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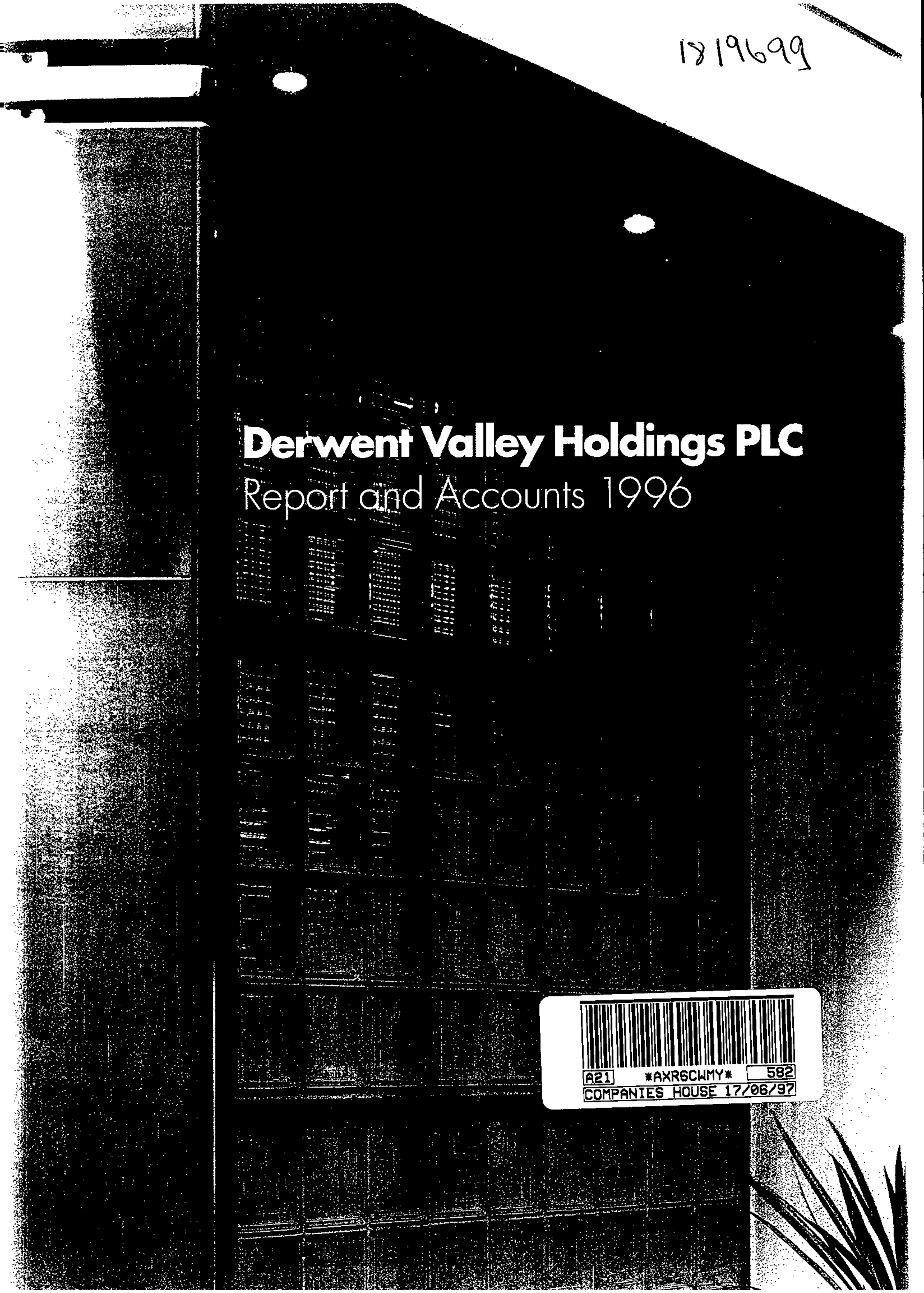


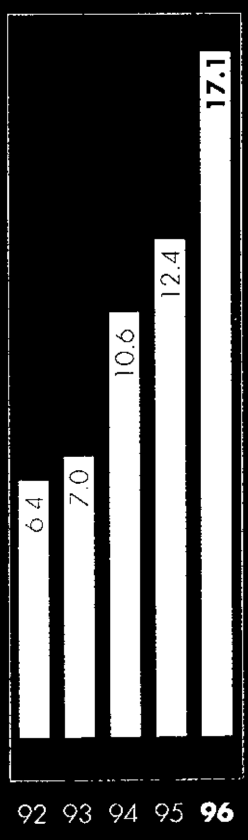
Derwent Valley Holdings PLC

Report and Accounts 1996

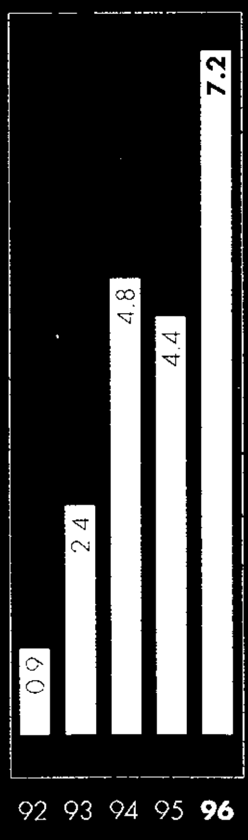
Derwent Valley Holdings PLC

Financial highlights and five year record

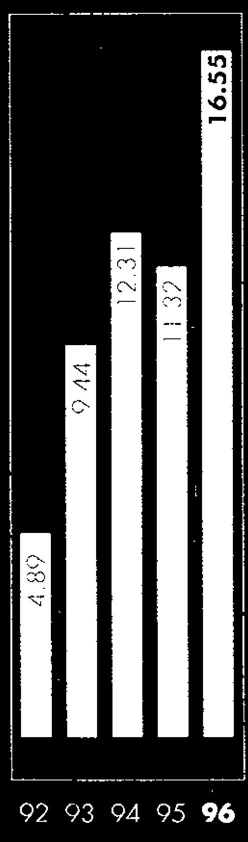
	1996 £m	1995 £m
Net revenue from properties	**17.1**	12.4
Profit before taxation	**7.5**	4.4
Adjusted profit before taxation	**7.2**	4.4
Total recognised gains and losses	**25.3**	16.8
Shareholders' funds	**155.4**	132.2
Borrowings (net)	**104.9**	90.4
Gearing	**67.5%**	68.4%
Net assets per share	**399p**	340p
Fully diluted net assets per share	**396p**	339p
Earnings per share	**17.44p**	11.41p
Adjusted earnings per share	**16.55p**	11.32p
Dividend per share	**6.10p**	5.50p



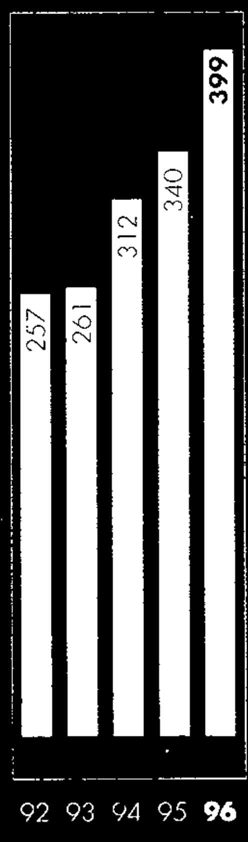
Net revenue from properties £m



Adjusted profit before taxation £m



Adjusted earnings per share pence



Net assets per share pence

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Directors and advisers

Directors

J.C. Ivey *Non executive chairman**

J.D. Burns *Managing director*

S.P. Silver

C.J. Odom

J.E. Dixon

I. Yeatman *Non executive**

**Member of remuneration and audit committees*

Secretary

T.J. Kite, ACA

Registered office

87 Wimpole Street

London W1M 7DB

Tel: 0171 486 4848

Registered number

1819699

Auditors

BDO Stoy Hayward

Solicitors

Slaughter and May

Stockbrokers

SBC Warburg

Clearing bankers

Midland Bank plc

Registrars

Lloyds Bank Registrars

Debenture stock trustee

Royal Exchange Trust Company Ltd

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Derwent Valley's role in the market is as a specialist 'investor/refurbisher' of Central London properties. We target buildings that appear initially 'tired' but that have the potential, through good design and vigorous management, to outperform the market.

Chairman's statement

Results

This year's results demonstrate once more the group's ability to add value to its business. Significant increases in both profit before taxation and net asset value were achieved. Approximately 58 per cent by value of the investment portfolio has been acquired during the last three years. The acquisition programme was aimed at providing the group with opportunities to apply its management and refurbishment skills. The results show that we have been successful:

- net asset value has risen 17 per cent from 340p per share to 399p per share;
- net rental income, benefiting from acquisitions, increased 38 per cent from £12.4 million to £17.1 million; and
- profit before taxation, adjusted for disposals of investment property, was £7.2 million against £4.4 million in 1995, an increase of 64 per cent.

The results benefited from two additional factors; namely, disposals from the group's trading stock which resulted in a net surplus of £0.3 million compared with a profit in 1995 of £0.1 million and, secondly, an exceptionally low taxation charge. As in 1995, capital allowance claims were at a high level but, additionally, the tax charge was further reduced by a change in the legislation which affected the way tax relief for interest payable was given. The low tax charge boosted earnings per share which, adjusted for investment property disposals, rose from 11.32p to 16.55p. This would have been approximately 14.5p per share if the old tax rules in respect of interest payable had applied. Earnings per share in 1997 will not have the benefit of the exceptional tax relief for interest payable and, also, will be affected by the adverse change in legislation relating to capital allowances.

Dividend

A final dividend of 4.2p per share is being recommended, which together with the interim payment of 1.9p, brings the total for the year to 6.1p, an increase of 10.9 per cent.

Chairman's statement continued

1996 – a summary

The board had four broad aims for 1996, all of which were achieved:

- To produce above average growth in net asset value.

  Your group's net asset value per share rose 17 per cent. This performance has been achieved, first, by buying well and, second, by using our knowledge and expertise to create revitalised properties that are in demand by tenants.

