landlord and tenant and was a member of the first group of landlords to adopt a voluntary code which offers tenants more flexible leases.

During 2005, the group continued to support Teenage Cancer Trust by providing coordinated advice for the Trust's development programme, and sponsored postgraduate students 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 £891,208.20 representing about one third of the issued share capital (excluding treasury shares) at the date of the notice of meeting. The directors have no present intention of issuing shares except on the exercise of options under the company's share option scheme. The authority will expire at the conclusion of the next annual general meeting after the passing of the resolution.

Resolution 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 £133,681.20 which is equivalent to approximately 5% of the issued share capital at 31st December 2005 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 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 21st March 2006 was 821,750, which represented 1.54% of the issued share capital (excluding treasury shares) at that date. If the company were to purchase the maximum number of ordinary shares permitted by this resolution, the options outstanding at 21st March 2006 would represent 1.71% 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
21st March 2006

Statement of directors' responsibilities

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of financial statements which comply with the requirements of the Companies Act 1985.

The directors have elected to prepare the financial statements for the company in accordance with International Financial Reporting Standards (IFRS).

International Accounting Standard 1 requires that financial statements present fairly for each financial year the group's and the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. A fair presentation also requires the directors to:

- select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Report on directors' remuneration

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, are considered to be independent. The committee meets at least three times a year to consider the terms and conditions of employment of the executive directors, to set remuneration levels and to operate the group's performance related bonus scheme and share-based long-term incentive schemes.

During the year, New Bridge Street Consultants LLP provided the performance statistics required to operate the share option scheme and long-term incentive plan and advised the committee on the impact that the pensions simplification legislation to be enacted on 6th April 2006 ("A" day) will have on remuneration policy. 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. A provision is included whereby the company will pay, by way of liquidated damages, a cash amount equivalent to 12 months salary and benefits in kind plus a pension contribution or salary supplement 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 2008; Mr Yeatman, 30th November 2006; Mr Neathercoat, 28th February 2008 and Mr Farnes, 31st March 2006.

Basic salary and benefits

The basic salaries for the executive directors are reviewed annually by the remuneration committee having regard to the remuneration policy set out above. Pension contributions for the executive directors are based solely on basic salaries and paid into a defined contribution scheme. As a result of the changes to pension legislation introduced by "A" Day, the committee has decided that, if requested, directors may receive, at no extra cost to the company, a salary supplement in lieu of their pension contribution. The principal benefits in kind comprise a company car and medical insurance.

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

Report on directors' remuneration

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	**2005 Total £'000**	**2005 Pension and life assurance £'000**	Under provision of 2004 bonus £'000	Revised 2004 Total £'000	2004 Pension and life assurance £'000
Executive									
J.D. Burns	400	200	35	354	**989**	**106**	51	709	100
S.P. Silver	335	168	24	297	**824**	**114**	43	597	109
C.J. Odom	250	125	11	207	**593**	**70**	33	340	68
N.Q. George	215	107	15	252	**589**	**54**	27	282	48
P.M. Williams	230	115	14	69	**428**	**59**	29	426	55
Non-executive									
J.C. Ivey	40	–	–	–	**40**	**–**	–	40	–
I. Yeatman	30	–	–	–	**30**	**–**	–	30	–
S.J. Neathercoat	30	–	–	–	**30**	**–**	–	30	–
R.A. Farnes	30	–	–	–	**30**	**–**	–	30	–
	1,560	715	99	1,179	**3,553**	**403**	183	2,484	380

The under provision of the 2004 bonus, which has been recognised in the 2005 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 2004 results. The total remuneration for 2004, which was previously disclosed as £2,301,000, has been revised to allow a correct comparison to be made between the two years.

Mr Burns received fees of £30,000 during the year 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 are retained by Mr Burns.

