grainger trust plc

>
Annual Report and
Accounts 2003

Continued growth and
development

This year, the growth of our business combined with the skill base of our employees has given us positive differentiation in the marketplace.














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Tenanted Residential

Our core business lies in the tenanted residential market and, in particular, in the regulated and life tenancy sectors. As owners/managers of over 12,000 tenanted properties, we are the UK's largest quoted residential landlord.

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£1.2bn
Property valuation

£63.3m
Operating contribution*
Grainger Trust plus 50% share of Bromley Joint Venture

12,030
Number of properties

82%
Proportion of group operating contribution

*Profit on ordinary activities before interest and taxation
















Development and Trading

The Development and Trading Division focuses on high return, cash-generative projects. This includes the identification and purchase of land and investment property for residential and mixed-use development.

£130m
Property valuation

£13.6m
Operating contribution*

57
Number of properties/ development sites

18%
Proportion of group operating contribution

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Financial highlights 2003

£21.94
Net asset value per share*
2002: £17.24
+27%

118.5p
Earnings per share
2002: 95.3p**
+24%

£48.5m
Profit before tax
2002: £44.9m**
+8%

16.31p
Dividends per share
2002: 14.18p
+15%

*After adjusting for the market value of trading properties and investments
**Excluding exceptional item

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Highlights of the year

- Acquisition of outstanding share of the Bromley Joint Venture has doubled our property asset base to £1.3bn.
- With the acquisition we have confirmed our position as the largest quoted investor in residential property in the UK.
- Significant increase in exposure to life tenancies now totalling 2,300 units.
- Development and Trading Division continues to make progress with our appointment as preferred developer for a major mixed-use scheme and an increased contribution from our house building operation.

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Grainger Trust plc 2003

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During 2003, Grainger Trust more than doubled the size of its asset base by completing an acquisition that began in 2001. It has enabled us to extend our specialist capabilities in managing a large-scale tenanted residential portfolio and opened up opportunities to develop our life tenancy business. In parallel, we have continued to make progress in our development and trading activities.

£1.3bn
Total value of property assets
2002: £0.5bn

Specialist
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Trusted
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Capable
page 14

Developing
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Chairman's statement

We will continue to develop our key themes; focusing on tenanted residential activities, particularly the regulated sector but with the new challenge of developing the life tenancy business, applying our property and asset management skills to produce additional returns for the group and maintaining the momentum in our Development and Trading Division.

Robert Dickinson
Chairman

Profit before tax and exceptional items has increased by 8% to £48.5m (2002: pre exceptional item £44.9m). Grainger's own profit before tax and exceptional items rose 20% to £37.7m from £31.4m, driven by a rise in profits from trading sales in our Tenanted Residential Division. We did not acquire the outstanding interest in Bromley until our year end and so have only included a 50% share of its results. As expected Bromley's pre tax profits were lower at £10.8m from £13.5m last year because of the very significant £330m asset disposal programme in 2002. The post tax contribution has, however, remained relatively constant because the disposal programme produced a disproportionately high tax charge. The increase in group post tax profitability has produced a rise of 24% in earnings per share before exceptional items to 118.5p from 95.3p. Statutory earnings per share increased by 40% to 118.5p from 84.6p.

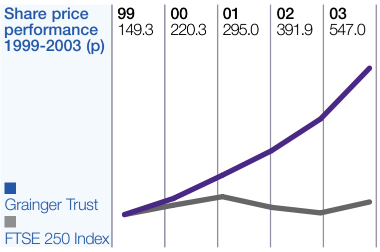
Net asset value per share ('NAV') after adjusting for the market value of our trading properties and investments has risen by 27% to £21.94 from £17.24. NNNAV, which takes account of all deferred tax liabilities and adjustments for the market value of our long-term debt and financial instruments, has advanced by 16% to £13.91 from £12.03. Net asset value on a statutory balance sheet basis is £6.01 (2002: £4.89).

For the first time we are disclosing an alternative measure of NNNAV to take into account the potential value of the reversionary surplus in our regulated and life tenancy portfolios. This is the difference between the vacant possession value of our properties and the investment or market value, and currently stands at £455m. We have calculated the anticipated timing of the realisation of that surplus, discounted it back to present value and then deducted tax. This produces a discounted post tax reversionary surplus amounting to £111.2m or £4.49 per share. When added to NNNAV we obtain a 'Grainger NAV' of £18.40 per share. Full details of the calculation are given in the operating and financial review.

Your directors are recommending a final dividend of 12.80p per share (2002: 11.13p), payable on 5 March 2004 to shareholders on the register at close of business on 13 February 2004. This together with the interim dividend of 3.51p per share (2002: 3.05p) amounts to a total of 16.31p per share (2002: 14.18p), an increase of 15% for the fifth consecutive year.

During the year we successfully refinanced our Bromley Joint Venture, comprising the BPT portfolio, lowering borrowing costs and enabling a dividend of £52.0m to be paid to each of the Joint Venture partners. BPT was further rationalised during the year and now comprises a portfolio principally of core regulated assets. Towards the year end we acquired Deutsche Bank's interest, to take full control of the business. This is the major factor in the doubling of the group's asset base (market value at 30 September 2003 £1,388m, 2002: £691m) and has been achieved without recourse to shareholder funding.

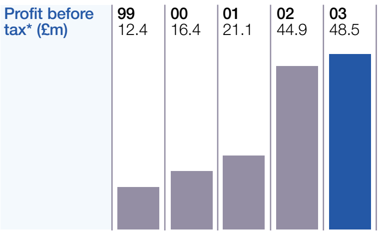
Our tenanted residential business has prospered during the year and we continued to buy additional stock. In the year Grainger purchased a total of 1,736 units for £112.2m, and at the year end our portfolio, including the BPT assets, stood at 12,030 units with a market value of £1,164m and vacant possession value of £1,648m. These acquisitions included 918 life tenancy units bought from NPI for £40.5m, taking our total life tenancy portfolio to 2,291 units with a market value of £134.3m.

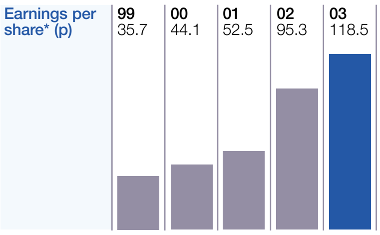


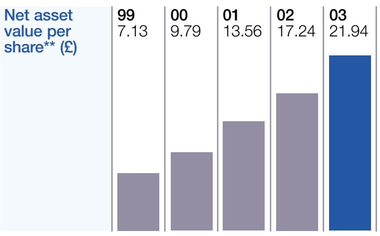
Performance of our share price compared to the FTSE Mid 250 companies.

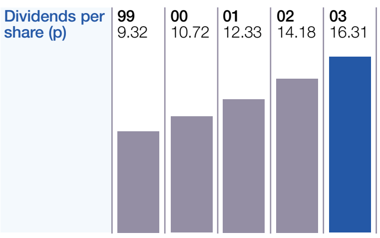
Activity profile
The Pimlico development is due for completion in 2004.

Activity profile
Following the acquisition of the balance of the Bromley Joint Venture, our staff have been actively involved in the integration of the two companies.









*Excluding exceptional items
**After adjusting for the market value of trading properties and investments

Our development and trading business has generated operating contributions of £13.6m and we have several exciting opportunities in the pipeline. In particular, we announced in June 2003 that we had been selected by Islington Council to develop two key mixed-use sites in the Borough.

The acquisition of Bromley not only brings us complete ownership of a high quality portfolio of residential assets but also provides us with a core of experienced and efficient staff. This, combined with our longstanding network of external managing agents, enables us to achieve high quality national coverage, able to supply both asset and property management services.

John Ward will be leaving the board at the annual general meeting. John was appointed as a non-executive director on 24 February 1994 and has been chairman of the audit committee since 18 June 2002. He brought a high level of general commercial and detailed banking knowledge to the group. We thank him for his very significant contribution.

We are pleased with the progress made on the business's objectives in the year. In particular, the acquisition of Bromley provides us with both the asset base and core of skilled, experienced staff that enables us to deliver effective residential asset and property management services on a national basis, not only for our own activities, but also to third parties.

We will continue to develop our key themes; focusing on tenanted residential activities, particularly the regulated sector but with the new challenge of developing the life tenancy business, applying our property and asset management skills to produce additional returns for the group and maintaining the momentum in our Development and Trading Division.

The future looks both exciting and rewarding.

Robert Dickinson
Chairman
16 January 2004

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Chief executive's statement

The major event of the year has been the acquisition of Bromley. This confirms our position as the largest quoted residential investor in the UK.

+26%

Average sale value
Sales of Grainger's properties on vacant possession have achieved an average amount of £110,000, an increase of 26% in the year 2002-03.

Rupert Dickinson
Chief executive

An effective management structure
The mix of skills within our management teams enables decisions to be acted upon quickly and efficiently throughout the business. Pictured is our London based management team.

Activity profile
Major projects within our Development and Trading Division included the profitable sales of Townsend House in Victoria and further residential land sales at Kennel Farm, near Basingstoke.

We started the year with four key objectives:

- to maximise the benefits from Bromley, our Joint Venture company
- to continue to focus on our core tenanted residential business and, in particular, to develop our life tenancy activities
- to progress our development and trading business, realising profits where appropriate and creating effective relationships with partners
- to develop our asset and property management capabilities so that we can offer a high quality, national service

We are delighted to have made significant progress in all of these areas, whilst delivering record profitability and net asset value.

Our operating divisions have performed well this year with both Tenanted Residential and Development and Trading delivering improved contributions.

Once again trading profits on residential sales have been very strong. The housing market has remained robust throughout the year, particularly for our core properties. Typically these are slightly below the average UK house price value and may require some refurbishment by the purchaser. In London, where we have approximately 43% of our tenanted residential portfolio by value, we noticed some weakening of the market in the early part of the year, particularly at the higher end, but it has strengthened recently. In the regions we have seen consistent growth. Overall Grainger's properties have achieved an average vacant possession sale value of £110,000, an increase of 26% from 2002.

We have continued to strengthen our position in the life tenancy market. We see this sector as being an increasingly important component of the Grainger business in the future, providing excellent reversionary opportunities and good synergies with the existing core regulated activities. Given the appetite shown by home owners to realise some or all of the equity in their properties, we believe this market has potential for significant growth.

The Development and Trading Division continues to make a significant contribution, with good profits being made on sales of residential land at Kennel Farm and Townsend House in Victoria. Since the year end we have sold a further 10.9 acres for £12m at Kennel Farm completing the major residential land sales on that site.

Future revenue is expected to arise from overage payments, the development of the B1 site and from the sale of some minor residential areas. Over the last five years, total revenues from Kennel Farm have amounted to £62m.

Our key strengths lie in our knowledge and experience of all sectors of the residential market, including mixed-use developments, and our ability to trade in those sectors. We will therefore concentrate on residential or mixed-use opportunities or on projects which have a residential bias. We are moving away from pure commercial property investment, although we shall continue to be involved in commercial property where we perceive residential opportunities.

Disposals from the commercial portfolio will reduce gearing and free up resources for our core businesses. Since the year end we have exchanged contracts on the sale of over £20m of commercial property. Over the next year we will continue to purchase regulated assets and to maximise the returns that we can obtain by selling on vacancy. We will grow our life tenancy portfolio and look for structures enabling us to do this without putting undue strain on gearing.

The major event of the year, however, has been the acquisition of Bromley. This confirms our position as the largest quoted residential investor in the UK and enables a move from a Joint Venture business plan focused on cash generation to a platform from which we can take a long-term view.

Following the acquisition we are restructuring the property management division which will strengthen our ability to provide high quality asset and property management services nationally. We believe that this ability will be of paramount importance in raising equity funding should a REIT (Real Estate Investment Trust) structure for tax transparent investment vehicles be introduced in the UK.