- To rebalance the investment portfolio.

  As a consequence of the recent acquisition activity, the enlarged portfolio was re-assessed to identify those properties which would not meet our required growth targets. As a result, a number of properties, predominantly the smaller ones, were sold during the year. This brought the total realised over three years from disposals of both investment and trading properties to in excess of £20 million. Further sales are planned for 1997.

- To initiate future refurbishment and redevelopment projects.

  Following the additions to the investment portfolio, 1996 was again a busy year for evaluating those refurbishment and re-development opportunities that will provide the impetus for future growth. There are a number of schemes under review.

  Notable planning applications made during the year were in respect of Broadwick House, Broadwick Street, W1; Hythe House, Hammersmith and Elliot House and Rochester Row in Victoria.

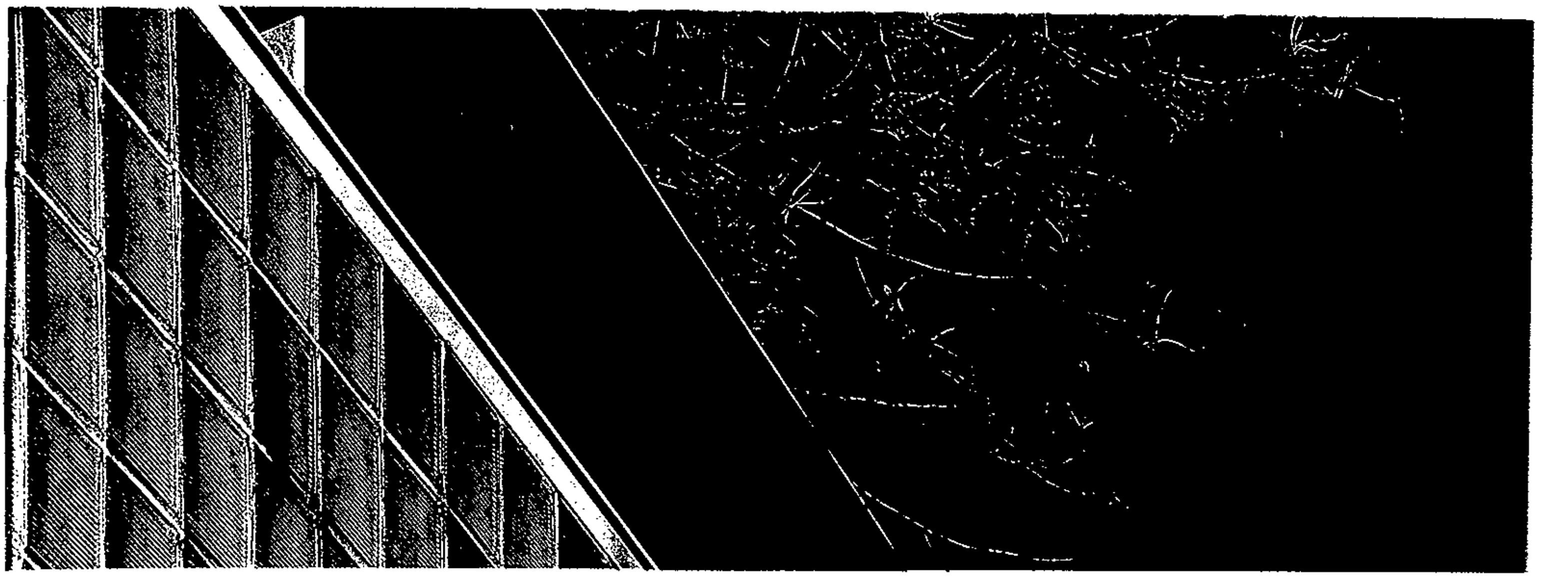
- To continue the acquisition programme.

  The principal purchase during the year was Evelyn House and Dumbarton House, Oxford Street, London W1, where the freehold interests were bought for £20 million. The two buildings, situated prominently on a half-acre site near to Soho Square, W1, comprise 6,209 m^2 (66,800 sq.ft.) of offices and 9 retail units. Prospects for this acquisition are most encouraging with rents and tenant demand improving in this location for both shops and offices.

The property review which follows my statement provides further commentary on the progress achieved during the year.

Prospects

Derwent Valley's role in the market is as a specialist 'investor/refurbisher' of Central London properties. We do not generally purchase static investments and merely wait for an uplift in value with the next rent review. We target buildings that appear initially 'tired' but that

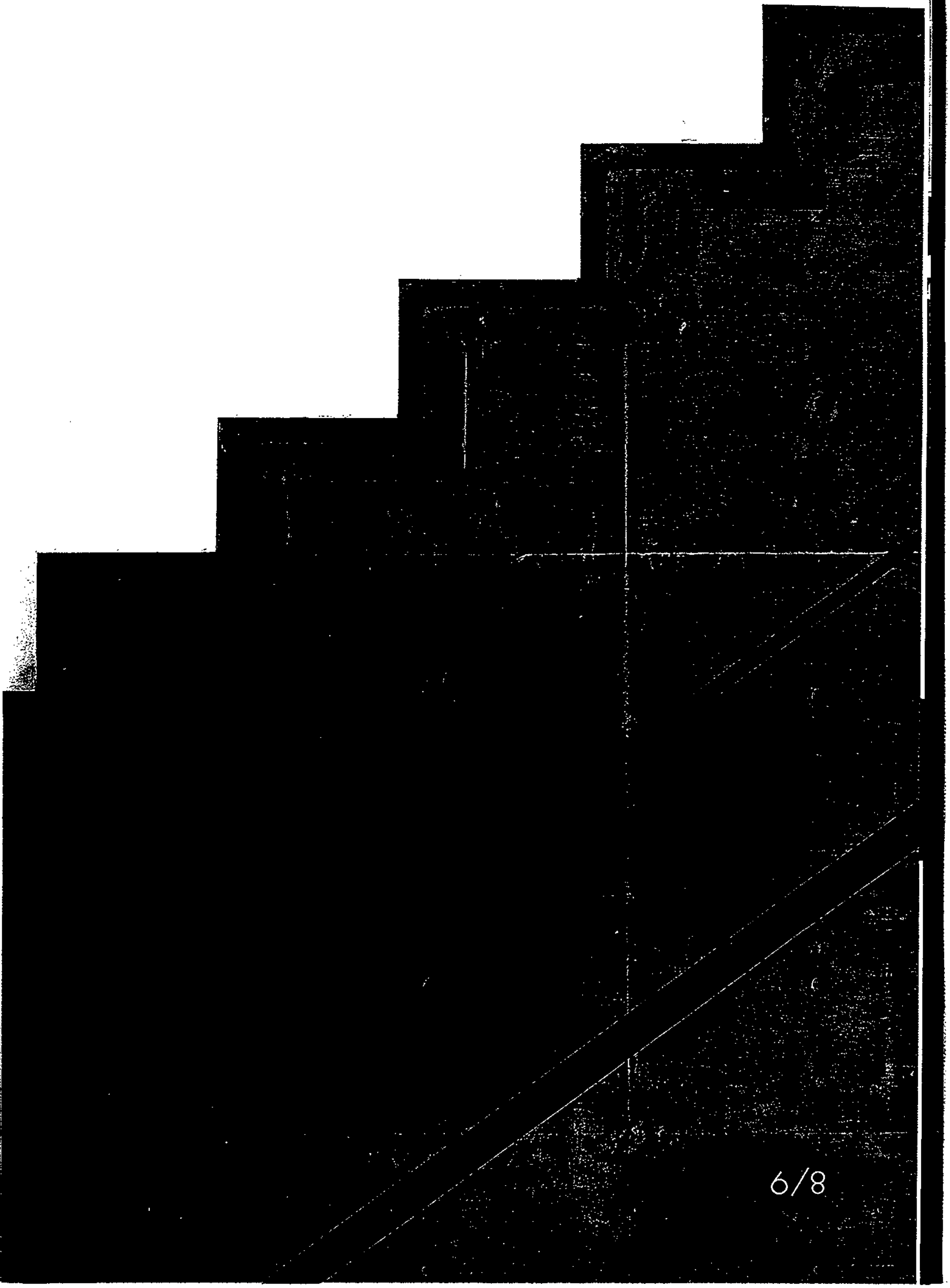


have the potential, through good design and vigorous management, to outperform the market. Through this approach, combined with an established design style, based on our awareness of tenants' requirements and their preferred locations, we have demonstrated our ability to increase asset value. We have re-aligned the portfolio over the past few years, introducing larger properties which have greater scope to generate asset growth through the exploitation of lease management, refurbishment or redevelopment opportunities.

Acquisitions and the continual reassessment of the portfolio are an ongoing part of our strategy. Since the year end, we have exchanged contracts to purchase a further Central London property, Tower House, 3-14 Southampton Street, Covent Garden, WC2, for £14.3 million. This 7,906 m² (85,100 sq.ft.) freehold building is situated in a busy location close to the main Covent Garden piazza and comprises ground floor retail with 5,267 m² (56,700 sq.ft.) of offices above. Current income is £1,145,125 per annum. Schemes to release the potential in this building when all the leases expire in December 1999 are already being evaluated. The acquisition was financed by a vendor placing of 2,871,485 new ordinary shares at 498p per share on 18th March, 1997.

I look forward to keeping shareholders advised of our progress in what we see as an exciting and promising year ahead for your company.

J. C. Ivey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Investing in London: **The group has concentrated its activities in Central London where 94% of its assets are held. At year end the investment portfolio comprised £264m of gross assets with a floor space of 155,000 m^2 and produced a gross income of £19.1m.**

Property review

The Central London office market enjoyed its best year since 1990 with annual take up of accommodation totalling 918,000 m^2, 21% higher than in 1995. The West End market, where take up was the highest since 1989, experienced a similar performance with an increase of 20% on 1995. In total 329,000m^2 of vacant space was let, which resulted in the vacancy rate falling from 8% to 7.2%, its lowest level since 1990. Demand for new space boosted activity in the refurbished market, which made up 71% of the lettings. This trend is expected to continue and with the development supply in the West End estimated at only 120,000m^2 for 1997, this indicates that rents will continue to rise.

