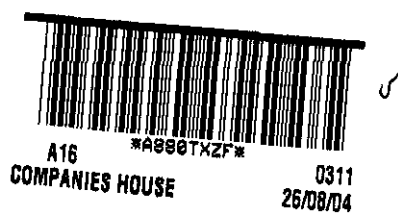


Company Registration No. 04421854 (England and Wales)

DEE VALLEY WATER (HOLDINGS) LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2004



DEE VALLEY WATER (HOLDINGS) LIMITED

COMPANY INFORMATION

Directors	B S Jenkins D J Guest P M Hills B D Needham
Secretary	D J Guest
Company number	04421854
Registered office	Packsaddle Wrexham Road Rhostyllen Wrexham LL14 4EH
Auditors	Saffery Champness Lion House Red Lion Street London WC1R 4GB

DEE VALLEY WATER (HOLDINGS) LIMITED

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DEE VALLEY WATER (HOLDINGS) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2004

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

Principal activities and review of the business

The principal activity of the company was that of a holding company.

Results and dividends

The results for the year are set out on page 3.

An interim ordinary dividend was paid amounting to £671,664 . The directors recommend payment of a final dividend amounting to £1,366,490 .

Directors

The following directors have held office since 1 April 2003:

B S Jenkins

D J Guest

P M Hills

B D Needham

Directors' interests

None of the directors have any beneficial interest in the share capital of the company. The directors beneficial interests in the share capital of the parent company, Dee Valley Group plc, are disclosed within those accounts.

No director has any rights to subscribe for shares in, or debentures of the company.

Taxation status

The company was not a close company within the provisions of the Income and Corporation Taxes Act 1988 and this position has not changed since the end of the financial year.

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Saffery Champness be reappointed as auditors of the company will be put to the Annual General Meeting.

Directors' responsibilities

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

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

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

On behalf of the board



D J Guest

Director

11 June 2004

DEE VALLEY WATER (HOLDINGS) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEE VALLEY WATER (HOLDINGS) LIMITED

We have audited the financial statements of Dee Valley Water (Holdings) Limited on pages 3 to 8 for the year ended 31 March 2004. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

Respective responsibilities of the directors and auditors

As described in the statement of directors' responsibilities on page 1 the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 company's affairs as at 31 March 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Saffery Champness

Chartered Accountants
Registered Auditors

11 June 2004

Lion House
Red Lion Street
London
WC1R 4GB

DEE VALLEY WATER (HOLDINGS) LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2004**

	Notes	2004 £	2003 £
Operating loss		-	-
Investment income	2	2,038,154	1,945,511
Profit on ordinary activities before taxation		2,038,154	1,945,511
Tax on profit on ordinary activities	3	-	-
Profit on ordinary activities after taxation		2,038,154	1,945,511
Dividends	4	(2,038,154)	(1,945,511)
Retained loss for the year	9	-	-

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.

The notes on pages 5 to 8 form part of these financial statements.

DEE VALLEY WATER (HOLDINGS) LIMITED

**BALANCE SHEET
AS AT 31 MARCH 2004**

	Notes	2004 £	£	2003 £	£
Fixed assets					
Investments	5	46,000,000		46,000,000	
Current assets					
Debtors	6	1,366,491		1,297,009	
Creditors: amounts falling due within one year	7	<u>(1,366,490)</u>		<u>(1,297,008)</u>	
Net current assets			1		1
Total assets less current liabilities		<u>46,000,001</u>		<u>46,000,001</u>	
Capital and reserves					
Called up share capital	8		100		100
Share premium account	9	45,999,901		45,999,901	
Shareholders' funds - equity interests	10	<u>46,000,001</u>		<u>46,000,001</u>	

The notes on pages 5 to 8 form part of these financial statements.
The financial statements were approved by the Board on 11 June 2004

DJ Guest

D J Guest
Director

DEE VALLEY WATER (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

1.2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable accounting standards.

1.3 Investments

Fixed asset investments are stated at cost less provision for diminution in value.