Grainger has a valuable pool of talented and committed staff – with the enlarged asset base now available to them we are confident of our ability to continue to deliver excellent returns for our shareholders.

Rupert Dickinson
Chief executive
16 January 2004

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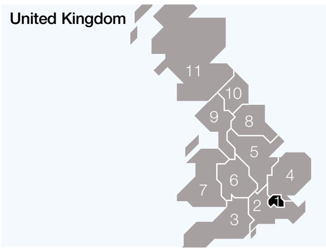
Operating and financial review

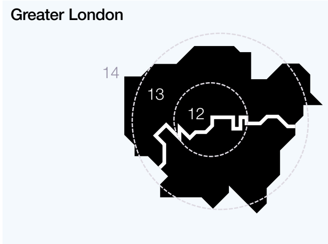
Another successful year with record levels being achieved in our key performance indicators – profit before tax, earnings per share and net asset value.

Operational management
Our North East based management team.

Andrew Cunningham
Deputy chief executive and finance director

Regional distribution of residential portfolio by capital value:





Geographical region		value
1	Greater London	43%
2	South East	19%
3	South West	6%
4	East	7%
5	East Midlands	3%
6	West Midlands	10%
7	Wales	0%
8	Yorkshire	3%
9	North West	7%
10	North East	1%
11	Scotland	1%

Geographical region		value
12	Central London	11%
13	Inner London	17%
14	Outer London	15%

Performance

Tenanted Residential

During the year 655 properties were sold for a gross consideration of £64.0m (2002: 785 for £51.0m) and trading profits rose by 25% to £29.2m from £23.3m. Gross rents fell slightly by 1% to £16.6m from £16.8m, reflecting the higher proportion of life tenancy properties, which are non rent producing. This was more than compensated for by savings in property expenses of £0.4m.

Tenanted Residential portfolio

	No. of residential properties	Vacant possession value £m	% of Vacant possession	Investment value £m	Current gross rent £m	Estimated market rent £m
Regulated	8,212	1,162	72	843	31	37
Assured tenancies	1,087	134	85	114	6	6
Vacant properties	440	59	86	51	–	–
Life tenancies	2,291	263	51	134	–	–
Other interests	–	30	73	22	1	1
Total 30 Sept 2003	**12,030**	**1,648**	**71**	**1,164**	**38**	**44**
Total 30 Sept 2002	4,928	524	74	394	17	21

The increase in portfolio size comes from the Bromley acquisition and from our life tenancy acquisitions – these now represent 19% by unit number of properties owned (2002: 4%).

Assuming sale on vacancy, the reversion on our tenanted residential portfolio (the difference between the vacant possession and investment values) now amounts to £484m, or £19.55 per share, before contingent tax.

The average vacant possession value of our properties at 30 September 2003 rose by 40% to £144,000 (2002: £103,000) as a result both of house price rises and of consolidating the higher average value BPT portfolio.

Bromley Joint Venture

The group acquired the balance of the Bromley Joint Venture at the end of its financial year and so the group profit and loss account includes our 50% share of the Joint Venture's results. In future years, all of Bromley's results will be consolidated with those of the Grainger group.

The cash consideration for the acquisition was £24.3m, with up to a maximum additional amount of £10.0m payable in December 2004 if the Nationwide UK House Price Index rises by more than 10% in the two year period to August 2004. Since the year end we have also purchased Deutsche Bank's outstanding loan stock and accrued interest amounting to £15.7m.

The rationalisation of the portfolio continued with the sale of 1,519 units raising gross revenues of £150.9m. The Joint Venture contributed trading profits of £18.9m (2002: £26.6m) and net rents of £8.3m (2002: £13.6m). These decreases were anticipated because of the very significant disposal programme in 2002. Our share of administrative expenses fell from £7.3m to £3.9m, reflecting the controlled scaling down of the business in line with the portfolio rationalisation and cost saving measures put in place.

Development and Trading

Including profits on sales of fixed assets and writebacks of valuation provisions this division contributed £14.6m (2002: £13.6m).

We sold a total of 16.4 acres of development land at Kennel Farm and adjacent sites, generating revenue of £15.5m and profits of £8.5m. Other major revenue generators in the year have been Townsend House (19,000 sq.ft. office block in Victoria sold for £8.2m, profit £2.7m) and Grainger Homes, our housebuilding division, which sold 68 units for a total of £6.0m, generating profit of £0.8m. Contracts have been exchanged on 62 flats out of the total of 79 at the Pimlico development site. We anticipate these to complete early in 2004 at a total sales value in excess of £30m.

Administrative expenses

These have increased by 7% from £4.4m to £4.7m but at less than 4% of turnover are lower proportionally than last year. The movement has arisen because of inflation and an increase in staff numbers.

£1,388m

Total market value of assets
Our asset base has more than doubled by the acquisition of Bromley.

Activity profile
Grainger Homes' residential development in Seahouses will provide 77 units, all of which are now exchanged or under offer.

Activity profile
Staff development and training are essential aspects of our business.

Operating and financial review
continued

Net interest payable
Net interest payable, including our share of the Joint Venture charge and after having taken account of last year's exceptional charge of £3.8m, has decreased to £28.4m from £37.6m. The group has carried a lower average level of debt in the year, the cash generated by the Bromley rationalisation being a major factor, and our average rate of interest payable has been lower at 5.6% (2002: 6.5%). The average cost of the debt in Bromley fell to 6.2% from 7.6%. Group interest cost is covered 2.7 times by profit before exceptional items, interest and taxation (2002: 2.2 times).

Taxation
As noted in previous years our annual tax charge is significantly affected by FRS19, the accounting standard that prevents the provision of deferred tax on revaluation gains when companies are acquired. This serves to increase our effective tax rate, which this year stands at 39.4% (2002: 49.2%); the equivalent figure for Grainger alone is 31.5% (2002: 34.2%). Major items affecting the tax charge, most of which relate to Bromley, are:

	£m
Group profit before tax	48.5
Tax at 30%	14.5
Adjusted for:	
Additional tax on the difference between book value and tax value of trading properties sales	4.4
Negative goodwill released (not taxable)	(1.5)
Tax on capital gains	1.7
Actual tax charge	19.1

Earnings per share and dividends
Earnings per share before exceptional items have increased by 24% from 95.3p to 118.5p and we have increased our dividends by 15%. Dividends are covered 7.3 times by profit after taxation and minority interest (2002: 6.7 times on a like for like basis).

Financial position
General
The group balance sheet has changed significantly since 2002 as the acquisition of the Bromley Joint Venture has resulted in its assets and liabilities being consolidated for the first time.

Most of our properties are held as trading stock and are therefore shown in the balance sheet at cost. This does not reflect the true worth of Grainger's assets and we set out below a statement of our net assets with the properties restated to market value.

Proforma net asset statement

	30 Sept 2003 £m	30 Sept 2002 £m
Properties at market value:		
Tenanted Residential	**1,163.9**	393.6
Development and Trading	**130.0**	132.1
	1,293.9	525.7
Investments	**10.9**	153.9
Other assets	**1.0**	0.7
Cash	**81.7**	10.5
Total assets	**1,387.5**	690.8
Borrowings	**(761.2)**	(233.7)
Net current liabilities	**(68.9)**	(26.7)
Deferred tax/other liabilities	**(14.0)**	(3.7)
Total liabilities	**(844.1)**	(264.1)
Net assets	**543.4**	426.7

Fixed assets
Fixed assets in the statutory balance sheet have increased from £21.7m to £109.1m, the major movements being the effect of the Bromley acquisition, £84.7m, and surpluses on revaluation of £3.1m. Of the year end property value of £108.1m, £84.4m relates to tenanted residential properties and £23.7m to commercial investment properties.

Figure 1.
Analysis of our NAV and NNNAV

	Statutory balance sheet £m	Market value adjustments £m	Market value balance sheet £m	FRS13 £m	Contingent tax £m	NNNAV balance sheet £m
Properties	996.4	297.5	1,293.9	–	–	1,293.9
Investments/other assets	10.2	1.7	11.9	–	–	11.9
Negative goodwill	(97.2)	97.2	–	–	–	–
Cash	81.7	–	81.7	–	–	81.7
Total assets	991.1	396.4	1,387.5	–	–	1,387.5
Borrowings	(761.2)	–	(761.2)	(11.0)	–	(772.2)
Net current liabilities	(68.1)	(0.8)	(68.9)	–	–	(68.9)
Provisions/contingent tax	(12.8)	–	(12.8)	3.3	(191.3)	(200.8)
Minority interest	(0.1)	(1.1)	(1.2)	–	–	(1.2)
Total liabilities	(842.2)	(1.9)	(844.1)	(7.7)	(191.3)	(1,043.1)
Net assets	148.9	394.5	543.4	(7.7)	(191.3)	344.4
2003 Net assets per share £	**6.01**	**15.93**	**21.94**	**(0.31)**	**(7.72)**	**13.91**
2002 Net assets per share £	4.89	12.35	17.24	(0.48)	(4.73)	12.03

Investments and intangible assets

Investment balances have decreased significantly because of the reclassification of the investment in the Bromley Joint Venture on consolidation. Other investments, being shares held in Grainger Trust plc for employee benefit purposes and our investment in Schroders ResPUT, have increased in market value by £1.1m to £10.9m. Book value of these investments is £9.2m (2002: £8.9m).

The negative intangible asset of £97.2m shown in the statutory balance sheet principally reflects negative goodwill arising on the acquisition of Bromley. It will be released to the profit and loss account in line with sales from the Bromley portfolio.

Trading properties

Our trading properties can be analysed as follows:

	Statutory balance sheet 30 Sept 2003 £m	30 Sept 2002 £m	Market value balance sheet 30 Sept 2003 £m	30 Sept 2002 £m
Tenanted Residential	**807.2**	224.4	**1,079.5**	393.6
Development and Trading	**81.1**	80.7	**106.3**	111.1
Total	**888.3**	305.1	**1,185.8**	504.7

The cost of our tenanted residential stock as shown in our statutory balance sheet has increased from £224.4m to £807.2m. We acquired £112.2m of properties in the year, had sales or write offs of £33.1m, improvement costs of £3.2m and the balance of the movement, £500.5m, came from the consolidation of the Bromley assets.

The market value figures also show a significant increase from £393.6m to £1,079.5m, of which £572.9m arises from the Bromley consolidation. The remaining movement is due to valuation surpluses of £48.3m and the net effect of sales, acquisitions and transfers of £64.7m. The overall valuation increase in this portfolio over the course of the year amounts to 9.4%. The total market value of all our tenanted residential properties, including those classified as fixed assets, is £1,163.9m (2002: £393.6m).

The overall value of the group's development and trading assets remained relatively constant over the year. The decrease in market value from £111.1m to £106.3m is the result of the net effect of sales at Kennel Farm and Townsend House and expenditure, mostly at Grainger Homes and our development in Slough.

Other assets and liabilities

Other net liabilities, excluding current instalments due on borrowings and cash balances, have increased from £26.7m to £68.9m. This is largely due to the loan stock and accrued interest due to Deutsche Bank at the year end of £15.7m and increases in sundry creditors and taxation payable as a result of consolidating our Joint Venture interest.

Net assets

Net assets at market value have increased from £426.7m to £543.4m. The major movements are:

	Reflected in the accounts £m	Not reflected in the accounts £m	Total £m
Net assets at 1 October 2002	121.1	305.6	426.7
Retained profits	25.3	–	25.3
Revaluation surpluses:			
Grainger Tenanted Residential	–	30.7	30.7
Development and Trading	6.2	(5.3)	0.9
Investments	–	0.8	0.8
Negative goodwill movements	–	(4.7)	(4.7)
Effect of acquisition of Bromley	(2.9)	69.3	66.4
Other share capital and reserve movements	(0.8)	(1.9)	(2.7)
Total for the year	27.8	88.9	116.7
Net assets at 30 September 2003	148.9	394.5	543.4
Net assets per share £	6.01	15.93	21.94

Net assets per share have increased by £4.70 from £17.24 to £21.94, the increase coming from retained earnings less negative goodwill of 83p, revaluation surpluses of £1.31, a one-off increase coming from the acquisition of Bromley of £2.68 and a decrease from sundry movements of 12p.