Portfolio valuation performance

The strategy of actively managing our portfolio to add value, and the focus on Central London, saw the capital value of the investment properties rise by 7.5%. The Investment Property Databank Monthly Index (IPD) for All Properties only rose 0.8% in value, while that for the Central London Index, which was one of the best performing asset classes over the year, was up 1.9%. Overall, the capital value of the group's Central London portfolio rose by 8.2% . There was a strong performance from Belgravia, where the Grosvenor Place properties continued to show excellent growth, as further lettings were achieved at 4 Grosvenor Place. The adjoining building at 1-3 Grosvenor Place now has highly reversionary prospects.

Values of the Victoria properties increased principally as a result of the improved levels of rent obtained following lease restructures and commencement of refurbishment at Greencoat and Gordon House, acquired from MEPC in 1995. The success of Soho and North of Oxford Street continued, generated by strong demand from communication and media companies. This activity encouraged the acquisition of Evelyn & Dumbarton House on Oxford Street.

Last year the disappointing performance of the Marylebone properties was mentioned. These are in an area of predominantly period buildings with mainly professional tenants. The opportunity to make disposals in this area has been taken and properties in Bulstrode Street and Marylebone Lane, where growth prospects were limited, have been sold for amounts in excess of book value.

Property Review continued

The Holborn area has seen improved tenant demand, particularly for well refurbished space, and a number of schemes are now under way. Values here fell marginally as a consequence of taking a reverse premium to surrender a lease of an over-rented floor at Berkshire House, WC2, the group's largest building in this area. Although the accommodation was re-let quickly, the total income has been reduced.

The City fringe properties continue to show good returns, especially at Exmouth Market, Clerkenwell, where rents have increased again this year and at Companies House, City Road, EC1 (18,580m²) which has substantial reversionary prospects.

Acquisitions

DERWENT VALLEY SPECIALISES IN ACQUIRING INVESTMENT PROPERTIES WITH POTENTIAL FOR IMPROVEMENT THROUGH REFURBISHMENT AND DEVELOPMENT.

Oxford Street, W1

In November, the group acquired, for £20m, the freehold interest of Evelyn House & Dumbarton House, 54/68 Oxford Street and 51/57 Rathbone Place, London W1, a mixed office and retail building. There are nine retail units, including five fronting Oxford Street, totalling 1,781 m². Tenants include Halifax Building Society, Body Shop, Thorntons, Blacks Leisure and Prêt à Manger. Above the retail units are 6,209m² of offices on five floors let to eleven tenants. There is a total income of £2,102,000 per annum, of which approximately 40% is derived from the retail element.

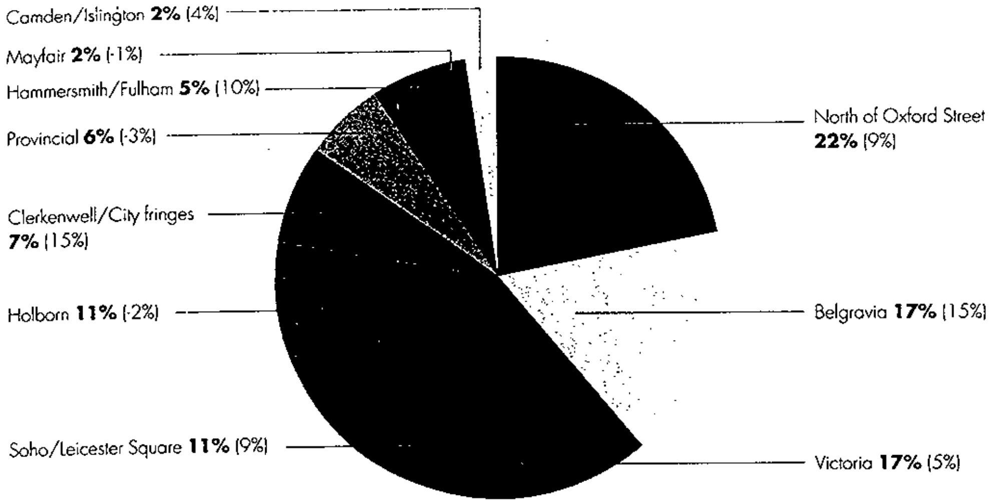
Opportunities have been identified for refurbishment and lease management in this improving location with the emphasis on enlarging the retail area, which has considerable potential. We plan also to improve the profile of the offices, which are currently accessed through a poor entrance in Oxford Street, by providing an attractive new entrance hall in Rathbone Place.

Morelands Building, EC1

The group had been looking for a similar project to follow Exmouth House, which has proved popular with tenants, and in May 1996 purchased a 60 year leasehold interest on 7,432m² of shops and offices at the corner of Old Street and Goswell Road, EC1 for £1.6 million. This acquisition comprised three connecting buildings, which are multi-let and produce an income of approximately £250,000 per annum with average rents of only £32/£43 per m². The property is in a poor condition with approximately 2,306m² vacant. It is intended to implement a rolling refurbishment programme to revitalise the buildings with an inner courtyard and new main entrance. Tenants from the media and design fields are likely to be attracted to this location close to the Barbican which has become an increasingly popular place to work and live.

Tower House, Covent Garden, WC2

In February 1997, the group exchanged contracts for the purchase of Tower House, 3/14 Southampton Street, WC2 for £14.3 million. The buildings total 7,906m² of shops and offices and are situated on a prominent corner on the south side of Covent Garden Piazza. This area



Value of properties by location
(Year on year change in capital value shown in brackets)

is recognised as one of Central London's principal entertainment and tourist locations and is experiencing strong occupational demand. The buildings are currently multi-let, producing an income of £1,145,125 per annum from leases which expire by December 1999. The acquisition is viewed as an exciting opportunity to utilise the group's management and refurbishment skills on a property with considerable potential. Various options are under consideration, including plans to create an innovative design for a restaurant or retail store on ground and basement levels and improving the upper floors to provide more attractive office space.

Lettings

THE FOCUS OF THE GROUP IS TO OFFER WELL DESIGNED FLEXIBLE SPACE.

During the year, lettings were concluded involving approximately 6,503 m² at rents of close to £1m per annum, including:

- 4 Grosvenor Place, SW1 – two refurbished suites totalling approximately 186 m² each at £301 per m²;
- Berkshire House, WC2 – a letting of 687m² at £215 per m²;
- Greencoat House, SW1 – 372 m² at £162 per m². The average rent last year was £107 per m² and rents in the building have increased 50% during the year;
- Exmouth House, EC1 – a refurbished suite of 609 m² at £129 per m². Last year's rents were £107 per m²;
- Middlesex House, W1 – A refurbished floor of 690 m² was pre-let at £183 per m²; and
- 37 Kentish Town Road, NW1 – This 901 m² building, where the lease expired in June 1996, was pre-let on improved terms, at £140 per m².

Some lettings followed from lease expiries and in other instances, opportunities arose to take lease surrenders for reverse premiums where it was considered beneficial and that re-letting prospects were good. Two examples of this were at Middlesex House and Berkshire House, where a total of 1,377m² was taken back. Both were re-let quickly, keeping voids at a minimum and endorsing the decision. The lettings demonstrated the underlying demand for good quality refurbished space in the West End.

A number of occupational leases in the portfolio have been restructured, extending lease length and increasing value. Upon acquisition 19 Marylebone Road, NW1, a 1,950 m² office building, was leased to Columbia Healthcare Ltd and Heron Corporation PLC under two leases, with 16 years unexpired. Following the restructure during 1996 Columbia, a substantial international health group, has taken an overriding lease for a term of 35 years, with 5 yearly upward only reviews. The income remains at the original level of £600,000 p.a. with the tenant granted a three month rent free period. The group's interest in Huntsworth Mews, NWl, purchased as part of the CIS portfolio in 1995, has been enhanced by buying in the freehold for £700,000, and subsequently extending the tenant's lease from 3 years to 13 years.

Property Review continued

At year end there was 3,180 m² available to let within the investment portfolio and a further 9,602 m² scheduled for refurbishment, principally at Greencoat and Gordon House, SW1 and Hythe House, W6.

Recent Activity

THE GROUP SEEKS INNOVATIVE SOLUTIONS FOR ITS BUILDINGS AND IS COMMITTED TO A CONTEMPORARY ARCHITECTURAL APPROACH.

Belgravia

Rental levels in Belgravia and Knightsbridge have moved steadily upwards. Dunhill and Carlton Communications both took new headquarters in the area in 1996. The Grosvenor Estate announced a redevelopment scheme at the CIN's former headquarters in Grosvenor Place, where they are to develop 23,225 m².

During 1996, lease expiries enabled us to continue our refurbishment programme at 4 Grosvenor Place, SW1. Currently 1,367m² is available, with a further 669m² on the fifth floor scheduled to be ready by this summer. Planning permission was also obtained for an exciting new office penthouse adding a sixth floor of 204 m² overlooking Halkin Street.

Soho

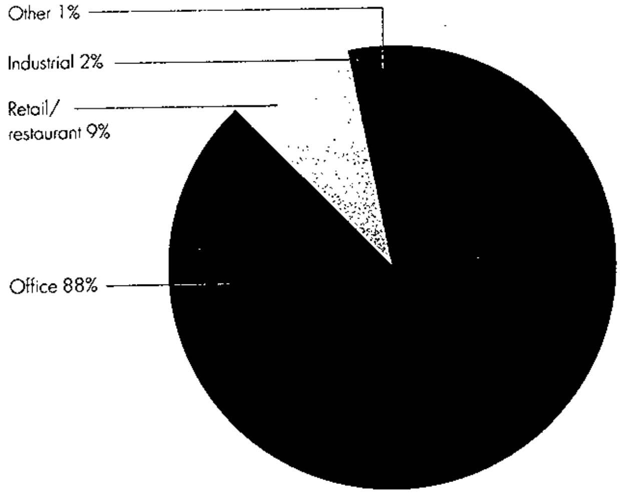
Tenant demand in this popular location grows and a number of sizeable office refurbishments have been pre-let. Most notable was the new Saatchi & Saatchi acquisition of Granada's former headquarters in Golden Square for £280 per m².