Bonus scheme

The group bonus scheme which was introduced in 2004 has a bonus potential, in normal circumstances, of two-thirds 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 one-third 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 2005 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	–	–	18,450
3.450	26/4/99	25/4/06	–	–	7,021	5,945	–	–	12,966
5.690	15/4/01*	14/4/08	–	–	21,500	10,500	13,500	–	45,500
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
8.590	5/7/07*	4/7/14	–	–	–	–	–	27,500	27,500
Outstanding at 1st January 2005			163,250	136,750	131,521	100,895	90,000	86,750	709,166
Options granted during the year									
10.710	26/4/08*	25/4/15	–	–	–	–	–	27,000	27,000
Options exercised or lapsed during the year									
Exercise price £	Market price at date of exercise £								
2.370	10.79		–	–	–	(18,450)	–	–	(18,450)
3.450	10.79		–	–	(7,021)	(5,945)	–	–	(12,966)
5.690	10.79		–	–	–	(10,500)	(13,500)	–	(24,000)
5.690	12.90		–	–	(21,500)	–	–	–	(21,500)
5.530	11.65		(25,250)	(21,500)	–	–	–	–	(46,750)
5.530	12.90		–	–	–	–	–	(6,750)	(6,750)
5.015	11.65		(30,000)	(25,000)	–	–	–	–	(55,000)
5.015	12.90		–	–	–	–	–	(8,000)	(8,000)
7.235	12.90		–	–	–	–	–	(7,000)	(7,000)
6.725	12.90		–	–	–	–	–	(4,000)	(4,000)
4.265	lapsed		–	–	–	–	–	(5,000)	(5,000)
8.590	lapsed		–	–	–	–	–	(7,500)	(7,500)
10.710	lapsed		–	–	–	–	–	(7,000)	(7,000)
Outstanding at 31st December 2005			108,000	90,250	103,000	66,000	76,500	68,500	512,250

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

204,416 options were exercised during the year (2004: 100,926) at a weighted average exercise price of £5.072 (2004: £4.783). The weighted average exercise price of the share options at 31st December 2005 was £6.087 (2004: £5.677) and the weighted average remaining contractual life of the share options was 6.2 years (2004: 6.2 years). 19,500 options lapsed during the year with a weighted average exercise price of £8.242. No options lapsed during 2004.

Of the options outstanding at 31st December 2005, 309,750 were exercisable (2004: 421,416) and 202,500 were not exercisable (2004: 287,750).

The exercise of options 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, 12th April 2004 and 15th April 2005 have met this criteria. Subsequent options have yet to be tested.

The market price of the 5p ordinary shares at 31st December 2005 was £14.41. During the year, they traded in a range between £10.50 and £14.84.

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

Market price at date of award £	Vesting date	Directors						
		J.D. Burns	S.P. Silver	C.J. Odom	N.Q. George	P.M. Williams	Employees	Total
8.74	15/6/07	43,000	36,000	27,000	22,000	24,500	12,500	165,000
Interest at 1st January 2005		43,000	36,000	27,000	22,000	24,500	12,500	165,000
Shares conditionally awarded during the year:								
10.70	21/3/08	37,250	31,250	23,250	20,000	21,250	11,500	144,500
Interest at 31st December 2005		80,250	67,250	50,250	42,000	45,750	24,000	309,500