To obtain the figure of NNNAV per share, adjustments to the market value of long-term debt and derivatives and for contingent tax are made. These amount to 31p and £7.72 per share respectively (2002: 48p and £4.73).

The analysis of our NAV and NNNAV is set out in figure 1 above.

£118m

Turnover
Turnover increased 14% to £118.0m from £103.5m.

Activity profile
The increase in the size of the Tenanted Residential portfolio is a result of our Bromley and life tenancy acquisitions – these now represent 19% by unit number of properties owned (2002: 4%).

+25%

Tenanted Residential trading profits
Trading profits rose by 25% from £23.3m to £29.2m.

Operating and financial review
continued

We have also calculated a 'Grainger NAV'. This reflects our estimate of the present value of the reversionary surplus in our regulated and life tenancy portfolios, being the difference between vacant possession value and market value after tax. Using our knowledge of the age profile of these tenants we have estimated the expected average timing of future vacancies (based on standard current mortality rates, which may change in the future) and the subsequent realisation of the reversionary surpluses. We have calculated the present value of those surpluses net of tax using 8.9% (our weighted average cost of capital plus a risk premium of three percentage points) as a discount rate. This adjustment increases NNNAV by £4.49 per share to £18.40 per share (2002: £14.43). Our calculation is based upon current house prices, i.e. no future house price movement is assumed.

Cash and debt
Cash balances at the year end amounted to £81.7m (2002: £10.5m), of which £53.8m (2002: £6.6m) is held by lenders awaiting substitution of alternative security, represents deposits received or acts as security for cash backed loan notes.

Group borrowings have increased from £233.7m to £761.2m, as the Bromley debt is now consolidated into the Grainger balance sheet. This debt, amounting to £493.7m, remains non-recourse to the rest of the Grainger group. New borrowings in the year amounted to £64.0m (2002: £47.1m); these were used to finance the acquisition of the Joint Venture and the NPI life tenancy portfolio. Loan repayments were £30.2m (2002: £38.4m).

Gearing on a revalued balance sheet basis has moved to 125% from 52%.

Cash flow
The significant elements in Grainger's cash flow were:

	£m
Receipts	
Net rents and other income	13
Property sales	95
Net new loans	34
Cash acquired on acquisition of subsidiaries	75
Dividends from Joint Venture	52
	269
Payments	
Interest, tax and dividends	26
Acquisition of subsidiaries	26
Property acquisitions	139
Working capital movements/other costs	7
	198
Increase in cash in the year	71

The Grainger business is by its nature strongly cash generative. Net income from rents and property sales amounted to £108m (2002: £96m).

Activity profile
During the year we completed the refurbishment and sale of Evelyn Gardens, London SW7.

Capital management

The group finances its operations through a combination of shareholders' funds and borrowings and seeks to optimise its weighted average cost of capital ('WACC'). The estimated WACC of the group at 30 September 2003 was 5.89% (2002: 6.34%).

The main source of borrowings are banks and building societies but the group also has fixed rate institutional debt of £19.9m (2002: £20.5m). The group protects its underlying profitability from treasury risk by managing both its level and cost of debt.

The group does not take trading positions in financial instruments but holds them to minimise the risk of exposure to fluctuating interest rates. The majority of our debt is maintained at fixed rates of interest or is subject to protective caps or collars. At 30 September 2003, £611.7m (80%) of the group debt was either fixed to termination, or for over one year, or was protected by financial instruments (2002: £185.5m, 79%).

A combination of interest rate swaps and financial caps is used to provide a degree of certainty over future interest rate costs whilst enabling the group to take advantage of any favourable short term rates. At 30 September 2003 the group held £298.4m of swap contracts at an average rate of 5.4% maturing between June 2006 and September 2013 (2002: £87.5m at an average rate of 5.3%). There were also financial caps in place of £235.1m at an average pre margin rate of 6.1%, expiring between February 2004 and December 2009 (2002: £102.5m at an average rate of 6.5%). A summary of our borrowings is:

	Principal £m	Interest payable %	Repayable
Permanently fixed	78.2	8.1	2004-32
Hedged by swap contracts	298.4	6.6	2006-12
Hedged by financial caps	235.1	5.0	2004-09
Variable/fixed under one year	149.5	4.7	2004-22
Total debt	761.2	5.9	
Less: cash	(81.7)		
Net debt	679.5		

The notional effect of the fair value adjustment of marking the group's fixed rate debt and derivatives to current market rates ('FRS13 adjustments') would be to produce an additional 'liability' after tax of £7.7m or 31p per share (2002: 48p). This adjustment represents approximately 1% of group gross borrowings at 30 September 2003 and will not be recognised in the accounts until the position matures or is terminated.

The group also maintains a range of borrowing maturities to enable it to balance continuity of funding with flexibility. At 30 September 2003 the average duration of the group's debt was 6.0 years (2002: 6.9 years).

Since the year end we have announced the repayment of the outstanding £2.5m balance of our 2024 quoted debenture stock at an early redemption cost of £1.8m. The administrative burden associated with this relatively small level of debt exceeded the benefit we obtained from it.

Andrew Cunningham

Andrew Cunningham
Deputy chief executive
and finance director
16 January 2004

>

Local market knowledge – nationwide

Trading profit in our core business is derived from the buying and selling of residential property.

During the year, Grainger bought 1,736 properties with a value of over £112m and sold 655 with a total value of £64m; in addition BPT sold 1,519 properties for £151m. This volume of transactions within the residential sector demands a high degree of commercial, legal and administrative capability in addition to an in-depth knowledge of local market forces and trends.

Our highly experienced acquisition teams have developed a network of contacts who provide a steady stream of opportunities, from individual properties to sizeable portfolios. As property specialists in their own right, the acquisition teams are able to assess the potential of each opportunity, in the light of local and national market criteria.

Similarly, our sales teams are highly skilled in assessing values and making measured judgements as to the level of refurbishment that may be required to optimise the return on our investment. We believe that through these processes we are able to achieve out-performance.

Specialist

On our way to becoming the largest quoted residential investor in the UK, we have acquired an unrivalled specialist knowledge of the tenanted residential sector.

Our acquisition teams work alongside agency contacts to identify investment opportunities.

All refurbishments are carried out to the highest quality based on a clear understanding of current market demands.

£112m

In 2003, we purchased tenanted residential properties with a total value of £112m compared with £85.8m in 2002.

>
Professional asset management skills

In 2003, the size of our tenanted residential portfolio rose from 4,928 properties to 12,030, mainly as a result of full acquisition of BPT via the Bromley Joint Venture. This high level of growth has been challenging, but the experience and knowledge within the management and administrative teams at Grainger Trust and the former BPT have ensured that the integration and rationalisation process is being achieved efficiently and effectively.

Our nationwide business now operates through six offices, each of which is responsible for understanding the dynamics of its local market and maintaining firm control of management issues. Good communication between the senior management team and the regional network ensures rapid feedback from local markets.

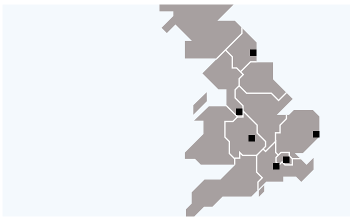
We have continued to invest in new IT systems to enhance management control of the portfolio and provide quick access to the most relevant information.

Our proven asset management capability is now being successfully deployed on behalf of Schroders Residential Property Unit Trust, for whom we manage over 1,000 properties, most of which have recently been constructed and are let on assured shorthold tenancies.

Capable

The management of a portfolio of over 12,000 tenanted residential properties with an investment value of £1.2bn demands a co-ordinated and consistent professional management approach.

Our property managers undertake regular inspections of properties and provide a proactive and entrepreneurial approach.



1,000+

We now manage over 1,000 properties for Schroders Residential Property Unit Trust.

We continue to invest in developing strong management tools such as a ‘best practice’ intranet guide.

Our residential portfolio is managed by a network of six offices, giving us a nationwide presence:
Altrincham – Cheshire
Epsom – Surrey
Harborne – Birmingham
Knightsbridge – London
Martlesham – Suffolk
Newcastle upon Tyne – Tyne & Wear

>

A growing reputation in equity release

As pension income becomes less assured, many homeowners are looking to release capital tied up in their homes in order to fund a better lifestyle in retirement.

Through our Bridgewater brand, we offer homeowners the opportunity to receive a cash lump sum and rent free occupation for life in return for ownership or part-ownership of the customer's home. On vacancy, the property is sold and a trading profit is realised.

Bridgewater is one of the main players in this sector and is a long-standing member of Safe Home Income Plans (SHIP), a body set up to promote fair equity release plans and protect the interests of planholders by ensuring adherence to a code of practice.

With the acquisition of BPT in 2003, our portfolio now comprises almost 2,300 homes, valued at £134m, and we foresee further significant growth in this sector.

Trusted

Our experience, reputation and scale in the property sector have enabled us to build an opportunity for growth in home reversion plans.

£134m

Our life tenancy portfolio has increased in size from £10m in 2002 to £134m in 2003.

Our Bridgewater brand offers customers the opportunity to sell their property ownership in return for a rent free occupation for the rest of their life.

>

Creating value through regeneration and partnerships

Covering land development, house building and mixed-use development, our development and trading activities are becoming increasingly focused on the residential sector.

We can now offer a total development solution, from the initial promotion of greenfield/brownfield sites by our land development team to the physical construction of buildings by Grainger Homes, our housebuilding subsidiary.

We are actively seeking investment opportunities where we can promote higher density or mixed-use development through the planning process.

Affordable housing is becoming an increasingly important consideration in relation to regeneration proposals, and we have developed closer links with affordable housing providers.

We have established a number of joint venture agreements with both individuals and corporates aimed at generating revenues through development or trading. With our entrepreneurial approach, decisive management style, access to funding and experience in residential and commercial sectors, we are well placed to add significant value. We will continue to build links with key business partners.

Developing

Successful development of land or property is a collaborative exercise in which our skills and assets can generate benefits for customers, communities and shareholders.

Our reputation and straightforward approach have enabled us to establish strong joint venture relationships with key partners.

£62m

Over the last five years, total revenues from Kennel Farm (opposite) near Basingstoke, have amounted to £62m.

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Corporate Social Responsibility

Generating local interest
A Shields Gazette article featuring football legend Pele, Grainger Trust and pupils from Brinkburn Comprehensive School.

Three year objectives

1 To identify CSR issues and develop a strategic response to stakeholder information requests.

2 To formalise Human Resources systems to provide support and appropriate CSR training for all staff.

3 To structure our approach to charitable giving and community support.

4 To ensure compliance with all applicable social and environmental legislation as a minimum.

Corporate Social Responsibility – Policy

Grainger Trust plc is a property trading and development business. We manage residential and commercial space as well as undertaking commercial and residential developments. We understand that our activities can have an impact on the surrounding environment through the consumption of resources and generation of waste and pollution. We also have an impact on society, local communities and our employees. Grainger Trust plc seeks to address these impacts by:

– identifying areas where we have an impact on the environment and society, either positive or negative, and ensuring that these impacts are managed effectively;
– integrating environmental and social issues into business strategies and developing objectives and targets to continually improve our environmental and social performance;
– ensuring that we treat our tenants in a fair and responsible manner;
– encouraging and supporting our employees in developing their careers within Grainger Trust and continuing to share our success with them;
– complying with relevant environmental and social legislation and standards of relevance to the industry sectors in which we operate;
– preventing pollution where feasible and minimising the use of resources and the generation of waste where practical;
– working with all stakeholders who have an interest in our business to improve our CSR performance;
– reporting on our CSR strategy and objectives with the aim of being transparent and providing relevant factual information to our stakeholders.