As well as completing the purchase of the nearby Evelyn & Dumbarton House, the Company is considering the redevelopment of the prominently located but 'tired' Broadwick House, 15/17 Broadwick Street, Wl. Following an architectural competition, the Richard Rogers Partnership was commissioned to prepare a development brief. A planning application has now been submitted for a new office development of 2,880m² including 557m² of restaurant and retail accommodation. The exciting design proposals include a distinctive curved facade and set out to provide a new landmark building for Soho. Construction could start in 1998 and be completed early in 1999 if the proposals are accepted and taken up.

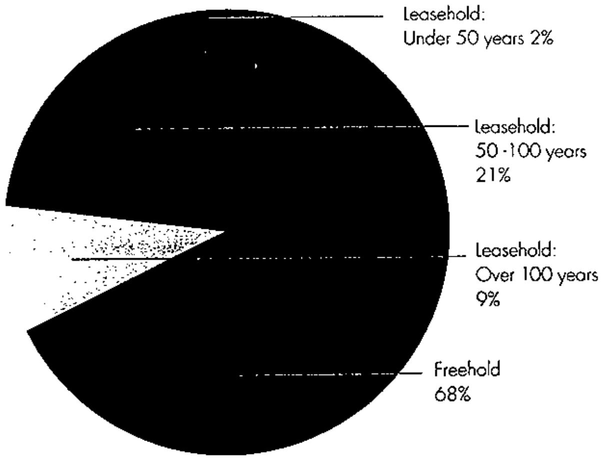
Victoria

Victoria is one of the few locations in Central London where due to the size and scale of the existing buildings, large developments can be undertaken. Opposite the company's Elliot House office building, Eland House (18,590m²) was pre-let to the Inland Revenue.

A planning application has been submitted to improve the outline permission won at Elliot House by transferring the residential content to 60/66 Rochester Row, SW1. If successful, the office content at Elliot House will increase by approximately 1,395 m² to a total of 7,896 m² which will enhance value. In addition, Elliot House will provide 1,394 m² of retail, restaurant and cinema accommodation. The development is not scheduled until 2002 when the majority



Rental income by use of properties



Value of properties by tenure

of the occupational leases expire. Rochester Row will be sold for redevelopment as residential accommodation.

Work commenced on the phased refurbishment of Greencoat House, SW1, the 11,334 m² office building acquired from MEPC. Here it is intended to provide an imposing new entrance hall, two new passenger lifts and to refurbish all common parts. Completion is scheduled for June 1997. Further planning options, including restaurants and retail, are being considered for the building. The average rental for the building is currently £107 per m² and a number of lease renewals have been agreed at £162 per m².

Hammersmith

The Hammersmith market has made a strong recovery with major international companies including Seagrams, EMI, Coca Cola and Walt Disney choosing the location for their UK headquarters.

A planning application has been submitted to extend and refurbish Hythe House 200 Shepherd's Bush Road, W6, purchased in the CIS portfolio, to provide approximately 5,075 m² of headquarter offices. The scheme involves two new entrance halls, a new glazed elevation to the rear of the building and 40 car spaces. Architects, Harper Mackay, have been commissioned and work is scheduled to commence in the summer of 1997 with completion due twelve months later.

Sales

Realignment of the portfolio through disposal of smaller properties and those where the opportunities to add value are limited continued throughout the year. Sales from the investment and trading portfolio realised £8.4m and included:

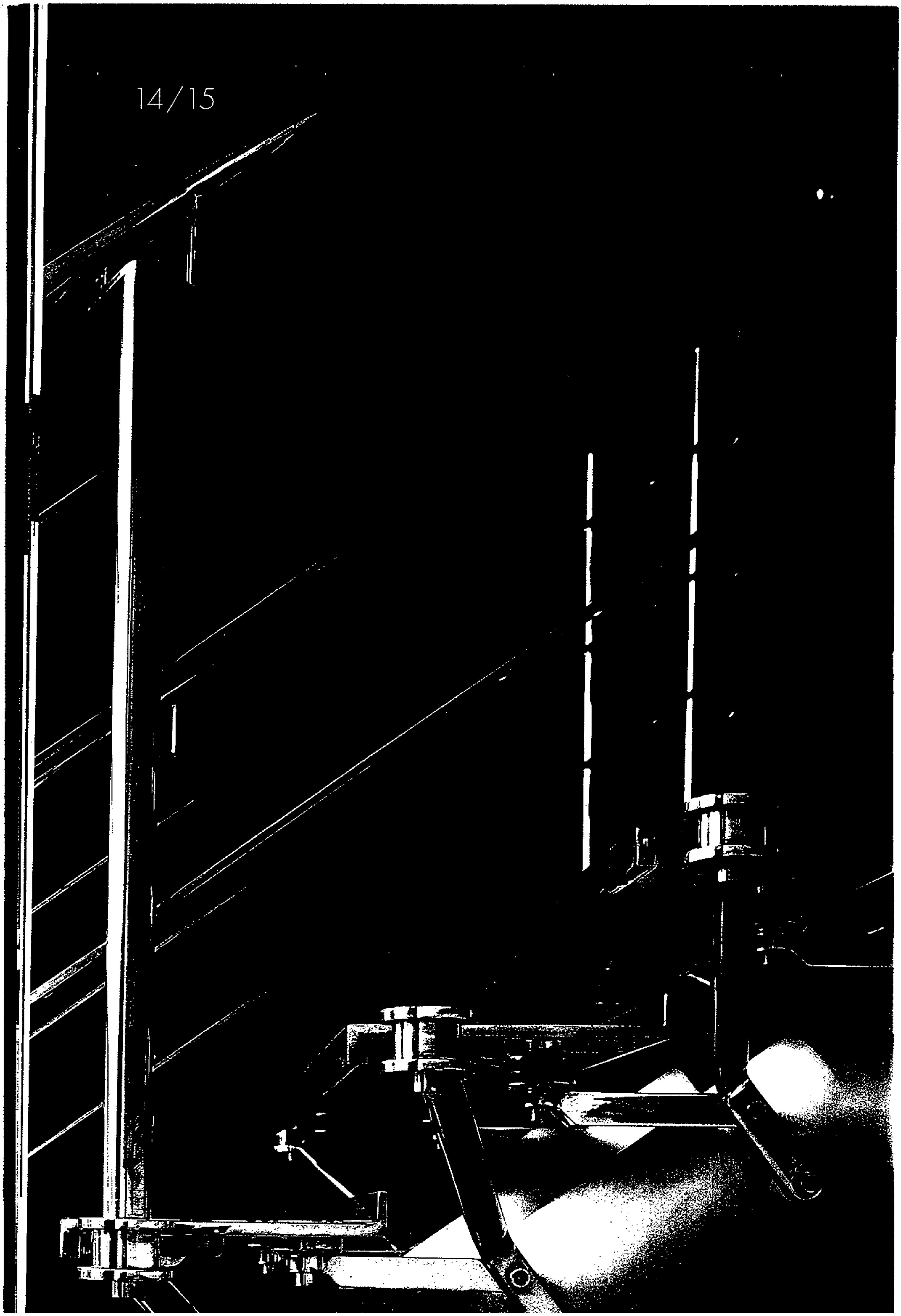
- 104/112 Marylebone Lane, W1;.
- 8/10 Bulstrode Street, W1;

From CIS Portfolio:

- 42 Kingsway, WC2;
- 190/204 Kensington Church Street, W8;
- 55/56 St Martin's Lane, WC2; and
- Friars House, 157/168 Blackfriars Road, SE1.

Retail

The group has increased the size of the retail and restaurant content within the portfolio. The emphasis has been very much on the West End which has experienced increased demand for such use. At the year end approximately 9% of the group's rental income emanated from retail and restaurant premises, which totalled approximately 9,671 m². The acquisition of Evelyn & Dumbarton House has improved the profile of the portfolio's retail content and currently contributes over £800,000 per annum. Further opportunities exist throughout the portfolio to enhance the value of ground floor and basement premises through change of use and refurbishment.



Directors' report

The directors present their report and the financial statements for the year ended 31st December 1996. A review of the business and comments on the future outlook for the group can be found within the chairman's statement and property review on pages 5 to 13.

Results and dividend

Profit before taxation from ordinary activities was £7.5m (1995 – £4.4m) and profit after taxation amounted to £6.8m (1995 – £3.7m).

The directors recommend a final dividend of 4.2p (net) per ordinary share. This, when taken with the interim dividend of 1.9p (net) per share, paid on 18th November 1996, gives a total dividend of 6.1p (net) (1995 – 5.5p) per ordinary share for the year ended 31st December 1996, amounting to £2.4m. After ordinary dividends, £4.4m (1995 – £1.7m) was transferred to revenue reserves.

Principal activities, trading review and future developments

The principal activities of the group are those of property investment, refurbishment and redevelopment, and trading.

Directors

The directors of the company during the year and their interests, all of which are beneficial, in the share capital of the holding company, including shares over which options have been granted under the terms of the group share option scheme adopted by the company on 9th May 1986, were:

	Ordinary shares of 5p each		Options	
	31st December 1996	31st December 1995	**31st December 1996**	31st December 1995
J. C. Ivey	**77,672**	77,672	**–**	–
J. D. Burns	**478,138**	478,138	**198,776**	241,874
S. P. Silver	**263,588**	263,588	**163,010**	207,158
C. J. Odom	**12,426**	12,426	**183,380**	176,530
J. E. Dixon	**12,426**	12,426	**–**	29,544
I. Yeatman	**–**	–	**–**	–

A discretionary trust, the beneficiaries of which may include members of Mr J. D. Burns' family, owns all of the issued share capital of Topcastle Holdings Limited which holds 333,754 shares (1995 – 933,754).

During the year the directors exercised options over 132,340 shares at an exercise price of 348p, and were granted further options over 22,400 ordinary shares of 5p each. Full details of the directors' options

Directors' report continued

are given in the report of the remuneration committee which commences on page 21. There have been no changes in the above shareholdings between the year end and 18th March 1997.