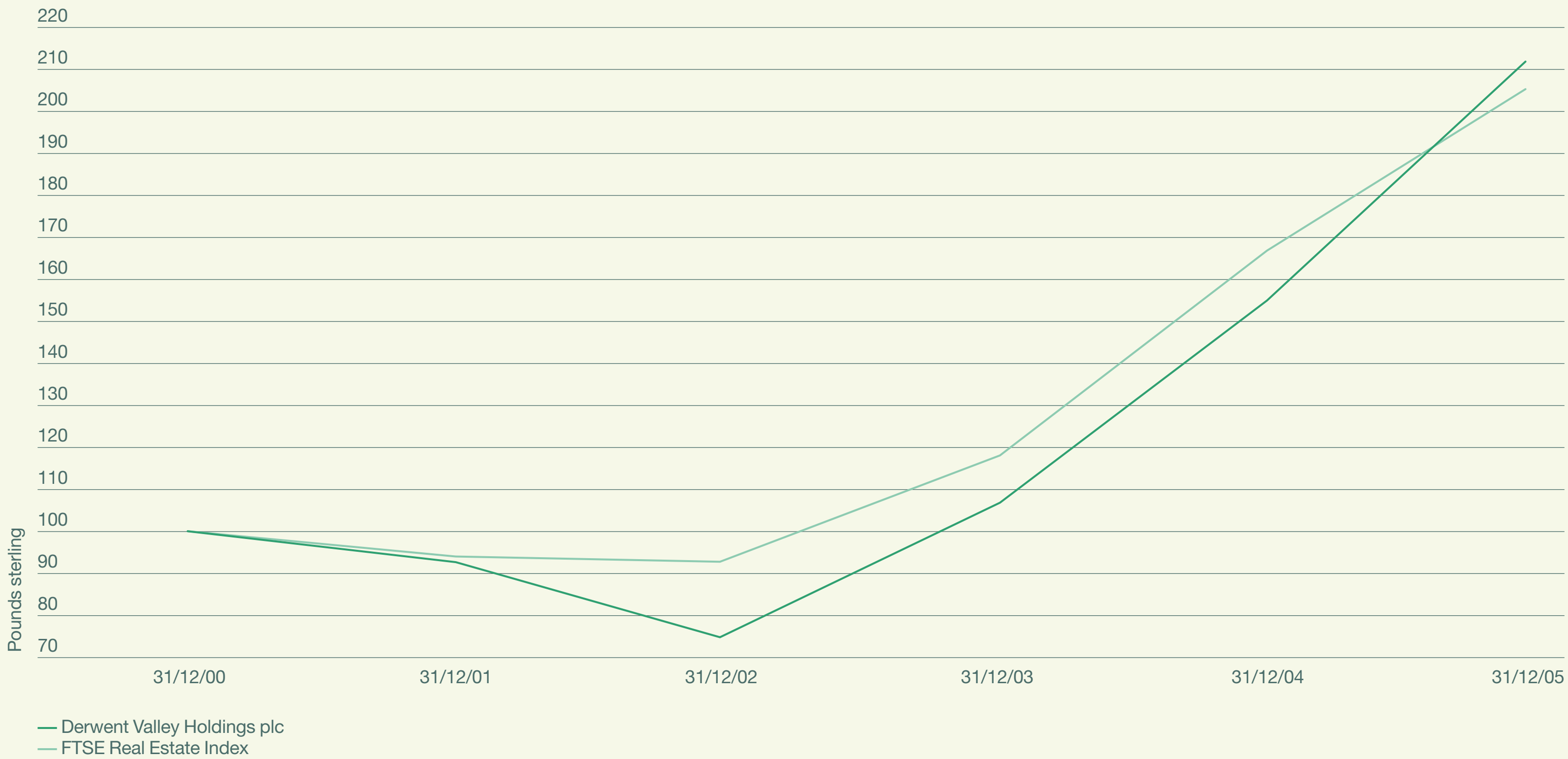
Half the shares representing an award, (Part A), vest according to the group's performance as measured by total shareholder return (TSR) compared to a defined comparator group comprising the constituents, as at the date of grant, of the FTSE Real Estate Index. At the median level of performance, 25% 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 the upper quartile figure for the IPD Index.

Report on directors' remuneration

Performance graph
Total shareholder return compared to the FTSE Real Estate Index.

Net investment 2000–2005



This graph shows the value, by the end of 2005, of £100 invested in Derwent Valley Holdings plc on 31st December 2000 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
21st March 2006

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 considered to have appropriate recent and relevant financial experience. The committee has access to further financial expertise at the company's expense, if required.

Roles and responsibilities
The terms of reference for the committee 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 auditor and the group's finance director when invited.

Work of the committee
During the year, the committee 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 auditor's statement of independence and monitored the operation of the group's policy regarding the use of the external auditor for non-audit work which helps to protect the auditor's independence and objectivity.
- Recommended the re-appointment of the group's external auditor 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.
- Recommended the introduction of a formal "whistleblowing" procedure, which was adopted by the board at a meeting on 9th December 2005.

S. J. Neathercoat
Chairman of the audit committee
21st March 2006

Report of the nominations committee

Membership
The nominations committee comprised the three independent, non-executive directors, Messrs Neathercoat, Yeatman and Farnes, under the chairmanship of Mr Ivey.

Roles and responsibilities
The terms of reference for the committee are available on the company's website.

Meetings
The committee meets at least once a year to carry out the annual appraisal of the board and its committees. Further meetings are arranged, as required, to discharge the committee's responsibilities in connection with identifying and nominating to the board suitable candidates to fill vacancies for non-executive directors and, if requested, executive directors.