These social and environmental goals will be implemented through the formation and achievement of objectives and targets in the Grainger Trust Corporate Social Responsibility Strategy.

This policy is fully endorsed and supported by:

Rupert Dickinson
Chief executive
Grainger Trust plc

Highlights

Human Resources – providing employee support
We have an enlightened attitude towards our employees and a proactive employee reward scheme that encourages participation and provides staff with a clear path to reward and recognition for success. Training schemes are being introduced for all staff to support their continuing professional development. This has led to excellent retention rates. Staff are also asked to invest in the future of the company through SIPS and Save as You Earn Schemes. These schemes ensure that staff are involved and rewarded for the success of Grainger Trust. Employees are encouraged to put forward ideas and initiatives to support local community activities and charitable enterprises. We have a policy of matching any money raised by staff for local charities and allowing staff to promote these activities in the workplace.

BALTIC exhibition – sponsoring the Arts
By our stated objective of reinvestment in the community through the arts, we have recently part-sponsored Antony Gormley's Domain Field at the BALTIC Centre for Contemporary Art in Newcastle upon Tyne.

From February to May 2003, BALTIC's largest art space became the site of the creation of a new and ambitious work by the internationally recognised artist.

As part of the exhibition, volunteers aged from two to eighty-five years old from Gateshead and Newcastle were moulded in plaster by teams of specially trained staff. These moulds were then used to construct the individual 'Domain' sculptures by a process of welding steel elements together inside each mould. An individual Domain is constructed of stainless steel bars of various lengths, with the finished installation including a collection of more than 250 sculptures.

We also have artists in residence at two of our housing developments in the region.

Widdrington – regenerating a community
In the late 1990s we took the decision to increase the investment of our Land Development Division in the North East. A significant addition to this investment and our North East landholding in 2001 was the purchase of 600 acres at Widdrington and Hadston. This made us the first major private investor in the area for many years. At Widdrington, we were encouraged by the local community forum

Antony Gormley and Grainger Trust
The Domain Field exhibition at the BALTIC Centre in Newcastle upon Tyne, which was partly sponsored by Grainger Trust.

Creating a community
Doctor's surgery and playground site at Widdrington – part of a local community investment project in association with East Northumberland Regeneration Initiative.

Eco-homes
A sustainable house development built on regenerated land incorporating recycled materials.

to become involved in several projects promoted by the East Northumberland Regeneration Initiative. Liaison with the local community and public sector led to the delivery of a new Primary Health Care Centre and refurbished shopping centre. Following community concerns about its future on the edge of the proposed housing development we also bought the semi-natural ancient woodland known as Grange Wood. The new development at Widdrington will revitalise local services and be consistent with the Regional Planning Guidance objective of regenerating the coalfield area. Following our success at Widdrington, we were chosen by Castle Morpeth Borough Council to re-develop the Park View Estate, Hadston.

Eco-homes – sustainable developments

As part of the Northumberland Regeneration Project we agreed to purchase an area of land designated for 20 Scandinavian timberclad homes which are built to include a number of sustainable design features. We are the co-ordinator of this self-build project. Members of the local community have priority and can opt to complete the projects themselves under our supervision or pay a fee to the house production company to have them erected. As a result of this experience in sustainable building and design, we have developed a Method Statement for recycling building materials. We are also considering building in a requirement to use water-recycling systems in managed housing estates.

Sponsored visit – Pele

We sponsored a recent visit to the North East by Pele, the internationally renowned Brazilian footballer. The main reason for Pele's trip was to launch a photographic exhibition at Northumbria University featuring images of him created by some of the world's most celebrated artists and photographers.

Pupils from Brinkburn Comprehensive in South Shields also met the footballer. A Brazil football shirt was donated to the school and signed by Pele, who offered words of encouragement to pupils involved in the school football teams.

External Commentary

Casella Stanger are pleased to be invited to comment on Grainger Trust's publication of their first Corporate Social Responsibility (CSR) Policy. We undertook CSR Gap Analysis in August 2003 to identify the environmental, social and community issues associated with Grainger Trust's activities, to assess current performance and to develop a CSR strategy.

The CSR Gap Analysis was carried out through analysis of existing business systems, document review and a series of interviews with key Grainger employees against best practice. Best practice guidance used for reference included the Global Reporting Initiative, Environmental Management System Standard ISO 14001 and the Business in the Community Corporate Responsibility Index.

In our opinion, some of the CSR activities undertaken by Grainger Trust are considered to be extremely innovative and forward thinking. Grainger Trust has an enlightened attitude towards human resources and an extremely proactive employee reward scheme. Staff are also encouraged to put forward ideas and initiatives to support local community activities and charitable enterprises are actively supported by Grainger Trust.

Grainger Trust has a high level of interest and enthusiasm in implementing CSR issues, particularly those related to community issues. There is however a need to formalise existing systems and develop systems where these are currently lacking to cover the full CSR agenda and to report on progress. It is anticipated that the CSR Policy and Strategy will achieve this.

We look forward to working with Grainger Trust as it develops its CSR reporting in future years.

Emma Griffiths
Principal Consultant
Casella Stanger

Ken Smith
Director, Environmental Management
Sustainability & Risk
Casella Stanger

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Board of directors










	1	2	3
4	5	6	7
8	9	10	

1. Robert Dickinson C.B.E., D.L.*
Chairman, chairman of nomination committee
Aged 69, Solicitor. Appointed a director of the company in 1961, and chairman in 1992. Chairman of Northern Investors Company PLC, chairman of University of Newcastle upon Tyne Development Trust.

2. Stephen Dickinson F.C.A.*
Deputy chairman, member of nomination committee
Aged 69, Chartered Accountant. In practice in British Virgin Islands 1963-1974. Appointed managing director of the company in 1974. Upon retiring as managing director in October 2002, became deputy chairman. British Virgin Islands representative on United Kingdom Overseas Territories Association since 1993.

3. Rupert Dickinson M.R.I.C.S.
Chief executive
Aged 44, Chartered Surveyor. Joined the company in 1992 from Richard Ellis (now C.B. Richard Ellis). Appointed a director of the company in 1994. Appointed chief executive in October 2002.

4. John Barnsley F.C.A.*
Member of audit and remuneration committees
Aged 55, Chartered Accountant. Appointed a director of the company in 2002. Non-executive director of Syltone PLC and Northern Investors Company PLC. Until December 2001 was a Senior Partner at PricewaterhouseCoopers.

5. John Ward O.B.E., D.L.*
Chairman of audit committee and member of remuneration committee
Aged 70. Appointed a director of the company in 1994. Director of Northern Investors Company PLC.

6. Robin Herbert C.B.E.*
Senior independent non-executive director, member of audit and nomination committees
Aged 69. Appointed a director of the company in 1994. Appointed senior independent non-executive director in June 2002. Chairman of Leopold Joseph Holdings PLC, Investors Capital Trust plc and F&C Income Growth Investment Trust PLC.

7. Andrew Cunningham F.C.A.
Deputy chief executive and finance director
Aged 47, Chartered Accountant. Joined Deloitte Haskins and Sells in London in 1978 and worked in their Nairobi and Bristol offices before being made a partner in Newcastle in 1989. Appointed a director of the company in December 1996. Appointed deputy chief executive in December 2002.

8. Nichola Pease B.A.*
Chairman of remuneration committee
Aged 42. Appointed a director of the company in June 2001. Chief executive of J.O. Hambro Capital Group Limited and a director of Northern Rock plc.

9. Robert R.S. Hiscox M.A., A.C.I.I.*
Member of remuneration committee
Aged 61. Appointed a director of the company in March 2002. Chairman of Hiscox plc. Deputy chairman of Lloyd's 1993 to 1995.

10. Sean Slade M.R.I.C.S.
Director of development
Aged 39, Chartered Surveyor. Joined the company in 1996 and appointed director in June 2002. He is the main board director responsible for the group's commercial and mixed-use development and trading activities. Previously at Richard Ellis (now C.B. Richard Ellis) and Hill Samuel Asset Management.

*Non-executive

Corporate governance report

Grainger Trust plc is fully committed to the principles of good corporate governance. This report sets out how the group has applied the principles set out in section 1 of the Combined Code. The Joint Venture fell outside the scope of the group's corporate governance during the year, but will now be included following the acquisition of the remaining 50% on 26 September 2003.

The board

At the year end the board comprised three executive directors and seven non-executive directors, including the chairman. The non-executive directors bring to bear a wide variety of experience and skills. Robin Herbert is the senior independent non-executive director.

The board meets four times a year and at such meetings receives a full pack of information covering current trading performance, budgets, forecasts and details of business opportunities and risks. These packs also contain those matters which require full board discussion and approval.

Procedures are in place to enable the directors to take independent external advice when necessary, at the company's expense, and to have direct access to the company secretary if required. Where necessary, appropriate training is provided to new appointees to the board. On 14 October 2002, Stephen Dickinson resigned as managing director and became non-executive deputy chairman. At the annual general meeting on 27 February 2003, Robin Oldfield resigned as a non-executive director. John Barnsley was appointed by the board as a non-executive director on the same date. Given his experience, training was not considered necessary. All directors are subject to formal re-election every three years at the annual general meeting and are appointed for one or two years under specific contracts. Directors appointed during the year are subject to formal re-election at the next annual general meeting.

Board committees

The board has established three committees: audit, nomination and remuneration. Membership of these committees is shown on the list of directors on page 22 and the remuneration committee report is set out on pages 28 to 32.

The audit committee meets four times a year, has written terms of reference and consists solely of non-executive directors. The committee monitors the effectiveness of internal controls and receives external and internal audit reports. The committee is also responsible for ensuring that the external audit function remains cost effective, independent and objective.

The nomination committee consists of two non-executive directors and one executive director. It meets to consider the need for and suitability of all potential new board members.

Shareholder relations

The company meets regularly with institutional shareholders and analysts and uses the annual general meeting to encourage communication with private investors. The chairmen of the three board committees attend the annual general meeting and are available to answer any questions. The notice of the meeting and related papers are sent to shareholders at least 20 working days before the meeting. Shareholders vote separately on each proposal and a proxy count is available after each resolution. A separate resolution to approve the remuneration committee report is proposed at the annual general meeting.

Internal control

The group's systems of internal control are the ultimate responsibility of the board of directors. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. Each year, on behalf of the board, the audit committee reviews the effectiveness of these systems, which are aimed at maintaining full and effective control over appropriate strategic, financial, operational and compliance issues. This is achieved primarily by consideration of the risks appertaining to the group and the monitoring of these risks, together with a review of the half year and annual financial statements and by discussion with the external auditors. In addition, the group has an internal audit programme, under which specific areas of its activities are reviewed and reported upon on a regular basis. The committee considers any issues or risks arising therefrom in order that appropriate action can be undertaken for their satisfactory resolution.

The group has an appropriate organisational structure which is designed to allow the board to retain full control of the business. The group produces an annual budget together with longer term projections, which are presented to and approved by the board of directors. At each meeting, the board discusses performance against the budget and, where applicable, any revisions made to the profit and loss and cash flow budgets.

The board also discusses in detail, the projected financial impact of major proposed acquisitions and disposals, including their financing. All such proposed substantial investments are considered by all directors and decisions are made either by the board of directors or, where required between board meetings, by an executive committee of directors. The board is also responsible for the discussion and approval of the group's treasury strategy, including mitigation against changes in interest rates.

Going concern

After making enquiries, including the review of future anticipated cash flows and banking covenants, the directors have a reasonable expectation that the group and company have adequate resources to continue in existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Compliance statement
With the exception of the provisions listed below, the company has, throughout the year ended 30 September 2003, been in compliance with the Code.

Code provision
A3.2, B2.2, D3.1 Independence
The board considers that all non-executive directors are able to bring independent judgement to bear on key issues. It feels that longevity of service is an important attribute in a long-term business as it provides both continuity and understanding. It also feels that material shareholdings and cross directorships do not represent a materially conflicting business relationship. Consequently, the board does not view any of longevity of service, cross directorships or material shareholdings in isolation as representing an impairment to independence.