In accordance with the articles of association, Mr C. J. Odom retires by rotation and, being eligible, offers himself for re-election. Mr J. D. Burns is also retiring and, being eligible, offers himself for re-election. Other than as disclosed in Note 8, the directors have no interest in any material contracts of the company.

Fixed assets

The group's freehold and leasehold investment properties, with the exception of properties owned by Derwent Valley Railway Company, were professionally revalued at 31st December 1996, resulting in an unrealised surplus of £18.5m being taken to the revaluation reserve. The freehold and leasehold investment properties are included in the group balance sheet at a total value of £264.1m.

Substantial shareholders

In addition to those of the directors disclosed above, the company has been notified of the following interests in the issued ordinary share capital as at 18th March 1997:

	5p ordinary shares
Lloyds TSB Group PLC	4,623,394
Standard Life Assurance Company	2,410,659
Scottish Equitable plc	1,948,293
Electricity Supply Pension Scheme	1,518,738
Newton Investment Management Limited	1,252,761
Scottish American Investment Company PLC	1,200,000

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.

Charitable donations

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

Corporate governance

Compliance

The company complied with all applicable requirements of the Code of Best Practice throughout 1996 with the exception that it had only two non-executive directors throughout the year. The board considers this number to be sufficient given the size of the company.

Details of the composition and responsibilities of the three principal board committees, all of which were established in December 1993, are as follows:

Remuneration committee

The committee consisted of Mr. I. Yeatman as chairman and Mr. J. C. Ivey, both of whom served throughout the year. Mr. J. E. Dixon also served until December 1996, when he resigned in accordance with the Code of Best Practice issued by the Study Group on Directors' Remuneration chaired by Sir Richard Greenbury, due to the executive position he holds in the company.

Following a review of its responsibilities during the year, the committee now determines the remuneration policy and individual remuneration packages of the executive directors. Previously, the committee made recommendations to the board on these issues. The report of the remuneration committee is set out on page 21 to 23.

Audit committee

Throughout the year, the committee consisted of Mr. I. Yeatman as chairman and Mr. J. C. Ivey.

The committee is responsible for the appointment of the external auditors, reviewing the scope of the audit, discussing the results thereof and any control issues arising therefrom, and reviewing the interim and annual financial statements.

Nominations committee

Mr. J. C. Ivey is chairman of this committee which also consists of Mr. J. D. Burns and Mr. I. Yeatman.

The committee is responsible for identifying candidates for appointment as non-executive directors and, subsequently, recommending their appointment to the board.

Going concern

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

Internal financial control

The directors acknowledge that they are responsible for the system of internal financial control. Such controls are established in order to safeguard the assets, maintain proper accounting records and ensure

that financial information used within the business or published is reliable. Any such system of control can, however, only provide reasonable, not absolute, assurance against material misstatement or loss.

The directors have reviewed the system of internal financial control for the period covered by this report. The key elements of the system are:

- the board meets regularly in order to identify and manage business risk;
- a formal list of matters is reserved to the full board for decision;
- the organisational structure of the company establishes defined areas of responsibility and appropriate limits of authority;
- the close involvement of the executive directors with the day-to-day operational matters of the group;
- regular management accounts are presented to the board wherein the financial performance of the group is compared to the budget which is updated and approved twice a year; and
- all capital investment is subject to formal authorisation procedures.

Annual general meeting

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

Resolution 6 is proposed to provide the company with the authority to introduce the Derwent Valley Holdings 1997 Executive Share Option Scheme, details of which are set out in the appendix to the circular accompanying the report and accounts. Following the expiry of the previous share option scheme introduced by the company in 1986, and after considering various alternative incentive schemes, the remuneration committee concluded that a replacement share option scheme was the most appropriate way by which the company could align the interests of directors and shareholders.

The directors consider it desirable to maintain a balance of authorised but unissued ordinary shares in the company in order to retain flexibility for the future. Accordingly, Resolution 7 increases the company's authorised share capital from £2,633,250 to £2,830,000, representing an increase of 7.47%. If Resolution 7 is passed, approximately 13,963,000 ordinary shares (excluding 766,954 ordinary shares reserved for issue pursuant to the exercise of options granted under the company's share option scheme) will remain authorised but unissued, representing approximately 24.7% of the authorised share capital as increased by Resolution 7.

Resolution 8 authorises the directors under Section 80 of the Companies Act 1985 to allot shares up to an aggregate nominal amount of £697,836.80, representing about one third of the issued share capital at the date of the notice of meeting. The authority will expire at the conclusion of the next annual general meeting after the passing of the resolution. Other than the vendor placing announced on 18th March 1997, the directors have no present intention of issuing shares except on exercise of options under the company's share option scheme.

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 shares for cash in connection with pre-emptive offers with modifications to the requirements set out in section 89 of the Companies Act 1985. The resolution further empowers the directors to allot shares for cash, otherwise than on a pre-emptive basis, up to an aggregate nominal value of £104,675.50, which is equivalent to 5% of the issued share capital at the date of the notice of meeting. The authority will expire at the earlier of the conclusion of the next annual general meeting after the passing of the resolution and fifteen months after the passing of the resolution.

Resolution 10 is proposed to renew the authority enabling the company to purchase its own shares. The directors have no immediate plans to make such purchases, but would like to act quickly if circumstances arose in which they considered such purchases to be desirable. The resolution gives the directors authority to purchase up to 10% of the company's ordinary shares and specifies the maximum and minimum prices at which shares may be bought. No purchases will be made unless the directors believe, in the light of market conditions prevailing at the time, that the effect will be in the interests of shareholders generally.

Auditors

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

By order of the board

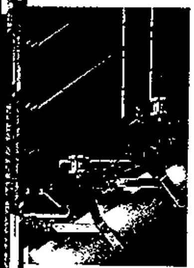
T. J. Kite

Secretary

18th March 1997

Auditors' report

to Derwent Valley Holdings plc on corporate governance matters



In addition to our audit of the financial statements, we have reviewed the directors' statements on pages 16 to 18 on the company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the company's system of internal financial control or its corporate governance procedures nor on the ability of the company to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control, and going concern on pages 17 and 18, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statements on pages 16 to 18 appropriately reflect the company's compliance with the other paragraphs of the Code specified for our review by Listing Rule 12.43 (j).

BDO Stoy Hayward.

BDO Stoy Hayward
Chartered Accountants and Registered Auditors
London

18th March 1997

Report of the Remuneration committee

Compliance

The report of the Study Group on Directors' Remuneration chaired by Sir Richard Greenbury ('Greenbury Report') contains recommendations and a Code of Best Practice on the setting, monitoring and disclosure of the remuneration of directors of listed companies. In October 1995, the main provisions of the Greenbury Report were adopted by the London Stock Exchange.

The Remuneration Committee comprised the company's non-executive directors, Mr. I. Yeatman and Mr. J. C. Ivey, together with Mr. J. E. Dixon until his resignation from the committee in December 1996. Mr. J. C. Ivey is a chartered accountant, chief executive of Davis Service Group plc and a non-executive director of Moorgate Investment Trust PLC. Mr. I. Yeatman is a chartered surveyor and managing director of CIN LA SALLE Investment Management.

The committee considers that the company has complied throughout the year with the requirements of Section A of the best practice provisions annexed to the listing rules, except that Mr. J. D. Burns serves as a non-executive director of the Davis Service Group plc. The board does not consider that this cross-directorship has interfered with the exercise of Mr. J.C. Ivey's independent judgement.

Policy

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

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

The committee confirms that full consideration has been given to Section B of the best practice provisions mentioned above.

The individual components of the remuneration package are set out overleaf.

Report of the Remuneration committee continu

Service contracts

Having considered the views of the institutional shareholders on current best practice, the executive directors have relinquished their three year rolling contracts. All executive directors now have contracts requiring 12 months' notice of termination. The remuneration committee reviews the service contracts annually. Non-executive directors do not have service contracts.

Basic salary and benefits

Details of directors' remuneration are given below. The statutory disclosure in connection with directors' remuneration is given in Note 8 of the accounts.

	Salary and fees £ '000	Benefits in kind £ '000	**1996 Total £ '000**	**1996 Pension £ '000**	1995 Total £ '000	1995 Pension £ '000
Executive						
J. D. Burns	171	21	**192**	**50**	165	30
S. P. Silver	145	15	**160**	**45**	139	29
C. J. Odom	129	10	**139**	**36**	127	23
J. E. Dixon	12	11	**23**	**–**	23	–
Non-executive						
J. C. Ivey (Chairman)	15	–	**15**	**–**	15	–
I. Yeatman	15	–	**15**	**–**	1	–
	487	57	**544**	**131**	470	82

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

Bonus scheme and long-term incentive plan

The company does not operate any bonus scheme or long term incentive plan.

Share option scheme

The Derwent Valley Holdings plc Group Share Option Scheme was established in May 1986 for the benefit of both directors and employees. This scheme expired during 1996 and, following consultations with independent advisers, the committee has recommended the implementation of a new share option scheme ('the 1997 scheme'). The establishment of the 1997 scheme is subject to shareholder approval at the annual general meeting of the company, which is to be held on 3rd June 1997. Full details of the 1997 scheme are set out in the circular to shareholders dated 15th April 1997 accompanying this report.