1.4 Group accounts

The financial statements present information about the company as an individual undertaking and not about its group. The company has not prepared group accounts as it is exempt from the requirement to do so by section 228 of the Companies Act 1985 as it is a subsidiary undertaking of Dee Valley Group plc, a company incorporated in England and Wales, and is included in the consolidated accounts of that company.

2 Investment income

2004

2003

£

£

Income from shares in group undertakings

2,038,154

1,945,511

3 Taxation

2004

2003

Current tax charge

-

-

Factors affecting the tax charge for the year

Profit on ordinary activities before taxation

2,038,154

1,945,511

Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00 %

611,446

583,653

Effects of:

Dividends and distributions received

(611,446)

(583,653)

(611,446)

(583,653)

Current tax charge

-

-

DEE VALLEY WATER (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 MARCH 2004

4	Dividends	2004 £	2003 £
	Ordinary interim paid	671,664	648,503
	Ordinary final proposed	1,366,490	1,297,008
		<u>2,038,154</u>	<u>1,945,511</u>

5 Fixed asset investments

	Shares in group undertakings £
Cost	
At 1 April 2003 & at 31 March 2004	<u>46,000,000</u>

Holdings of more than 20%

The company holds more than 20% of the share capital of the following companies:

Company	Country of registration or incorporation	Class	Shares held %
Subsidiary undertakings			
Dee Valley Water plc	England and Wales	Ordinary	100

The aggregate amount of capital and reserves and the results of these undertakings for the last relevant financial year were as follows:

	Capital and reserves 2004 £	Profit for the year 2004 £
Dee Valley Water plc	<u>6,057,679</u>	<u>2,579,551</u>

The directors are of the opinion that the value of the assets of the Company consisting of shares in the subsidiary undertaking is not less than the amount at which they are included in the Company's balance sheet.

DEE VALLEY WATER (HOLDINGS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2004**

6 Debtors	2004	2003
	£	£
Amounts owed by subsidiary undertakings	1,366,490	1,297,008
Called up share capital not paid	1	1
	<u>1,366,491</u>	<u>1,297,009</u>
7 Creditors: amounts falling due within one year	2004	2003
	£	£
Proposed dividend	1,366,490	1,297,008
	<u>1,366,490</u>	<u>1,297,008</u>
8 Share capital	2004	2003
	£	£
Authorised		
100 Ordinary of £ 1 each	100	100
	<u>100</u>	<u>100</u>
Allotted, called up and fully paid		
100 Ordinary of £ 1 each	100	100
	<u>100</u>	<u>100</u>
9 Statement of movements on reserves	Share premium account	Profit and loss account
	£	£
Balance at 1 April 2003	45,999,901	-
Balance at 31 March 2004	<u>45,999,901</u>	<u>-</u>

DEE VALLEY WATER (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 MARCH 2004

10 Reconciliation of movements in shareholders' funds	2004 £	2003 £
Profit for the financial year	2,038,154	1,945,511
Dividends	(2,038,154)	(1,945,511)
	<hr/>	<hr/>
	-	-
Proceeds from issue of shares	-	46,000,001
	<hr/>	<hr/>
Net (depletion in)/addition to shareholders' funds	-	46,000,001
Opening shareholders' funds	46,000,001	-
	<hr/>	<hr/>
Closing shareholders' funds	46,000,001	46,000,001
	<hr/>	<hr/>

11 Contingent liabilities

The company has given security by way of a first fixed and floating charge over the company's assets in respect of an index-linked loan raised by its subsidiary undertaking, Dee Valley Water plc. In the event of default the interest and capital are guaranteed by Financial Security Assurance Limited.

At 31 March 2004, the loan outstanding was £36,594,932.

12 Employees

Number of employees

There were no employees during the year apart from the directors.

13 Control

The immediate parent company is Chester Water plc, a company registered in England and Wales.

The Directors regard Dee Valley Group plc, a company registered in England and Wales, as being the Company's ultimate holding company.

Dee Valley Group plc prepares group financial statements and copies can be obtained from The Company Secretary, Dee Valley Group plc, Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH.

14 Related party transactions

The company has taken advantage of the exemption in Financial Reporting Standard Number 8 from the requirement to disclose transactions with group companies on the grounds that consolidated financial statements are prepared by the ultimate parent company and are publicly available.