Given this statement, the board believes that all non-executive directors with the exception of Robert Dickinson and Stephen Dickinson, are independent. Under the terms of the Code, however, only Nichola Pease is considered independent.

B1.7 to B1.10 Length of contracts
Two of the executive directors have contracts of over one year with no specific provisions for compensation for loss of office. The board feels that this is necessary to ensure commitment and long-term continuity in achieving the group's objectives, which by virtue of the group's activities are also long-term in nature. However, their original two year contracts are being reduced to one year over a period of five years from 1 October 2002.

By order of the board

Marie Glanville
Company secretary
16 January 2004

Directors' report

For the year ended 30 September 2003.

The directors present their report and the audited financial statements for the year ended 30 September 2003.

Principal activities

During the year the group has continued its activities of property trading and development.

Review of business development and prospects

Development of the group's activities and its prospects are reviewed in the chairman's statement on pages 2 and 3 and the chief executive's statement on pages 4 and 5.

Results for the year

The results of the group are set out in the consolidated profit and loss account on page 36 which shows a profit on ordinary activities after taxation for the financial year of £29.4m (2002: £20.9m).

An interim dividend of 3.51p per share (2002: 3.05p) was paid on 25 July 2003 amounting to £0.8m (2002: £0.7m) and the directors recommend the payment of a final dividend of 12.80p per share (2002: 11.13p), to be paid on 5 March 2004, amounting to £3.2m (2002: £2.8m). The profit, after dividend, of £25.3m (2002: £17.4m) will be transferred to reserves.

Directors

The directors of the company at 30 September 2003 are listed on page 22.

Directors' and other interests

The interests of the directors in the shares of the company at 30 September 2003 and 5 January 2004, with comparative figures as at 1 October 2002 (*or date of appointment, if later), are as follows:

	Ordinary shares of 25p each (thousands)					
	Beneficial			Non-beneficial		
	1 Oct* 2002	30 Sept 2003	5 Jan 2004	1 Oct* 2002	30 Sept 2003	5 Jan 2004
Robert Dickinson	233	222	202	526	494	481
Stephen Dickinson	800	780	771	594	576	541
Rupert Dickinson	135	182	249	51	46	46
Robin Herbert	50	50	50	–	–	–
Andrew Cunningham	38	73	74	–	–	–
John Ward	–	–	–	–	–	–
Nichola Pease	71	71	71	175	37	37
Robert Hiscox	–	–	–	2,650	2,500	2,500
Sean Slade	23	40	32	–	–	–
John Barnsley	1	2	2	–	–	–
	1,351	1,420	1,451	3,996	3,653	3,605

Shares held in trust of which Robert Dickinson is a trustee, included in the above beneficially owned by:

Stephen Dickinson	4	2	1	–	–	–
Rupert Dickinson	4	2	1	–	–	–
Andrew Cunningham	2	2	1	–	–	–
Sean Slade	3	2	1	–	–	–

Shares held in trust of which Robert Dickinson and Stephen Dickinson are both trustees, included in the above non-beneficial holdings:

	–	–	–	32	14	14

Details of directors' share options are given on page 32.

Save as disclosed above, as at 5 January 2004, the company is aware of the following interests amounting to 3% or more in the company's shares:

	Holding (thousands)	Holding %
Schroder Investment Management Limited*	1,965	7.94
Aberforth Partners*	1,261	5.09
Henderson Global Investors*	1,144	4.62
ISIS Asset Management*	1,021	4.12
Barclays Global Investors*	826	3.34

*Shares held by funds managed or advised by the company indicated and/or its subsidiaries. The company is not aware of any other substantial interests amounting to 3% or more.

Retirement and rotation of directors
John Ward is retiring from the board of directors at the annual general meeting being held in February 2004. John Barnsley was appointed a director on 27 February 2003, and in accordance with the Articles of Association, will offer himself for re-election at the annual general meeting. Robert Dickinson and Robin Herbert retire by rotation and, being eligible, offer themselves for re-election at the annual general meeting.

Directors' interests in significant contracts
No directors were materially interested in any contract of significance.

Insurance of directors
The group maintains insurance for Grainger Trust plc's directors in respect of their duties as directors.

Statement of directors' responsibilities
The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 30 September 2003. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and 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 of the group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The annual report and accounts will be published on the group's website. The maintenance and integrity of the group's website is the responsibility of the directors. The work carried out by the auditors does not include consideration of these matters. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Special business
Resolution 8, which will be proposed as a special resolution, supplements the directors' authority to allot shares in the company given to them by resolution 7 passed at the annual general meeting of the company held on 29 February 2000. This authority has been conferred at successive annual general meetings of the company. Section 89 of the Companies Act 1985 requires a company proposing to allot equity securities for cash to offer them first to existing shareholders in proportion to their existing shareholdings. If resolution 8 is passed, the requirement imposed by section 89 will not apply to allotments by the directors in two cases:

1 in connection with a rights (or similar) issue; and

2 allotments of shares for cash up to a total nominal value of £310,033 (representing 5% of the company's issued ordinary share capital at the date of the notice).

The board also confirms its intention that equity securities equivalent to no more that 7.5% of the issued ordinary share capital of the company will be allotted for cash on a non pre-emptive basis during a rolling three-year period, in line with institutional investor guidelines.

This authority will lapse not later than next year's annual general meeting except in so far as commitments to allot shares have been entered into before that date.

Resolution 9, which will be proposed as a special resolution, seeks to give authority for the company to purchase its own shares in the market. The proposed resolution sets out the maximum number of shares which may be purchased (15% of the company's issued ordinary share capital), the maximum and minimum prices which the company may pay for its shares and the date of expiry of the authority conferred by this resolution. This authority gives the company greater flexibility in managing its capital resources.

Your directors would only intend to exercise the authority sought at the annual general meeting to ensure that the company maintains an efficient capital structure. The authority will only be exercised when, in the light of market conditions, your directors believe that the effect of such purchases would be to increase shareholder value, having taken into consideration the impact of such purchases on both earnings and net asset values per share, and that the purchases would be in the best interests of the company's shareholders generally. Any shares purchased under the authority may be cancelled (and the number of Grainger Trust shares in issue will be reduced accordingly) or may be held in treasury so as to be available to be sold at a later date, subject to the restrictions set out in resolution 8 or its equivalent in force at the time.

The total number of ordinary shares covered by options or warrants as at 5 January 2004, the latest practicable date prior to publication of this document, is 273,325, representing 1.1% of the issued ordinary share capital of the company (1.3% of the issued ordinary share capital of the company assuming full exercise of the power to purchase shares contained in resolution 9).

Acquisitions

On 2 December 2002, the company acquired a 100% interest in Upminster Holdings Ltd. On 13 December 2002 the company acquired 100% interests in BPT Peachey Limited, BPT (Peachey No 2) Limited, Hamsard 2492 Limited, BPT Bridgewater (Home Reversions No 1) Limited, BPT Bridgewater (Home Reversions No 2) Limited and Hamsard 2342 Limited from its Bromley Property Holdings Limited Joint Venture. Finally, on 26 September 2003, the company acquired the remaining 50% of Bromley Property Holdings Limited from its Joint Venture partner. Full details of these acquisitions are shown in notes 26 and 27 to the financial statements.

Creditor payment policy

It is the group's policy to pay suppliers in accordance with their normal terms and conditions of trading. Payment in respect of the purchase of property is subject to and will comply with contractual terms. Trade creditors existing at 30 September 2003 relating to purchases of property stock generally complete 28 days after exchange of contracts. Trade creditor days relating to other trade creditors of the company and group were calculated as 38 days (2002: 39 days).

Charitable donations

During the year charitable donations were made by the group to a number of charitable organisations for a variety of charitable purposes, amounting to £4,480 (2002: £3,942).

Health and safety

The company seeks to achieve the highest standards in respect of health and safety of employees, and the safety of tenants. Consultants are employed to ensure that the company complies with health and safety regulations and each year the gas supply and appliances within all of the group's relevant residential properties are independently inspected under the Gas Safety (Installation and Use) Amended Regulations 1996 and certificates of compliance issued. A formal Health and Safety policy for employees was introduced during the year.

Employment of disabled persons

The company gives full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities. In the event of an employee becoming disabled every effort is made to ensure that their employment within the company continues and that appropriate training is arranged where necessary. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors to the company. A resolution to reappoint them as auditors to the company will be proposed at the next annual general meeting.

Issue of own shares

As disclosed in note 20 to the financial statements, the company issued 18,151 25p ordinary shares during the year for an aggregate consideration of £71,754.

Post balance sheet event

On 21 November 2003, the company announced the early redemption of its 2024 quoted debenture stock, of £2.5m. There was an associated early redemption cost of £1.8m.

By order of the board

Marie Glanville
Company secretary
16 January 2004

Remuneration committee report

The remuneration committee is responsible for detailed consideration of the directors' remuneration packages and makes its recommendations to the whole board.

The committee comprises Nichola Pease (chairman), John Ward, John Barnsley and Robert Hiscox all of whom are non-executive directors. Meetings are held at least twice a year and advice on various matters has been received from Stern Stewart & Co. The remuneration of the non-executive directors is determined by the board as a whole. No director participates in setting his/her own remuneration.

The committee is directly accountable to shareholders. As chairman of the committee, Nichola Pease will be available at the annual general meeting to answer questions on all aspects of directors' remuneration. This report will be put forward for approval and adoption at that meeting.

Remuneration policy

The overall objective of the remuneration policy is to attract, retain and motivate high calibre individuals. Remuneration packages are designed to be competitive with respect to comparable organisations and to reward executives for superior performance. Executives receive salary, benefits, pension contributions and annual and long-term incentive awards.

Salaries and benefits

Executive salaries are reviewed annually by the committee to take account of the experience, responsibilities and performance of individual directors as well as competitive market practice. Executive directors and the deputy chairman, Stephen Dickinson, who has part time executive responsibility for land development, receive the benefits of a fully expensed company car or car allowance and life and health insurances.

Service contracts

Rupert Dickinson and Andrew Cunningham have service contracts with a 24 months' notice period. Sean Slade's contract is for 12 months. The board feels that such contracts are an important element of the overall employment packages of the executives and are appropriate to the nature of the group's business. They provide both the group and the individual with the security to commit to the group's long-term objectives. However, the 24 months' contracts are being reduced to 12 months over a period of five years from 1 October 2002.

Pensions

Executive directors receive defined contributions to money purchase schemes. These contributions are based solely on a percentage of salary; benefits in kind and bonus awards are not pensionable. Contributions paid in the year were:

	Pension contributions	
	2003 £'000	2002 £'000
Rupert Dickinson	**30**	25
Andrew Cunningham	**33**	27
Sean Slade (2002: from 20 June 2002)	**13**	2
	76	54

Performance incentives

The group operates annual and long-term incentive schemes for directors and senior executives. These schemes are designed so that a large percentage of overall remuneration is performance-based and that the interests of executives and shareholders in promoting the group's progress are aligned.

Annual discretionary bonus

The executive directors receive an annual discretionary bonus which is at the discretion of the remuneration committee. This bonus is performance related and takes into account the performance of Grainger and how Grainger has performed relative to the UK housing market.

Deferred bonus

As noted in last year's annual report and accounts, Rupert Dickinson and Andrew Cunningham became entitled to a deferred bonus in recognition of their contributions with respect to the investment in BPT Limited and to the subsequent performance of the company's interest in the Joint Venture. Approval for the deferred bonus scheme was obtained at the extraordinary general meeting of the company held on 5 March 2002.

The deferred bonus represents total monetary payments of £600,000 and £300,000 to Rupert Dickinson and Andrew Cunningham respectively. The payments are made in the form of shares, calculated at the rate of 713.19 pence per share being the average share price from 1 October 2000 to 30 September 2001. Thus, the total number of shares that may be vested are 84,130 and 42,064.