Under the existing share option scheme, directors and employees held options at 31st December 1996 for 766,954 ordinary shares of 5p each as follows:

Exercise price £	Date from which exercisable	Expiry date	Directors J. D. Burns	S. P. Silver	C. J. Odom	J. E. Dixon	Employees	Total number of shares
1.935	30/4/90	29/4/97	51,398	51,398	–	25,698	–	128,494
2.610	30/4/91	29/4/98	49,902	34,516	53,540	3,846	34,412	176,216
3.630	25/4/92	24/4/99	24,742	21,520	27,550	–	35,138	108,950
3.485	1/5/93	30/4/00	22,996	20,668	18,380	–	39,838	101,882
3.390	7/5/94	6/5/01	2,358	1,922	1,662	–	25,356	31,298
1.610	7/5/95	6/5/02	30,118	26,686	24,950	–	53,394	135,148
1.960	5/5/96	4/5/03	6,860	5,198	5,198	–	8,522	25,778
2.430	12/4/98	11/4/05	53,500	45,250	45,250	–	52,000	196,000
Total at 1st January 1996			241,874	207,158	176,530	29,544	248,660	903,766
Options granted during the year								
3.540	26/4/99	25/4/06	8,300	7,250	6,850	–	19,350	41,750
Options exercised during the year								
Exercise price £	Market price at date of exercise £							
1.935	3.48		(51,398)	(51,398)	–	(25,698)	–	(128,494)
2.610	3.48		–	–	–	(3,846)	(34,412)	(38,258)
1.610	3.48		–	–	–	–	(11,810)	(11,810)
Total at 31st December 1996			198,776	163,010	183,380	–	221,788	766,954

The market price of the 5p ordinary shares at 31st December 1996 was £4.69. During the year they traded in a range between £3.08 to £4.69.

I. Yeatman
Remuneration committee chairman

18th March 1997

Statement of directors' responsibilities

The following statement, which should be read in conjunction with the report of the auditors on page 25 is made in order to clarify the respective responsibilities of the directors and the auditors in the preparation of the accounts.

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

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

Auditors' report

to members of Derwent Valley Holdings plc

We have audited the financial statements on pages 26 to 41 which have been prepared under the accounting policies set out on pages 30 and 31. We have also examined the amounts and disclosures relating to the remuneration and share options of the directors which form part of the report of the remuneration committee on pages 21 to 23.

Respective responsibilities of directors and auditors

As described on page 24 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the company and of the group as at 31st December 1996 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward

BDO Stoy Hayward

Chartered Accountants and Registered Auditors,

London.

18th March 1997

Group profit and loss account

for the year ended 31st December 1996

	Note	**1996 £ m**	1995 £ m
Net revenue from properties	2	**17.1**	12.4
Profit from property trading	3	**0.3**	0.1
		17.4	12.5
Administrative costs		**2.2**	2.1
Operating profit from continuing operations		**15.2**	10.4
Profit on disposal of investment properties	4	**0.3**	–
Share of results of associated undertakings	5	**–**	–
		15.5	10.4
Interest payable	6	**8.0**	6.0
Profit on ordinary activities before taxation	7	**7.5**	4.4
Taxation on profit on ordinary activities	10	**0.7**	0.7
Profit on ordinary activities after taxation	11	**6.8**	3.7
Dividend	12	**2.4**	2.0
Retained profit	22	**4.4**	1.7
Earnings per share	13	**17.44p**	11.41p
Adjustment for disposal of investment properties		**(0.89p)**	(0.09p)
Adjusted earnings per share	13	**16.55p**	11.32p

The notes on pages 30 to 41 form part of these accounts.

Balance sheets

at 31st December 1996

	Note	Group 1996 £ m	1995 £ m	Company 1996 £ m	1995 £ m
Fixed assets					
Tangible assets	14	**264.7**	224.4	**0.6**	1.6
Investments	15	**0.6**	0.4	**9.2**	9.1
Current assets					
Properties held for resale	16	**2.7**	5.5	–	–
Debtors	17	**6.2**	6.2	**203.1**	183.0
		8.9	11.7	**203.1**	183.0
Creditors					
Amounts falling due within one year	18	**15.4**	13.8	**8.6**	6.4
Net current (liabilities)/assets		**(6.5)**	(2.1)	**194.5**	176.6
Total assets less current liabilities		**258.8**	222.7	**204.3**	187.3
Creditors					
Amounts falling due after more than one year	19	**103.2**	90.2	**103.2**	90.2
Provisions for liabilities and charges					
Deferred taxation	20	**0.2**	0.3	–	–
		155.4	132.2	**101.1**	97.1
Capital and reserves – equity					
Called up share capital	21	**1.9**	1.9	**1.9**	1.9
Share premium account	22	**85.2**	84.9	**85.2**	84.9
Revaluation reserve	22	**55.9**	37.6	–	0.5
Capital reserve arising on consolidation	22	**1.0**	1.0	–	–
Profit and loss account	22	**11.4**	6.8	**14.0**	9.8
		155.4	132.2	**101.1**	97.1

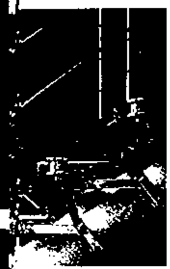
J. D. Burns, Director
C. J. Odom, Director

18th March 1997

The notes on pages 30 to 41 form part of these accounts.

Other primary statements

for the year ended 31st December 1996



Statement of total recognised gains and losses	1996 £m	1995 £m
Profit for financial year	**6.8**	3.7
Unrealised surplus on revaluation of investment properties	**18.5**	13.1
	25.3	16.8

Note of historical cost profit and loss	1996 £m	1995 £m
Reported profit on ordinary activities before taxation	**7.5**	4.4
Realisation of property revaluation profits of previous years	**0.2**	–
Historical cost profit on ordinary activities before taxation	**7.7**	4.4
Historical cost profit for the year retained after taxation and dividends	**4.6**	1.7

Reconciliation of movements in shareholders' funds	1996 £m	1995 £m
Profit for financial year	**6.8**	3.7
Other gains and losses relating to the year	**18.5**	13.1
Net proceeds of share issue	**0.3**	20.6
	25.6	37.4
Dividend	**(2.4)**	(2.0)
	23.2	35.4
Shareholders' funds at 1st January 1996	**132.2**	96.8
Shareholders' funds at 31st December 1996	**155.4**	132.2

The notes on pages 30 to 41 form part of these accounts.

Group cash flow statement

for the year ended 31st December 1996

Operating activities	Note	£ m	1996 £ m	£ m	1995 £ m
Cash received from:					
Tenants		**19.9**		14.0	
Trading activities		**3.0**		3.0	
Cash payments in respect of:					
Direct property expenses		**(2.0)**		(1.2)	
Wages and salaries		**(1.3)**		(1.0)	
Administrative costs		**(1.0)**		(1.0)	
Properties held for resale		**-**		(3.1)	
Net cash inflow from operating activities	23		**18.6**		10.7
Return on investments and servicing of finance					
Interest paid		**(8.2)**		(5.0)	
Net cash outflow from return on investments and servicing of finance			**(8.2)**		(5.0)
Taxation					
Corporation tax paid (including ACT)		**(1.2)**		(1.3)	
Tax paid			**(1.2)**		(1.3)
Capital expenditure and financial investment					
Additions to properties		**(27.1)**		(67.2)	
Disposal of properties		**5.7**		2.6	
Purchase of other fixed assets		**(0.2)**		–	
Investment in associated undertakings		**(0.2)**		–	
Net cash outflow from capital expenditure and financial investment			**(21.8)**		(64.6)
Equity dividends paid			**(2.2)**		(1.6)
Cash outflow before management of liquid resources and financing			**(14.8)**		(61.8)
Financing					
Net proceeds of share issue	24	**0.3**		20.6	
Net proceeds of debenture issue		**–**		(0.1)	
Movement in bank loans	24	**13.0**		43.2	
Net cash inflow from financing			**13.3**		63.7
Decrease/(increase) in cash in the period			**1.5**		(1.9)
			14.8		61.8

The notes on pages 30 to 41 form part of these accounts.

Notes to the accounts

1. Accounting policies

The financial statements have been prepared under the historical cost convention, incorporating the revaluation of certain assets, and in accordance with the applicable accounting standards. The principal accounting policies are described below.

Basis of consolidation

The group accounts incorporate the accounts of Derwent Valley Holdings plc and all of its subsidiary undertakings made up to 31st December, together with the group's share of the results of its associated undertakings, incorporating such adjustments as are appropriate, made up to a date no earlier than six months before 31st December. Investments in associated undertakings are revalued annually in the group accounts to reflect the movement in the underlying net assets, and the aggregate surplus or deficit arising from such revaluation is transferred to the revaluation reserve.

Turnover

Turnover includes gross rents as they become receivable under the terms of the leases.

Profits on sale of properties

Profits on sale of properties are recognised on completion of contract.

Surrender premiums

Reverse premiums are recognised in the profit and loss account at a rate equal to the passing rent under the surrendered lease having first used an appropriate part of the premium to reinstate the premises to a lettable condition. Once rent is receivable any residual premium is immediately released to the profit and loss account. Premiums paid are capitalised.

Investment properties

Investment properties, as defined by Statement of Standard Accounting Practice 19, are revalued annually in accordance with the Statements of Asset Valuation Practice and Guidance Notes issued by the Royal Institution of Chartered Surveyors and are included in the balance sheets on the basis of open market value. The aggregate surplus or deficit arising from such revaluation is transferred to the revaluation reserve unless a deficit (or its reversal) on an individual property is expected to be permanent, in which case it is charged (or credited) to the profit and loss account.

Development properties held for investment purposes are stated at cost, which includes costs of acquisition and development to date including directly attributable fees, except that where, in the opinion of the directors, there has been a permanent diminution in value, provision is made for the unrealised capital loss.

Properties held for resale

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

Development properties

Development properties include completed developments, properties in the course of development and sites held for development or sale. When investment properties are redesignated development properties, cost is deemed to be the book value at the date of transfer, plus subsequent additions.

Interest and other outgoings which can be fairly attributed to properties held for, or in the course of, development are considered to be part of the development costs. However, where in the opinion of the directors, the inclusion of such interest and outgoings would result in cost exceeding net realisable value, then these items are written off to the profit and loss account. Interest (based on cost) is calculated by reference to specific borrowings where relevant and otherwise by reference to the average rate applicable to short and medium term finance.

A development property ceases to be treated as such for the purpose of capitalisation of interest and other outgoings on the earlier of: (a) the date when it becomes substantially let and income-producing; (b) the date when income exceeds outgoings including development interest; (c) not later than two years after practical completion as certified by architects or such longer period as may be appropriate in the circumstances.

Depreciation

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

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

Revaluation reserve

The aggregate surpluses or deficits arising on the revaluation of investment properties and investments in associated undertakings (representing the group's share of the reserves or deficits of the associated undertakings) are transferred to the revaluation reserve.