Work of the committee
During the year, the committee carried out the following:

- Appraised the board and its committees.
- Agreed the profile of a replacement for Mr Yeatman and the scope of the role.
- Appointed external search consultants.
- Assessed the relative merits of the candidates on the short-list presented by the consultants.
- Met with the preferred candidate and subsequently nominated Mr Corbyn to the board.

J.C. Ivey
Chairman of the nominations committee
21st March 2006

Independent auditor's report

To the shareholders of Derwent Valley Holdings plc
We have audited the group and parent company financial statements (the "financial statements") of Derwent Valley Holdings plc for the year ended 31st December 2005 which comprise the group income statement, the group and parent company balance sheets, the group and parent company cash flow statements, the group and parent company statement of recognised income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the statement of directors' responsibilities.

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

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

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion 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 considered whether it is consistent with the audited financial statements. The other information comprises only the directors' report, the unaudited part of the directors' remuneration report, the chairman's statement, the operating review, the financial review, the report of the audit committee and the report of the nominations committee. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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

Independent auditor's report

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

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

Opinion
In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at 31st December 2005 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31st December 2005; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

BDO Stoy Hayward LLP
Chartered Accountants and Registered Auditors
London
21st March 2006

Directors

J.C. Ivey, 64
Non-executive chairman
A chartered accountant, Mr Ivey was chief executive of The Davis Service Group plc until April 2005. He has served on the board since 1984 and chairs the nominations committee.

J.D. Burns, 61
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, 55
Mr Silver has overall responsibility for acquisitions, design and development projects. He became a director in 1986 and is also a partner in Pilcher Hershman & Partners.

C.J. Odom, 55
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, 42
A chartered surveyor, Mr George was appointed to the board in 1998. He has responsibility for acquisitions and investment analysis.

P.M. Williams, 46
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, 57
Senior independent director
Mr Neathercoat is a chartered accountant. He joined the board in March 1999 and chairs the audit committee. He is also a member of the remuneration and nominations committees.

R.A. Farnes, 60
Non-executive director
Mr Farnes is a chartered surveyor. He was previously the chairman of CB Hillier Parker and joined the board in April 2003. He chairs the remuneration committee and is a member of the audit and nominations committee.

I. Yeatman, 68
Non-executive director
Mr Yeatman is a chartered surveyor. He joined the board in 1995 and is a member of the audit, remuneration and nominations committees.

Reconciliation of IFRS to UK GAAP

for the year ended 31st December 2004

Introduction

The results for the year ended 31st December 2005 are the first full year accounts to be prepared under International Financial Reporting Standards (IFRS). From 1st January 2005, all companies whose securities are admitted to trading on a regulated market in any European Union member state were required to adopt this basis of accounting. The subsequent pages detail the individual differences in accounting treatment as compared to the previous UK GAAP basis of accounting and how this affects the group income statement (formerly the group profit and loss account) and group and company balance sheets for the restated comparative results for the year ended 31st December 2004.

Key changes

The main differences to UK GAAP are listed below. The adjustment numbers refer to the reconciliations on the following pages.

- Revaluation surplus on investment properties is reported in the group income statement. Previously, this was reported as a movement on the revaluation reserve. Adjustment 1.
- Development properties within the investment property portfolio are 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 and were revalued again on practical completion.
- Deferred tax on the revaluation surplus and the tax on the realisation of gains on property disposals are reported as part of the tax charge. Previously, these amounts were disclosed in the notes, adjustment 2, and in the statement of recognised gains and losses (STRGL), adjustment 10, respectively.
- Headlease liabilities are capitalised and included within financial liabilities, and the carrying value of leasehold investment properties is grossed up. Previously, leasehold investment properties were reported net of the leasehold liability. Adjustment 3.
- Certain costs and income relating to the group's investment properties are taken directly to the income statement. These are letting fees on development properties, adjustment 7, which were previously capitalised and dilapidations, adjustment 6, and insurance receipts, adjustment 4, which were deferred into a future period to set against subsequent expenditure.
- Lease incentives are amortised over the term of the lease. Previously, these incentives were amortised generally to the first rent review. Adjustment 5.
- Derivative financial instruments are required to be carried at fair value, and movements in fair value over time are reported in the group 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. Hedge accounting has not been applied and all fair value movements are reported in the group income statement. Previously, the fair value of such derivatives was disclosed in the notes.
- Dividends not declared by the end of an accounting period are excluded from the results. Previously, dividends in respect of the results for the period, which were not declared by the end of that accounting period, were included as a deduction from profit. Adjustment 11.