The awards are divided into two equal tranches, the first of which vested on 11 December 2003 at which date the mid-market price per share was £15.75. The second will vest in December 2005 after the preliminary results announcement for the year ending 30 September 2005.

The vesting of the remaining awards is dependent upon the individuals being in the service of the company and not being under notice to leave at the relevant vesting date.

Long-term incentive scheme

The long-term incentive scheme was originally approved by shareholders in February 1997 and was subsequently amended in February 2000 and March 2002. The main objectives of the long-term incentive scheme are to link the rewards of the scheme participants to overall group performance over a sustained period of time and to facilitate the acquisition of shareholdings in the company by executives.

Under the latest scheme ('2002 scheme'), executives receive conditional awards of shares and share options up to a maximum of 50% and 125% of salary respectively. The awards may be made annually and will become unconditional provided certain performance criteria over a three year period are achieved. For the full award to be made, the Total Shareholder Return ('TSR') must be greater than or equal to the upper quartile TSR of a number of comparator companies. If the TSR equals the median TSR of the comparators then 40% of the awards will be made; between median and upper quartile levels, the level will be pro-rated. No awards will be made if the TSR is below the median of the comparators. The comparator companies are determined by the remuneration committee and the initial selection consists of 14 property companies, chosen on the basis of their market capitalisation. The comparator companies are currently Benchmark Group plc, Brixton plc, Capital and Regional plc, CLS Holdings plc, Daejan Holdings plc, Derwent Valley Holdings plc, Freeport plc, Great Portland Estates plc, London Merchant Securities plc, Minerva plc, Pillar Property plc, Quintain Estates and Development plc, Shaftesbury plc and The Unite Group plc. The executives are also entitled to matching awards in respect of previous versions of the long-term incentive scheme. Under these rules, a 1 for 4 matching award of shares awarded in 2002 under the 1999 scheme will be made if those shares are held for a three year period. The directors therefore have the following maximum potential entitlements under the long-term incentive schemes.

	Ordinary shares of 25p each		
	Matching awards under 1999 scheme	Awards under 2002 scheme	Options under 2002 scheme
Rupert Dickinson	10,389	15,641	39,103
Andrew Cunningham	9,091	11,470	28,675
Sean Slade	4,156	7,820	19,551
	23,636	34,931	87,329
Price per share of awards/options	£3.85	£9.59	£9.59

Other schemes

Executive directors also participate in other schemes which are open to all members of staff, subject to the rules of each individual scheme. These are as follows:

Save As You Earn ('SAYE') scheme. Under this scheme participants enter into a save as you earn contract with the group's clearing bankers to provide them with the finance to exercise SAYE options. The option price is calculated at 80% of the market value of the shares at the date of issue of invitations to participate. The scheme rules have received Inland Revenue clearance. SAYE options held by executive directors are shown in the share option table on page 32.

Share Incentive Plan ('SIP'). The principal features of the plan are:

- partnership shares. From October 2002, all employees are able to buy shares from pre-tax monthly earnings up to the lower of £125 per month and 10% of earnings.
- matching shares. The company is able to give employees up to two matching shares for each partnership share the employee buys. Thus the maximum value of matching shares per employee will amount to £3,000 per annum.
- free shares. In addition to the above, the company is able to give up to £3,000 worth of free shares each year to each employee. Amounts awarded to the executive directors in respect of the year ended 30 September 2003 are shown in the directors' remuneration table.

The plan rules have received Inland Revenue clearance and were approved by the members at an extraordinary general meeting on 5 March 2002.

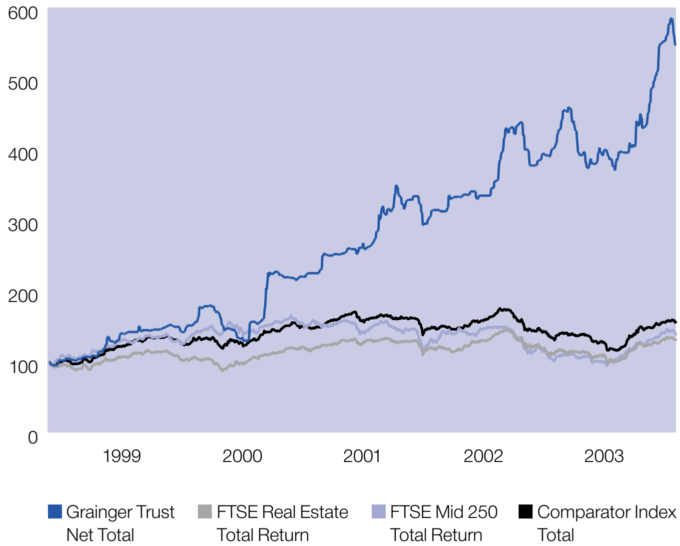
Executive Share Option Scheme

Under this scheme, established in 1987, certain executives were granted share options, exercise of which is conditional upon a growth in earnings per share in excess of the retail price index over a period of three consecutive years during the period of the option. This scheme is now closed and has been replaced by the long-term incentive scheme.

Non-executive directors

The remuneration of the non-executive directors is reviewed on a biennial basis by the whole board. Non-executive directors are not eligible for any annual or long-term incentives, are not members of any group pension arrangements and with the exception of Stephen Dickinson as previously noted, receive no benefits in kind. Each non-executive director has specific terms of reference.

The graph below shows Total Shareholder Return (based upon share price growth and with dividends reinvested) for Grainger Trust plc in comparison with the group of companies shown as a comparator on page 29, the FTSE 250, and the real estate index.



The remainder of this report has been audited in accordance with Part 3 of Schedule 7A to the Companies Act 1985.

Directors' remuneration

	2002			2003		
	Total remuneration £'000	Salary and fees £'000	Annual discretionary bonus £'000	Share Incentive Plan £'000	Taxable benefits £'000	Total remuneration £'000
Chairman, deputy chairman and executive directors						
Robert Dickinson	75	90	–	–	–	90
Stephen Dickinson	508	127	85	6	21	239
Rupert Dickinson	1,374	300	263	6	33	602
Andrew Cunningham	776	220	193	6	18	437
Sean Slade	273	150	60	6	15	231
	3,006	887	601	24	87	1,599
Non-executive directors						
The Earl of Portsmouth	8	–	–	–	–	–
Robin Herbert	22	30	–	–	–	30
Robin Oldfield	20	10	–	–	–	10
John Ward	22	30	–	–	–	30
Emanuel Davidson	8	–	–	–	–	–
Nichola Pease	21	30	–	–	–	30
Robert Hiscox	11	25	–	–	–	25
John Barnsley	–	12	–	–	–	12
Total	112	137	–	–	–	137
Total – all directors	3,118	1,024	601	24	87	1,736

Directors' appointments/resignations in the last two financial years have been:

	Appointed	Resigned
Sean Slade	20 June 2002	
The Earl of Portsmouth		5 March 2002
Robin Oldfield		27 February 2003
Emanuel Davidson		5 March 2002
Robert Hiscox	5 March 2002	
John Barnsley	27 February 2003	

The remuneration figures shown above represent the proportion of emoluments from the date of appointment or to the date of resignation.

Directors' share options

		Ordinary shares of 25p each (thousands)									
		Stephen Dickinson		Rupert Dickinson		Andrew Cunningham		Sean Slade		Total	
Exercise price	Date exercisable	**30 Sept 2003**	1 Oct 2002	**30 Sept 2003**	1 Oct 2002	**30 Sept 2003**	1 Oct 2002	**30 Sept 2003**	1 Oct 2002	**30 Sept 2003**	1 Oct 2002
Inland Revenue Approved Executive Share Option Scheme											
231.2p	6 Jan 97 to 6 Jan 04	**–**	–	**40**	40	**–**	–	**–**	–	**40**	40
292.0p	19 Jul 99 to 19 Jul 06	**–**	–	**–**	–	**–**	–	**10**	10	**10**	10
342.5p	23 Dec 99 to 23 Dec 06	**–**	–	**–**	–	**9**	9	**–**	–	**9**	9
SAYE Scheme											
818.0p	8 Aug 07 to 8 Feb 08	**–**	–	**2**	2	**2**	2	**2**	2	**6**	6
932.3p	1 Sept 08 to 1 March 09	**2**	–	**–**	–	**–**	–	**–**	–	**2**	–
LTIP											
267.1p	9 Jul 00 to 9 Jul 07	**–**	–	**13**	13	**7**	7	**8**	8	**28**	28
959.0p	24 Jan 06 to 24 Jan 13	**–**	–	**39**	–	**29**	–	**20**	–	**88**	–
		2	–	**94**	55	**47**	18	**40**	20	**183**	93

The above options were granted at nil cost to the directors. There have been no variations in the terms and conditions of the options during the year.

The market price of the company's shares at the end of the financial year was 1365.0p and the range during the year was 926.5p to 1460.0p.

No options were exercised by any of the above directors during the year.

Since the year end Rupert Dickinson has exercised options of 40,000 shares under the company's Inland Revenue Approved Executive Share Option Scheme at an option price of 231.2p. At the date of exercise the mid-market price per share was 1,615.0p.

Nichola Pease
Chairman of the remuneration committee
16 January 2004

Independent auditors' report to the members of Grainger Trust plc

We have audited the financial statements which comprise the statement of accounting policies, the consolidated profit and loss account, balance sheets, the consolidated cash flow statement, the statement of group total recognised gains and losses, note of group historical cost profits and losses and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the remuneration committee report ('the auditable part').

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the remuneration committee report.

Our responsibility is to audit the financial statements and the auditable part of the remuneration committee report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the chairman's statement, the chief executive's statement, the operating and financial review, the corporate governance report, the directors' report and the unaudited part of the remuneration committee report.

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

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the remuneration committee report. 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 and the auditable part of the remuneration committee report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group at 30 September 2003 and of the profit and cash flows of the group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the remuneration committee report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered accountants and registered auditors
Newcastle upon Tyne
16 January 2004

Statement of accounting policies

A summary of the principal accounting policies is set out below. The policies have been applied consistently in all material respects throughout the current and the previous year.

Accounting convention

The group prepares its annual financial statements on the historical cost basis of accounting, as modified by the revaluation of investment properties in accordance with the Companies Act 1985 and applicable accounting standards.

Basis of consolidation

The group financial statements comprise the consolidated financial statements of the company and its subsidiaries. The financial statements of subsidiary companies are made up to 30 September.

The results of subsidiaries sold or acquired are included in the consolidated profit and loss account up to, or from, the date control passes. Intra-group sales and profits are eliminated fully on consolidation. On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their provisional fair values reflecting their condition at that date.

Goodwill arising on consolidation represents the difference between the fair value of the consideration paid and the fair value of the identifiable assets acquired. Goodwill arising on the acquisition of subsidiaries prior to 30 September 1998 was written off or credited immediately against reserves and would be transferred to the profit and loss account on subsequent disposal of the business to which it relates. Goodwill arising subsequent to that date is shown in the balance sheet under fixed assets. Positive goodwill is amortised through the profit and loss account over its estimated useful economic life. Negative goodwill is amortised through the Profit and Loss Account over the period in which the non-monetary assets are realised either through depreciation or sale.

The acquisition of the Bromley Joint Venture has been accounted for in accordance with FRS2 which, in the circumstances of a joint venture becoming a subsidiary, is inconsistent with the requirements of paragraph 9 to Schedule 4 of the Companies Act 1985. This requires that goodwill arising on the acquisition of a subsidiary be calculated at the date the undertaking becomes a subsidiary. FRS2 paragraph 89 notes that this may result in accounting that is inconsistent with the way in which the joint venture was previously treated in the group consolidated financial statements.