Leases

All leases are operating leases with rental income and costs charged to the profit and loss account as they become payable under the terms of the leases.

Discount on debenture and issue costs

The debenture stock is shown in the balance sheet net of issue costs and the discount on issue. These amounts are apportioned over the period from issue to redemption on a straight line basis and charged to the profit and loss account as part of the finance charge before being transferred to the share premium account.

Deferred taxation

Provision is made for taxation on timing differences between the treatment of certain items for taxation and accounting purposes to the extent that a liability or asset is expected to arise in the foreseeable future. Details of amounts provided and not provided are given in Note 20.

No provision is made in respect of capital allowances claimed on assets that are not depreciated, nor is any provision made in respect of capital gains tax which would arise if the sale of the group's investment properties was effected at the valuation at which they are included in the balance sheet.

Notes to the accounts continued

2. Net revenue from properties	**1996 £m**	1995 £m
Gross rental income	**19.1**	14.0
Ground rents	**(0.6)**	(0.4)
Other property outgoings net of recoveries	**(1.4)**	(1.2)
	17.1	12.4

3. Profit from property trading	**1996 £m**	1995 £m
Sales	**3.0**	3.0
Cost of sales	**(2.6)**	(2.7)
	0.4	0.3
Provisions against properties held for resale	**(0.1)**	(0.2)
	0.3	0.1

4. Profit on disposal of investment properties	**1996 £m**	1995 £m
Disposals	**5.4**	2.6
Cost/valuation	**(5.1)**	(2.6)
	0.3	–

5. Share of results of associated undertakings

The group's share of the operating loss of associated undertakings was £28,000 (1995 – £47,000)

6. Interest payable	**1996 £m**	1995 £m
Bank loans and overdrafts wholly repayable within five years	**4.2**	2.3
Bank loan repayable after five years	**0.2**	0.1
Debenture stock	**3.6**	3.6
	8.0	6.0

7. Profit on ordinary activities before taxation	**1996 £'000**	1995 £'000
This is arrived at after charging:		
Depreciation and amortisation	**67**	60
Rent payable under property leases	**638**	428
Auditors' remuneration		
Audit	**35**	34
Other services	**25**	45

8. Directors' emoluments

	1996 £ '000	1995 £ '000
Fees	**30**	16
Remuneration for management services	**514**	454
Pension contributions	**131**	82
Total emoluments	**675**	552

Details of options granted to the directors under the group share option scheme are given in the report of the remuneration committee on pages 21 to 23.

The number of directors whose emoluments (excluding pension contributions) fell into the following ranges was:

	1996 Number	1995 Number
£0 – 5,000	**–**	1
£10,001 – 15,000	**2**	1
£20,001 – 25,000	**1**	1
£125,001 – 130,000	**–**	1
£135,001 – 140,000	**1**	1
£155,001 – 160,000	**1**	–
£165,001 – 170,000	**–**	1
£190,001 – 195,000	**1**	–

Messrs J. D. Burns and S. P. Silver are partners in Pilcher Hershman and Partners, estate agents, who have received fees, at a commercial rate, in respect of the management, letting, acquisition and disposal of certain properties owned by the company and its subsidiary undertakings amounting to £0.4m (1995 – £0.4m), excluding value added tax.

9. Employees

	1996 £ m	1995 £ m
Staff costs, including those of directors:		
Wages and salaries	**0.9**	0.8
Social security costs	**0.1**	0.1
Pension costs	**0.2**	0.1
	1.2	1.0

The average monthly number of employees during the year, excluding directors, was as follows:	**Number**	Number
Administration	**14**	13

Notes to the accounts continued

10. Taxation on profit on ordinary activities	1996 £m	1995 £m
UK corporation tax at 33% (1995 – 33%)	**1.1**	1.0
Adjustment in respect of prior years	**(0.3)**	(0.3)
Transfer from deferred taxation	**(0.1)**	(0.1)
Share of associated undertakings' taxation	**–**	0.1
	0.7	0.7

During the year the group claimed capital allowances amounting to £2.9m (1995 – £2.6m) which, at current rates of taxation reduced the tax charge for the year by £1.0m (1995 – £0.9m).

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

Of this amount a profit of £6.1m (1995 – £3.6m) has been dealt with in the accounts of the holding company. In accordance with the exemption granted by section 230(3) of the Companies Act 1985, the company is not required to present its own profit and loss account.

12. Dividend	1996 £m	1995 £m
Ordinary shares of 5p each:		
Paid – interim dividend of 1.90p (1995 – 1.73p) per share	**0.8**	0.5
Proposed – final dividend of 4.20p (1995 – 3.77p) per share	**1.6**	1.5
	2.4	2.0

13. Earnings per share

Earnings per ordinary share have been computed on the basis of a profit after taxation of £6,792,000 (1995 – £3,689,000) and the weighted average number of ordinary shares in issue during the period of 38,948,000 (1995 – 32,332,000). An adjusted earnings per share figure has been calculated using a profit figure of £6,445,000 (1995 – £3,659,000). These figures exclude the profit after tax arising from the disposal of investment properties in order to show the recurring element of the group's profit. At current interest rates there would be no material dilution on the exercise of the share options detailed on page 23.

14. Tangible assets	Freehold land and buildings £ m	Leasehold property £ m	Other fixed assets £ m	Total £ m
Group				
Cost or valuation:				
At 1st January 1996	145.9	78.0	1.0	224.9
Additions	23.5	3.3	0.2	27.0
Transfer	0.3	(0.3)	–	–
Disposals	(2.1)	(3.0)	(0.1)	(5.2)
Revaluation	11.4	7.1	–	18.5
At 31st December 1996	179.0	85.1	1.1	265.2
Depreciation:				
At 1st January 1996	–	–	0.5	0.5
Disposals	–	–	(0.1)	(0.1)
Provision for year	–	–	0.1	0.1
At 31st December 1996	–	–	0.5	0.5
Net book value:				
At 31st December 1996	**179.0**	**85.1**	**0.6**	**264.7**
At 31st December 1995	145.9	78.0	0.5	224.4
Assets stated at cost or valuation:				
1996 valuation	178.9	85.1	–	264.0
1984 valuation	0.1	–	–	0.1
Cost	–	–	0.6	0.6
	179.0	85.1	0.6	264.7

Short leaseholds with a value of £4.6m (1995 – £3.3m) are included in leasehold property above.

Notes to the accounts continued

14. Tangible assets continued	Long leasehold property £ m	Other fixed assets £ m	Total £ m
Company			
Cost or valuation:			
At 1st January 1996	1.1	1.0	2.1
Additions	–	0.2	0.2
Disposals	(1.1)	(0.1)	(1.2)
At 31st December 1996	–	1.1	1.1
Depreciation:			
At 1st January 1996	–	0.5	0.5
Disposals	–	(0.1)	(0.1)
Provision for year	–	0.1	0.1
At 31st December 1996	–	0.5	0.5
Net book value:			
At 31st December 1996	**–**	**0.6**	**0.6**
At 31st December 1995	1.1	0.5	1.6

As at 31st December 1996 all assets held by the company were stated at cost.

The freehold land and buildings and leasehold property, with the exception of the freehold land and buildings owned by Derwent Valley Railway Company, were revalued by Keith Cardale Groves (Commercial) Limited, chartered surveyors, at open market value on 31st December 1996. The directors are of the opinion that the value of the freehold land and buildings owned by Derwent Valley Railway Company is not materially different from the 31st December 1984 valuation. At 31st December 1996 the historical cost of the freehold land and buildings and leasehold property owned by the group was £206.9m (1995 – £185.4m) and that owned by the company was £nil (1995 – £0.6m). At 31st December 1996 the cost of such properties included interest of £0.1m (1995 – £0.1m).

	Group	**Company**		
15. Investments	Associated undertakings £ m	Subsidiary undertakings £ m	Associated undertakings £ m	Total £ m
Shares:				
At 1st January 1996 and 31st December 1996	–	8.0	–	8.0
Share of post acquisition reserves:				
At 1st January 1996 and 31st December 1996	(5.7)	–	–	–
Loans:				
At 1st January 1996	6.1	–	1.1	1.1
Increase	0.2	–	0.2	0.2
Movement in provisions	–	–	(0.1)	(0.1)
At 31st December 1996	6.3	–	1.2	1.2
Total at 31st December 1996	**0.6**	**8.0**	**1.2**	**9.2**
Total at 31st December 1995	0.4	8.0	1.1	9.1

15. Investments continued

The principal operating companies within the group are as follows:

	Class of shares	Principal activity
Subsidiary undertakings		
Colebrook Estates Limited	Ordinary	Property investment
Derwent Valley Property Investments Limited	Ordinary	Property investment
Wilmar Estates Limited	Ordinary	Property investment
Earthdeal Limited	Ordinary	Property investment
Derwent Valley Property Developments Limited	Ordinary	Property investment
Derwent Valley Railway Company	Ordinary and preference	Property investment
Derwent Valley Properties Limited	Ordinary	Property trading
Derwent Valley Property Trading Limited	Ordinary	Property trading

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

Associated undertakings		
Primister Limited	Ordinary	Property investment
Dorrington Derwent Holdings Limited	Ordinary	Holding company

The company owns 50% of the ordinary shares of each of the associated undertakings.
All of the above companies are registered and operate in England and Wales.

Summary financial information relating to associated undertakings	Primister Limited £ m	Dorrington Derwent Holdings Limited £ m
Net rental income	0.7	0.6
(Loss)/profit before taxation	(0.2)	0.2
Retained (loss)/profit	(0.2)	0.2
Fixed assets		
Investment property	7.4	7.5
Financing repayable:		
under 1 year	–	(5.0)
after 5 years	(7.2)	–
Funding from joint venturers	(1.2)	(11.4)
Other current liabilities	(1.6)	–
Shareholders' funds	(2.6)	(8.9)

The above information is extracted from the audited financial statements of Dorrington Derwent Holdings Limited and the unaudited management accounts of Primister Limited for the year to 31st December 1996.