The following pages show the reconciliation of both the group income statement (previously the group profit and loss account) and the group and company balance sheets between IFRS and UK GAAP, together with the consequent impact of adjusted profit and adjusted net assets.

Reconciliation of IFRS to UK GAAP
Group income statement

for the year ended 31st December 2004

	Note	2004 IFRS £m	Adjustments 1 Revaluation surplus reported in income statement £m	2 Deferred tax on revaluation surplus £m	3 Rent payable on headlease reclassified £m
Gross property income		**52.1**			
Ground rent		**(0.3)**			(1.2)
Other property outgoings		**(3.8)**			
Net property income		**48.0**	–	–	(1.2)
Administrative expenses		**(7.1)**			
		40.9	–	–	(1.2)
Revaluation surplus		**46.4**	(66.9)		
Profit on disposal of investment properties		**24.9**			
Profit from operations		**112.2**	(66.9)	–	(1.2)
Finance income and cost		**(22.7)**			1.2
Share of results of joint ventures		**1.6**	(1.5)		
Profit before tax		**91.1**	(68.4)	–	–
Tax expense		**(18.5)**		9.7	
Profit for the year		**72.6**	(68.4)	9.7	–
Dividend		**(6.2)**			
		66.4	(68.4)	9.7	–

Adjusted profit before tax reconciliation					
Statutory profit before tax		**91.1**	(68.4)	–	–
Adjustments					
Profit on disposal of investment properties		**(24.9)**			
Group revaluation surplus		**(46.4)**	66.9		
Share of joint venture's revaluation surplus		**(1.5)**	1.5		
Derivative fair value movement		**–**			
Adjusted profit before tax		**18.3**	–	–	–

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-based payments 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 UK GAAP** **£m**
	(1.6)	(0.6)						(2.2)	**49.9**
								(1.2)	**(1.5)**
			0.2					0.2	**(3.6)**
–	(1.6)	(0.6)	0.2	–	–	–	–	(3.2)	**44.8**
				0.1				0.1	**(7.0)**
–	(1.6)	(0.6)	0.2	0.1	–	–	–	(3.1)	**37.8**
18.5	1.6	0.6	(0.2)					(46.4)	**–**
(18.5)								(18.5)	**6.4**
–	–	–	–	0.1	–	–	–	(68.0)	**44.2**
					(0.3)			0.9	**(21.8)**
					0.3			(1.2)	**0.4**
–	–	–	–	0.1	–	–	–	(68.3)	**22.8**
	0.5	0.2				3.3		13.7	**(4.8)**
–	0.5	0.2	–	0.1	–	3.3	–	(54.6)	**18.0**
							(0.5)	(0.5)	**(6.7)**
–	0.5	0.2	–	0.1	–	3.3	(0.5)	(55.1)	**11.3**

–	–	–	–	0.1	–	–	–	(68.3)	**22.8**
18.5								18.5	**(6.4)**
(18.5)	(1.6)	(0.6)	0.2					46.4	**–**
								1.5	**–**
								–	**–**
–	(1.6)	(0.6)	0.2	0.1	–	–	–	(1.9)	**16.4**

Reconciliation of IFRS to UK GAAP
Group balance sheet
as at 1st January 2004 and 31st December 2004