FRS2 requires that fair values should be ascribed to earlier investments, and that goodwill on the joint venture becoming a subsidiary should be calculated as the sum of the goodwill arising from each separate investment. For the purposes of establishing goodwill on the purchase of the first 50% investment in Bromley, the fair value of the identifiable assets and liabilities have been taken from the financial statements of Bromley Property Holdings Limited following that company's acquisition of BPT plc. This reflects the commercial reality of the fair value of the assets and liabilities acquired by Grainger Trust plc at the time of this investment. Details of the fair values ascribed to the identifiable assets and liabilities at the date of Bromley becoming a subsidiary and the impact of adopting FRS2 over the Companies Act 1985 are included in note 27.

Turnover

Turnover comprises gross sale proceeds of trading properties and developments, gross rentals and sundry other income, and is exclusive of VAT. Sales of land and properties are only accounted for when the cash proceeds are received in full or the group has entered into a legally binding undertaking. Gross rentals are recognised as they fall due.

Joint Venture

In compliance with FRS9, the group accounts for joint ventures under the gross equity method. Under this method, the group's share of the Joint Venture's turnover and profits and losses are separately disclosed in the group's profit and loss account. The group's share of the gross assets and gross liabilities, together with goodwill, is shown on the face of the balance sheet. The group's statement of total recognised gains and losses includes its share of the Joint Venture's total recognised gains and losses.

Repairs and improvements

Repairs are charged in the year they are incurred. Improvement costs are capitalised.

Pensions

The company makes contributions to defined contribution schemes only for all employees. Pension costs are charged in the year to which they relate.

The Bromley Property Holdings Limited group currently contributes to two pension schemes. The first is a defined contribution scheme, implemented during the year and open to all employees. The contributions are charged to the profit and loss account during the year. The second is a defined benefit scheme, which was closed to new members and employee contributions during the year. The group will continue to contribute so as to spread the cost over the expected remaining life of the relevant employees. The transitional disclosure requirements of FRS17, 'Retirement Benefits', are given in note 28 to the financial statements.

Tangible fixed assets

The cost of fixed assets is their purchase cost, together with any incremental costs of acquisition. In accordance with SSAP 19, (i) investment properties are revalued annually and the aggregate surplus or temporary deficit is transferred to a revaluation reserve, and (ii) no depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years to run. Permanent diminutions in value below cost are charged in the profit and loss account. The requirement of the Companies Act 1985 is to depreciate all properties, but that requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The directors consider that to depreciate such properties would not give a true and fair view, as the properties are not held for consumption but for investment, and that a true and fair view is given by following SSAP 19 as described above. The effect of depreciation and amortisation on value is already reflected annually in the valuation of properties, and the amount attributed to this factor by the valuers cannot reasonably be separately identified or quantified. Had the provisions of the Act been followed, net assets would not have been affected but revenue and profits would have been reduced for this and earlier years.

Full valuations are made by independent professionally qualified valuers every year. The basis of valuation is explained in note 10.

Depreciation is calculated so as to write off the cost of tangible fixed assets (excluding investment properties), less their estimated residual values, over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%	Method
Fixtures, fittings and equipment	20	Straight line

Investments

Investments in subsidiaries and other investments are included in the financial statements at cost less provisions for permanent diminution of value.

Stocks

Tenanted residential properties are shown in the financial statements at the lower of cost to the group and net realisable value. Cost to the group includes legal and surveying charges incurred during acquisition together with improvement costs. Net realisable value is the net sale proceeds which the group expects on sale of a property with vacant possession.

Development and trading properties are shown in the financial statements at the lower of cost to the group and net realisable value. Cost represents the acquisition price together with subsequent development costs net of amounts transferred to cost of sales. Net realisable value is the current market value as advised by the group's professional valuers.

Derivative financial instruments

The group uses derivative financial instruments to reduce exposure to interest rate movements. The group does not hold or issue derivative financial instruments for speculative purposes.

For an interest rate swap to be treated as a hedge the instrument must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts.

If an instrument ceases to be accounted for as a hedge, for example because the underlying hedged position is eliminated, the instrument is marked to market and any resulting profit or loss recognised at that time.

Deferred taxation

Deferred tax is measured at the rate expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all evidence available, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred taxation is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on the sale has been recognised in the financial statements.

Share schemes

The group operates a long-term incentive plan and a deferred bonus scheme. Shares in the company are held for these purposes by The Grainger Trust Employee Trustee Limited, the assets, income and costs of which have been included in these financial statements.

Consolidated profit and loss account

For the year ended 30 September 2003	Notes	Year ended 30 September 2003 £m	Year ended 30 September 2002 £m
Turnover (including share of Joint Venture)		**173.6**	213.8
Less: share of turnover of Joint Venture		**(55.6)**	(110.3)
Group turnover	1	**118.0**	103.5
Gross rentals		**21.4**	22.0
Trading profits		**38.8**	33.7
Other income		**0.9**	0.4
		61.1	56.1
Less:			
Property expenses		**(9.1)**	(9.7)
Administration expenses		**(4.7)**	(4.4)
Group operating profit		**47.3**	42.0
Share of operating profit of Joint Venture			
(after amortisation of goodwill of £35,000 (2002: £97,000))		**23.6**	33.0
Total operating profit: Group and share of Joint Venture		**70.9**	75.0
Net profit on disposal of and provisions against fixed assets			
– Group		**1.9**	0.1
– Joint Venture		**4.1**	7.4
	2	**6.0**	7.5
Profit on ordinary activities before interest		**76.9**	82.5
Net interest payable and similar charges			
– Group		**(11.5)**	(10.7)
– Group exceptional	3, 4	**–**	(3.8)
– Joint Venture		**(16.9)**	(26.9)
	3	**(28.4)**	(41.4)
Profit on ordinary activities before taxation	1, 5	**48.5**	41.1
Tax on profit on ordinary activities	7	**(19.1)**	(20.2)
Profit on ordinary activities after taxation		**29.4**	20.9
Minority interest – equity	25	**(0.1)**	–
Profit attributable to shareholders		**29.3**	20.9
Dividends	8	**(4.0)**	(3.5)
Retained profit for the year	21	**25.3**	17.4
Basic earnings per share	9	**118.5p**	84.6p
Diluted earnings per share	9	**118.0p**	84.2p
Basic earnings per share before exceptional item	9	**118.5p**	95.3p

All results relate to continuing operations.

Statement of group total recognised gains and losses

For the year ended 30 September 2003	Notes	2003 £m	2002 £m
Profit on ordinary activities attributable to shareholders		**29.3**	20.9
Taxation on realisation of property revaluation gains of previous years	7	**–**	(0.4)
Unrealised surplus on revaluation of properties	10, 21	**3.1**	0.4
Surplus recognised in the profit and loss account in the year	21	**(1.3)**	0.1
Adjustment to reserves arising from the consolidation of the Joint Venture	21	**(2.9)**	–
Total gains and losses recognised – group		**28.2**	21.0
Share of Joint Venture tax on realisation of revaluation surpluses	21	**(0.9)**	–
Unrealised surplus on revaluation of Joint Venture properties	21	**4.4**	7.8
Total gains and losses recognised since the last annual report – group and Joint Venture		**31.7**	28.8

Note of group historical cost profits and losses

		2003 £m	2002 £m
Reported profit on ordinary activities before taxation		**48.5**	41.1
Realisation of property revaluation gains of previous years	21	**3.1**	6.8
Historical cost profit on ordinary activities before taxation		**51.6**	47.9
Taxation		**(20.0)**	(20.6)
Minority interest		**(0.1)**	–
Dividends		**(4.0)**	(3.5)
Retained historical cost profit for the year		**27.5**	23.8

Balance sheets

At 30 September 2003	Notes	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Fixed assets					
Intangible assets	12	(97.2)	(0.9)	–	–
Tangible assets	10	109.1	21.7	0.4	0.3
Investments:					
Investment in Joint Venture:					
Share of gross assets		–	307.0		
Share of gross liabilities		–	(281.1)		
		–	25.9		
Goodwill arising on acquisition		–	0.3		
	11	–	26.2	–	15.8
Loan to Joint Venture	11	–	13.7	–	13.7
Total investment in Joint Venture		–	39.9	–	29.5
Other investments	11	9.2	8.9	97.3	45.3
	11	9.2	48.8	97.3	74.8
		21.1	69.6	97.7	75.1
Current assets					
Stocks	14	888.3	305.1	–	–
Debtors	15	10.0	3.5	114.6	84.0
Cash at bank and in hand	16	81.7	10.5	0.3	2.2
		980.0	319.1	114.9	86.2
Creditors: amounts falling due within one year	17	(154.5)	(52.4)	(46.6)	(42.3)
Net current assets		825.5	266.7	68.3	43.9
Total assets less current liabilities		846.6	336.3	166.0	119.0
Creditors: amounts falling due after more than one year	17	(684.8)	(211.5)	(2.5)	(5.6)
Provision for liabilities and charges	19	(12.8)	(3.7)	–	–
Net assets		149.0	121.1	163.5	113.4
Capital and reserves					
Called up share capital	20	6.2	6.2	6.2	6.2
Share premium account	21	21.4	21.3	21.4	21.3
Revaluation reserve	21	14.7	11.6	–	–
Capital redemption reserve	21	0.2	0.2	0.2	0.2
Profit and loss account	21	106.4	81.8	135.7	85.7
Equity shareholders' funds	22	148.9	121.1	163.5	113.4
Minority interests – equity	25	0.1	–	–	–
Total capital employed		149.0	121.1	163.5	113.4

The financial statements on pages 34 to 59 were approved by the board of directors on 16 January 2004 and were signed on their behalf by:

Rupert Dickinson
Director

Andrew Cunningham
Director

Consolidated cash flow statement

For the year ended 30 September 2003	Notes	2003 £m	2002 £m
Net cash outflow from operating activities (see below)		(37.3)	(18.3)
Dividends from Joint Venture		52.0	–
Returns on investments and servicing of finance			
Interest received		2.9	7.6
Interest paid – normal		(14.0)	(18.6)
– exceptional		–	(3.8)
Dividends received		0.2	–
		(10.9)	(14.8)
Taxation			
UK Corporation tax paid		(11.8)	(8.1)
Capital expenditure and financial investment			
Purchase of fixed asset investments		(1.4)	(8.1)
Purchase of tangible fixed assets		(0.5)	(0.8)
Sale of fixed asset investments		–	0.1
Sale of tangible fixed assets		2.1	7.1
Repayment of loan stock		–	26.3
		0.2	24.6
Acquisitions and disposals			
Purchase of subsidiaries	26	(25.9)	(0.2)
Costs on purchase of subsidiaries		(0.3)	(0.1)
Cash acquired on purchase of subsidiaries	27	74.9	–
Sale of subsidiaries		–	0.2
Investment in Joint Venture		–	(1.6)
		48.7	(1.7)
Equity dividends paid		(3.6)	(3.1)
Cash inflow/(outflow) before financing		37.3	(21.4)
Financing			
New loans raised	24	64.0	47.1
Repayment of loans	24	(30.2)	(38.4)
Issue of shares	20	0.1	0.1
Net cash inflow from financing		33.9	8.8
Increase/(decrease) in cash in the period	23	71.2	(12.6)

Reconciliation of group operating profit to net cash outflow from operating activities

	2003 £m	2002 £m
Group operating profit	47.3	42.0
Depreciation	0.2	0.2
Amortisation of goodwill	(0.2)	(0.4)
(Increase)/decrease in debtors	(1.6)	1.0
(Decrease)/increase in creditors	(13.6)	7.9
Increase in stocks	(69.4)	(69.0)
Net cash outflow from operating activities	(37.3)	(18.3)

Notes to the financial statements

For the year ended 30 September 2003

1 Segmental analysis by class of business

The analysis by class of business of the group's turnover, profit before interest and taxation, and net assets is set out below:

Turnover and profit before taxation

	2003 Turnover £m	2003 Profit before taxation £m	2002 Turnover £m	2002 Profit before taxation £m
Class of business				
Continuing operations				
Tenanted Residential	**81.0**	**35.6**	68.0	30.0
Development and Trading	**37.0**	**13.6**	35.5	12.1
	118.0	**49.2**	103.5	42.1
Joint Venture	**55.6**	**27.7**	110.3	40.4
	173.6	**76.9**	213.8	82.5
Net interest payable – group	**–**	**(11.5)**	–	(14.5)
Net interest payable – Joint Venture	**–**	**(16.9)**	–	(26.9)
	173.6	**48.5**	213.8	41.1

The Joint Venture operated its activities as one class of business encompassing both Tenanted Residential and Development and Trading.