Notes to the accounts continued

16. Properties held for resale

The cost of properties held for resale, before provisions, includes interest of £0.2m (1995 – £0.2m).

	Group		Company	
	1996	1995	**1996**	1995
17. Debtors	**£ m**	£ m	**£ m**	£ m
Trade debtors	**4.1**	4.3	**–**	0.1
Amounts owed by subsidiary undertakings	**–**	–	**201.9**	182.1
Other debtors	**0.4**	0.4	**–**	0.1
Prepayments and accrued income	**0.9**	0.9	**0.4**	0.4
Advance corporation tax recoverable	**0.4**	0.3	**0.4**	0.3
Corporation tax	**0.4**	0.3	**0.4**	–
	6.2	6.2	**203.1**	183.0

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

	Group		Company	
	1996	1995	**1996**	1995
18. Creditors falling due within one year	**£ m**	£ m	**£ m**	£ m
Bank loans and overdraft	**1.7**	0.2	**1.9**	0.2
Amounts owed to subsidiary undertakings	**–**	–	**1.8**	1.0
Taxation and social security	**0.3**	0.2	**–**	–
Corporation tax	**0.7**	0.6	**–**	0.6
Advance corporation tax	**0.6**	0.8	**0.6**	–
Other creditors	**2.1**	1.5	**0.2**	0.2
Dividend payable	**1.6**	1.5	**1.6**	1.5
Accruals and deferred income	**8.4**	9.0	**2.5**	2.9
	15.4	13.8	**8.6**	6.4

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

	Group		Company	
	1996	1995	**1996**	1995
19. Creditors falling due after more than one year	**£ m**	£ m	**£ m**	£ m
Bank loans wholly repayable:				
between 1-2 years	**35.0**	–	**35.0**	–
between 2-5 years	**25.5**	50.5	**25.5**	50.5
after 5 years	**8.5**	5.5	**8.5**	5.5
10⅛% First Mortgage Debenture Stock 2019	**34.2**	34.2	**34.2**	34.2
	103.2	90.2	**103.2**	90.2

The bank loans and debenture are secured by first charges on certain of the group's properties. The long term bank loan is repayable in 2005 and bears interest at 1¼% above the bank's base rate. In accordance with FRS 4, Capital Instruments, the £35,000,000 10⅛% First Mortgage Debenture Stock 2019 is shown net of the unamortised issue costs and discount on issue of £0.8m (1995 – £0.8m).

20. Deferred taxation	Group 1996 £ m	Group 1995 £ m	Company 1996 £ m	Company 1995 £ m
Capital allowances	**0.2**	0.3	**–**	–

A taxation liability of approximately £9.4m (1995 – £5.7m) for the group would arise on the disposal of land and buildings at the valuation shown in the balance sheet. No provision has been made in the accounts as the directors do not intend to reduce the investment in land and buildings in the foreseeable future. No such liability exists for the company (1995 – £nil). In accordance with the group's accounting policy, no provision has been made in respect of either capital allowances claimed in excess of depreciation or other short term timing differences which are not expected to reverse in the foreseeable future. As at 31st December 1996 the net amount for which no provision has been made for the group amounted to £3.3m (1995 – £1.8m). No liability arises in the company in respect of such liabilities whilst in 1995 a potential asset of £0.7m was not recognised.

21. Share capital	Authorised £ m	Issued and fully paid £ m
At 1st January 1996 and 31st December 1996	2.6	1.9

On 12th April 1996 178,562 ordinary shares of 5p were issued following the exercise of options under the Group Share Option Scheme details of which are given in the report of the remuneration committee on pages 21 to 23.

22. Reserves	Share premium account £ m	Revaluation reserve £ m	Capital reserve arising on consolidation £ m	Profit and loss account £ m
Group				
At 1st January 1996	84.9	37.6	1.0	6.8
Premium on issue of shares	0.3	–	–	–
Surplus on property revaluation	–	18.5	–	–
Profit realised on disposal of investment properties	–	(0.2)	–	0.2
Retained profit for the year	–	–	–	4.4
At 31st December 1996	**85.2**	**55.9**	**1.0**	**11.4**
Company				
At 1st January 1996	84.9	0.5	–	9.8
Premium on issue of shares	0.3	–	–	–
Profit realised on disposal of investment properties	–	(0.5)	–	0.5
Retained profit for the year	–	–	–	3.7
At 31st December 1996	**85.2**	**–**	**–**	**14.0**

Notes to the accounts continued

23. Reconciliation of operating profit to net cash inflow from operating activities	1996 £ m	1995 £ m
Operating profit	**15.2**	10.4
Depreciation charge	**0.1**	0.1
Decrease/(increase) in debtors	**0.2**	(2.2)
Increase in creditors	**0.1**	3.9
Decrease/(increase) in properties held for resale (excluding intra-group transfers)	**2.8**	(0.2)
Effect of other deferrals and accruals on operating activity cash flow	**0.2**	(1.3)
Net cash inflow from operating activities	**18.6**	10.7

24. Analysis of changes in financing during the year	Share capital including premium £ m	Bank loans £ m	Debenture stock £ m
Financing at 1st January 1996	86.8	56.0	34.2
Cash inflow from financing	0.3	13.0	–
Financing at 31st December 1996	**87.1**	**69.0**	**34.2**

25. Movement in net debt	1st January 1996 £ m	Cash flow £ m	31st December 1996 £ m
Overdraft	0.2	1.5	**1.7**
Bank loans wholly repayable:			
between 1 and 2 years	–	35.0	**35.0**
between 2 and 5 years	50.5	(25.0)	**25.5**
in more than 5 years	5.5	3.0	**8.5**
	56.0	13.0	**69.0**
Debenture	34.2	–	**34.2**
Total	90.4	14.5	**104.9**

26. Reconciliation of net cash flow to movement in net debt	1996 £ m	1995 £ m
Decrease/(increase) in cash in the period	**1.5**	(1.9)
Cash inflow from increase in debt financing	**13.0**	43.2
Movement in net debt in the year	**14.5**	41.3
Net debt at 1st January 1996	**90.4**	49.1
Net debt at 31st December 1996	**104.9**	90.4

27. Capital commitments

Contracts for capital expenditure entered into by the group at 31st December 1996 and not provided for in the accounts amounted to £1.3m (1995 – £0.3m).

28. Lease commitments

At 31st December 1996 annual commitments under property leases expiring in more than 5 years were £0.7m (1995 – £0.8m).

29. Pension commitments

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

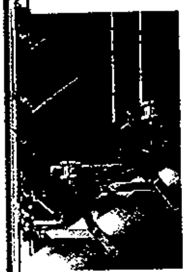
30. Post balance sheet events

On 26th February 1997, the company exchanged contracts on the acquisition of Tower House, Southampton Street, London WC2 for a consideration of £14.6m including costs. On 18th March 1997, the company announced that the acquisition would be financed by way of a vendor placing of 2,871,485 ordinary shares of 5p each at a price of £4.98 per share to raise £14.3m.

31. Contingent liabilities

The company and its subsidiary undertakings are party to cross guarantees securing the overdraft and certain bank loans. At 31st December 1996 the maximum liability that could arise for the company from the cross guarantees amounted to £nil (1995 – £nil). The company has given guarantees in respect of certain loans of its associated undertakings, the contingent liability for which at 31st December 1996 amounted to £4.2m (1995 – £4.2m). In addition, the company guarantees its share of interest payable on certain loans of its associated undertakings which at current interest rates amounts to £0.7m per annum (1995 – £0.7m).

Notice of Annual General Meeting



Notice is hereby given that the thirteenth annual general meeting of Derwent Valley Holdings plc will be held at Durrants Hotel, George Street, London W1H 6BJ on 3rd June 1997 at 10.30 a.m. for the following purposes, namely:

Ordinary business

1. To receive the report of the directors and the accounts for the year ended 31st December 1996 and the auditors' report thereon;

2. To declare a final dividend of 4.2p (net) per ordinary share for the year ended 31st December 1996;

3. To re-elect J. D. Burns as a director;

4. To re-elect C. J. Odom as a director; and

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

Special business

To consider and, if thought fit, pass the following resolutions, resolutions 6,7 and 8 as ordinary resolutions and resolutions 9 and 10 as special resolutions.

6. That the Derwent Valley Holdings 1997 Executive Share Option Scheme ("the Scheme"), the main features of which are summarised in the Appendix to the Chairman's letter dated 15th April 1997 and a copy of which is produced to the meeting and signed by the Chairman for the purposes of identification, be and is hereby approved and established and the directors be and they are hereby authorised to do all such acts and things as may be necessary or expedient to carry the same into effect with such amendments as the directors may consider necessary or desirable and each of the directors be and they are hereby authorised to vote, and be counted in the quorum, on any matter connected with the Scheme, notwithstanding that they may have a personal interest in the same (except that no director may be counted in a quorum or vote in respect of their own participation in any discretionary or selective capacity), and any restriction contained in the Articles of Association of the company or otherwise be and is hereby relaxed accordingly;

7. That the authorised share capital of the company be and is hereby increased from £2,633,250 to £2,830,000 by the creation of an additional 3,935,000 new ordinary shares of 5p each;

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 £697,836.80 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 (as defined in Section 94 of the said Act) for cash pursuant to the authority conferred upon them by the previous resolution as if Section 89 of the said Act did not apply to such allotment PROVIDED THAT the power conferred by this resolution shall be limited to:

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

(ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal amount of £104,675.50,

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

Notice of Annual General Meeting continued

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 4,187,021;

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

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

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

By order of the board
T. J. Kite
Secretary

87 Wimpole Street
London
W1M 7DB

15th April 1997

Notes:
The company pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, specifies that only those shareholders registered in the register of members of the company as at 6 pm on 1st June 1997 shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6 pm on 1st June 1997 shall be disregarded in determining the rights of any person to attend or vote at the meeting. Every member entitled to attend and vote at the meeting may appoint a proxy or proxies to attend and, on a poll, vote instead of him. The proxy need not himself be a member. A form of appointment of a proxy is enclosed.

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

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