	Note	2004 IFRS At start of year £m	**2004 IFRS At end of year £m**	Adjustments 1 Revaluation surplus reported in income statement £m	Adjustments 2 Deferred tax on revaluation surplus £m	Adjustments 3 Grossing up of headlease liabilities £m
Non-current assets		828.1	**929.0**			(22.2) (12.6)
Current assets		12.1	**17.4**			
Total assets		840.2	**946.4**	– –	– –	(22.2) (12.6)
Current liabilities		(61.0)	**(26.9)**			
Non-current liabilities		(350.9)	**(424.0)**		62.4 52.7	22.2 12.6
Total liabilities		(411.9)	**(450.9)**	– –	62.4 52.7	22.2 12.6
Total net assets		428.3	**495.5**	– –	62.4 52.7	– –
Equity						
Share capital		2.6	**2.6**			
Share premium		153.7	**154.1**			
Revaluation reserve		–	**–**	265.7 208.7		
Other reserves		–	**0.3**			
Retained earnings		272.0	**338.5**	(265.7) (208.7)	62.4 52.7	
Total equity		428.3	**495.5**	– –	62.4 52.7	– –
Adjusted net assets reconciliation						
Balance sheet net assets		428.3	**495.5**	– –	62.4 52.7	– –
Adjustments						
Deferred tax on capital allowances		11.5	**14.4**			
Deferred tax on revaluation surplus		52.7	**62.4**		(62.4) (52.7)	
Adjusted net assets		492.5	**572.3**	– –	– –	– –

	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	8 Share-based payment expense £m	11 Dividend not declared by the year end £m	12 Reclassification of non-current assets £m	Total adjustments At start of year £m	Total adjustments At end of year £m	2004 UK GAAP At start of year £m	2004 UK GAAP **At end of year £m**
	18.5	4.7				(11.0)		(10.0)		**919.0**
		3.1				(11.3)	(20.8)		807.3	
		(4.7)				11.0		6.3		**23.7**
		(3.1)				11.3	8.2		20.3	
	18.5	–	–	–	–	–		(3.7)		**942.7**
	–	–	–	–	–	–	(12.6)		827.6	
	(18.5)				(4.8)			(23.3)		**(50.2)**
					(4.3)		(4.3)		(65.3)	
		1.4	0.2					86.2		**(337.8)**
		0.9					66.2		(284.7)	
	(18.5)	1.4	0.2	–	(4.8)	–		62.9		**(388.0)**
	–	0.9	–	–	(4.3)	–	61.9		(350.0)	
	–	1.4	0.2	–	(4.8)	–		59.2		**554.7**
	–	0.9	–	–	(4.3)	–	49.3		477.6	
							–	–	2.6	**2.6**
							–	–	153.7	**154.1**
								265.7		**265.7**
							208.7		208.7	
				(0.1)				(0.1)		**0.2**
							–		–	
		1.4	0.2	0.1	(4.8)			(206.4)		**132.1**
		0.9			(4.3)		(159.4)		112.6	
	–	1.4	0.2	–	(4.8)	–		59.2		**554.7**
	–	0.9	–	–	(4.3)	–	49.3		477.6	
	–	1.4	0.2	–	(4.8)	–		59.2		**554.7**
	–	0.9	–	–	(4.3)	–	49.3		477.6	
								–		**14.4**
							–		11.5	
								(62.4)		**–**
							(52.7)		–	
	–	1.4	0.2	–	(4.8)	–		(3.2)		**569.1**
	–	0.9	–	–	(4.3)	–	(3.4)		489.1	

Reconciliation of IFRS to UK GAAP Company balance sheet

as at 1st January 2004 and 31st December 2004

	2004 IFRS		Adjustments		2004 UK GAAP	
	At start of year £m	**At end of year £m**	At start of year £m	**At end of year £m**	At start of year £m	**At end of year £m**
Non-current assets	186.1	**186.8**			186.1	**186.8**
Current assets	365.5	**391.1**			365.5	**391.1**
Total assets	551.6	**577.9**	–	**–**	551.6	**577.9**
Current liabilities	(70.3)	**(42.1)**	(4.3)	**(4.8)**	(74.6)	**(46.9)**
Non-current liabilities	(272.0)	**(323.4)**	–	**–**	(272.0)	**(323.4)**
Total liabilities	(342.3)	**(365.5)**	(4.3)	**(4.8)**	(346.6)	**(370.3)**
Total net assets	209.3	**212.4**	(4.3)	**(4.8)**	205.0	**207.6**
Equity						
Share capital	2.6	**2.6**	–	**–**	2.6	**2.6**
Share premium	153.7	**154.1**	–	**–**	153.7	**154.1**
Other reserves	–	**0.3**	–	**(0.1)**	–	**0.2**
Retained earnings	53.0	**55.4**	(4.3)	**(4.7)**	48.7	**50.7**
Total equity	209.3	**212.4**	(4.3)	**(4.8)**	205.0	**207.6**

The adjustments for the company are those shown in adjustments 8 and 11 in the group balance sheet reconciliation on pages 66 to 67.

Five year summary

	IFRS*		UK GAAP			
	2005	2004	2004	2003	2002	2001
	£m	£m	£m	£m	£m	£m
Gross property income	**49.5**	52.1	49.9	47.9	46.5	46.9
Net property income	**46.6**	48.0	44.8	41.5	41.9	43.0
Adjusted profit before tax	**16.7**	18.3	16.4	16.2	17.4	17.9
Profit/(loss) on disposal of investments	**9.6**	24.9	6.4	1.6	(2.0)	3.8
Profit before tax	**150.4**	91.1	22.8	17.1	15.4	21.7
Net assets	**606.2**	495.5	554.7	477.6	512.0	533.7
Investment property valuation	**1,009.8**	906.2	924.8	812.1	831.9	833.5
Revaluation surplus/(deficit)	**124.1**	46.4	66.9	(39.6)	(29.3)	68.3
Net debt	**303.9**	341.5	319.3	301.8	296.8	271.0
Cash flow	**34.5**	(17.9)	(17.9)	(5.0)	(25.8)	12.5
Net cash inflow from operating activities	**14.7**	12.9	12.9	11.7	23.5	15.2
Acquisitions	**40.3**	88.7	88.7	59.1	15.9	57.3
Capital expenditure on properties	**26.7**	26.1	26.1	24.0	35.0	38.6
Disposals	**97.8**	76.9	76.9	76.5	16.9	104.5
Adjusted earnings per share (p)	**26.23**	29.91	23.51	26.62	25.50	27.73
Dividend per share (p)	**12.83**	11.70	12.50	11.40	10.40	9.35
Adjusted net asset value per share (p)	**1,335**	1,074	1,068	920	982	1,020
Net asset value per share (p)	**1,134**	930	1,041	898	963	1,004
Total return (%)	**25.5**	17.2	17.4	(5.2)	(2.7)	16.4
Gearing						
Balance sheet (%)	**50.1**	68.9	57.6	63.2	58.0	50.8
Profit and loss	**1.84**	1.85	1.76	1.87	1.96	1.95

*The figures for 2004 and 2005 above have been prepared under IFRS and therefore are not directly comparable with the prior year UK GAAP figures for 2001 to 2004.

Notice of annual general meeting

Notice is hereby given that the twenty-second annual general meeting of Derwent Valley Holdings plc will be held at The Westbury Hotel, Bond Street, London, W1A 4UH on 23rd May 2006 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 2005 and the independent auditor's report thereon;
2 To declare a final dividend of 9.725p per ordinary share for the year ended 31st December 2005;
3 To approve the report of the remuneration committee for the year ended 31st December 2005;
4 To re-elect Mr J.C. Ivey as a director;
5 To re-elect Mr J.D. Burns as a director;
6 To re-elect Mr R.A. Farnes as a director;
7 To re-appoint BDO Stoy Hayward LLP as auditor 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 £891,208.20 provided that this authority shall expire at the conclusion of the next annual general meeting of the company after the passing of this resolution except that the company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred hereby had not expired;

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 £133,681.20,

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; and

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 5,347,249;
(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 the higher of (i) 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 (ii) the price stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation (EC No.2273/2003); 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
20th April 2006

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 21st May 2006 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 21st May 2006 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 23rd May 2006 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 21st May 2006. 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.

Financial calendar

Annual general meeting	23rd May 2006
Payment of 2005 final dividend	5th June 2006
Announcement of 2006 interim results	September 2006
Payment of 2006 interim dividend	November 2006
Announcement of 2006 preliminary results	March 2007
Payment of debenture interest	31st January & 31st July

Advisers

Auditor
BDO Stoy Hayward LLP

Solicitor
Slaughter and May

Stockbroker
UBS

Clearing banker
HSBC Bank plc

Registrar
Lloyds TSB Registrars

Debenture stock trustee
Royal Exchange Trust Company Limited

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