Net assets

	Net assets		Adjusted net assets*	
	2003 £m	2002 £m	2003 £m	2002 £m
Class of business				
Continuing operations				
Tenanted Residential	**96.0**	73.6	**464.8**	244.1
Development and Trading	**53.0**	37.1	**78.6**	68.1
	149.0	110.7	**543.4**	312.2
Joint Venture	**–**	10.4	**–**	114.5
	149.0	121.1	**543.4**	426.7

*Adjusted net assets represent balance sheet net assets plus the excess of market value over book cost of trading stock, net of minority interest. Adjusted net assets exclude any provision for contingent taxation. Turnover between segments is immaterial.

Analysis by geographical area
The group operates solely within the United Kingdom.

2 Net profit on disposal of and provisions against fixed assets

	2003 £m	2002 £m
Group		
Profit on disposal of investment properties	0.6	0.2
Write back of impairment/(impairment) of investment properties	1.3	(0.1)
	1.9	0.1
Joint Venture		
Profit on disposal of investment properties	4.1	7.4
Group and Joint Venture	6.0	7.5

The write back of impairment of investment properties resulted from a change in the economic circumstances affecting the valuation of certain investment properties.

3 Net interest payable and similar charges

	2003 £m	2002 £m
Group		
Bank loans and overdrafts	9.7	11.7
Debentures and other loans	3.2	4.5
Other interest costs	1.7	1.5
	14.6	17.7
Less:		
Income from listed fixed asset investments	(0.2)	–
Interest receivable	(2.9)	(7.0)
	11.5	10.7
Exceptional item:		
Cost of redemption of debenture stock (note 4)	–	3.8
	11.5	14.5
Joint Venture		
Bank loans and overdrafts	12.8	16.5
Debentures and other loans	0.9	7.6
Other interest costs	4.4	4.5
	18.1	28.6
Less:		
Interest receivable	(1.2)	(1.7)
	16.9	26.9
Group and Joint Venture	28.4	41.4

All interest payable is charged to the profit and loss account. No interest has been capitalised in this or prior periods.

4 Exceptional item

	2003 £m	2002 £m
Cost of redemption of debenture stock	–	(3.8)

The prior year exceptional item was paid in cash during the course of that year and represented the premium paid upon early redemption of quoted debentures.

5 Profit on ordinary activities before taxation

	2003 £m	2002 £m
Profit on ordinary activities before taxation is stated after charging:		
Depreciation of tangible owned fixed assets	0.2	0.2
Auditors' remuneration (including expenses) (Company £6,000 (2002: £6,000))	0.1	0.1
And after crediting:		
Amortisation of goodwill	0.2	0.4

Remuneration of the company's auditors for the provision of non-audit services to the company and its UK subsidiary undertakings was £81,000 (2002: £91,000). Of this £62,000 (2002: £81,000) related to tax compliance and advisory services.

6 Directors and employees

	2003 £m	2002 £m
Staff costs (including executive directors) during the year:		
Wages and salaries	5.3	5.9
Social security costs	1.0	0.7
Other pension costs (see note 28)	0.3	0.2
	6.6	6.8
Less: recharged to Joint Venture	(0.7)	(1.1)
	5.9	5.7

The average weekly number of persons employed by the group during the year (including executive directors) was 94 (2002: 76). All employees were involved in the management and/or administration of the group. Details of directors' remuneration (including pensions), directors' share options and interests in the long-term incentive plan are provided in the remuneration committee report on pages 28 to 32.

7 Taxation

	2003 £m	2002 £m
Analysis of charge in year		
Current tax:		
Group		
UK Corporation tax on profits for the period	12.3	11.1
Adjustments in respect of prior periods	0.2	–
Transferred to appropriate reserve (see below)	–	(0.4)
Joint Venture		
UK corporation tax on profits for the period	6.3	8.3
Adjustments in respect of prior periods	1.9	–
Total current tax	20.7	19.0
Deferred tax:		
Origination and reversal of timing differences		
Group	(0.6)	(1.2)
Joint Venture	(1.0)	2.4
Total deferred tax	(1.6)	1.2
Group and Joint Venture	19.1	20.2

The group allocates the tax arising on the sale of investment properties between the profit and loss account and the appropriate reserve to match the accounting treatment of the gain arising.

7 Taxation (continued)

Factors affecting the tax charge for the year

The tax assessed for the period is higher than the standard rate of corporation tax in the UK (30%).

The differences are explained below:

	2003 £m	2002 £m
Profit on ordinary activities before tax	**48.5**	41.1
Profit on ordinary activities before tax at a rate of 30%	**14.6**	12.3
Expenses not deductible for tax purposes	**0.7**	0.5
Effect of negative goodwill written back	**(1.5)**	(4.5)
Tax on fair values released on sales	**4.4**	13.9
Effect of timing differences	**0.6**	(1.5)
Difference between tax and accounting profit on disposals	**(0.2)**	(1.7)
Adjustments in respect of prior periods	**2.1**	–
Total current tax	**20.7**	19.0

Factors that may affect future tax charges

No provisions for deferred tax have been made on gains which would become payable if the group's investment properties were sold at their year end values. The estimate of unprovided deferred tax is £16.5m (2002: £1.5m).

FRS19 prohibits the making of provisions for contingent tax liabilities on the fair value of properties on the acquisition of companies. It had previously been industry practice to make partial provision for such liabilities as part of our fair value exercise on acquisition. Thus there is a greater tax charge on property sales where there is no brought forward contingent tax provision available to be utilised in its reduction.

The total contingent tax to the group on the difference between original cost and carrying value of trading properties not provided at 30 September 2003 is £91.8m (2002: £42.0m).

8 Dividends

	2003 £m	2002 £m
Dividends on equity shares:		
Ordinary – interim paid of 3.51p per share (2002: 3.05p per share)	**0.8**	0.7
Ordinary – final proposed of 12.80p per share (2002: 11.13p per share)	**3.2**	2.8
	4.0	3.5

9 Earnings per share

The calculation of basic, diluted and adjusted earnings per share is based on the following earnings and number of shares:

	Year ended 30 September 2003			Year ended 30 September 2002		
	Profit for the year £m	Weighted average number of shares (thousands)	Earnings per share pence	Profit for the year £m	Weighted average number of shares (thousands)	Earnings per share pence
Basic earnings per share						
Profit attributable to shareholders	**29.3**	**24,745**	**118.5**	20.9	24,682	84.6
Exceptional item (note 3) less tax	**–**		**–**	2.7		10.7
Adjusted earnings	**29.3**		**118.5**	23.6		95.3
Effect of dilutive securities						
Options	**–**	**117**	**–**	–	126	–
Diluted earnings per share						
Profit attributable to shareholders	**29.3**	**24,862**	**118.0**	20.9	24,808	84.2
Exceptional item (note 3) less tax	**–**		**–**	2.7		10.6
Adjusted earnings	**29.3**		**118.0**	23.6		94.8

The adjusted earnings per share is presented as it gives a better picture of the underlying performance of the business.

10 Tangible fixed assets

	Investment properties £m	Group fixtures, fittings and equipment £m	Total £m	Company fixtures, fittings and equipment £m
Cost or valuation				
At 1 October 2002	21.1	1.4	22.5	0.8
Surplus on revaluation	3.1	–	3.1	–
Additions	0.3	0.2	0.5	0.2
Disposals	(1.5)	–	(1.5)	–
Acquisitions	85.1	0.4	85.5	–
At 30 September 2003	**108.1**	**2.0**	**110.1**	**1.0**
Depreciation				
At 1 October 2002	–	0.8	0.8	0.5
Charge for year	–	0.2	0.2	0.1
At 30 September 2003	**–**	**1.0**	**1.0**	**0.6**
Net book value				
At 30 September 2003	**108.1**	**1.0**	**109.1**	**0.4**
At 30 September 2002	21.1	0.6	21.7	0.3

Group investment properties were revalued at their market value at 30 September 2003 by Jones Lang LaSalle, Chartered Surveyors, independent of the company, and by in-house valuations. A structured sample of the in-house valuations has been independently reviewed by Allsop & Co., Chartered Surveyors. Based on the results of that review, Allsop & Co. have concluded that they have a high degree of confidence in those valuations. These represent estimates of the open market value of the properties subject to the tenancies then existing.

The net book value of investment properties comprises:

	Group	
	2003 £m	2002 £m
Freehold	**99.8**	21.1
Long leasehold	**8.3**	–
Net book value	**108.1**	21.1

If investment properties had not been revalued, they would have been included at the following amounts:

	Group	
	2003 £m	2002 £m
Net book value	**104.9**	20.8

11 Fixed asset investments

	Group			
	Equity investment in Joint Venture £m	Loan to Joint Venture £m	Own shares and other investments £m	Total £m
Cost				
At 1 October 2002				
Goodwill	0.4	–	–	0.4
Other	25.9	13.7	8.9	48.5
	26.3	**13.7**	**8.9**	**48.9**
Additions	–	–	1.4	1.4
Share of retained loss for year	(47.9)	–	–	(47.9)
Share of surplus on revaluation of investment properties	4.4	–	–	4.4
Share of tax on realisation of revaluation surpluses	(0.9)	–	–	(0.9)
Disposals	–	–	(1.1)	(1.1)
Adjustment upon consolidation of Joint Venture	18.1	(13.7)	–	4.4
	–	**–**	**9.2**	**9.2**
At 30 September 2003				
Goodwill	–	–	–	–
Other	–	–	9.2	9.2
	–	**–**	**9.2**	**9.2**
Amortisation of goodwill				
At 1 October 2002	0.1	–	–	0.1
Adjustment upon consolidation of Joint Venture	(0.1)	–	–	(0.1)
At 30 September 2003	**–**	**–**	**–**	**–**
Net book value at 30 September 2003	**–**	**–**	**9.2**	**9.2**
Net book value at 30 September 2002	26.2	13.7	8.9	48.8

The goodwill was released in line with the disposal of acquired properties.

11 Fixed asset investments (continued)

	Company				
	Investment in Joint Venture £m	Loan to Joint Venture £m	Investment in subsidiaries £m	Other investments £m	Total £m
Cost					
At 1 October 2002	15.8	13.7	38.3	7.0	74.8
Additions	–	–	36.2	–	36.2
Adjustment on consolidation of Joint Venture	(15.8)	(13.7)	15.8	–	(13.7)
At 30 September 2003	**–**	**–**	**90.3**	**7.0**	**97.3**

	Group	
	Own shares and other investments	
	2003 £m	2002 £m
Investments at net book value include:		
Investments listed on a recognised stock exchange	**9.2**	8.9
Aggregate market value of listed investments	**12.4**	11.2

Listed investments include 263,639 (2002: 323,768) 25p ordinary shares in Grainger Trust plc held by a subsidiary trustee company at a cost of £2.2m (2002: £1.9m), which had a market value at 30 September 2003 of £3.6m (2002: £3.2m). These are held for the purpose of awarding shares to certain senior executives under the company's employee share benefits schemes. The administrative costs of running this company have been included in these financial statements.

The directors consider that providing details of all subsidiaries as at 30 September 2003 would result in disclosure of excessive length. The following information relates to those subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the figures of the group:

Name of undertaking	Proportion of nominal value of ordinary issued shares held by: Group %	Company %	Activity
Northumberland & Durham Property Trust Limited	100	–	Property trading
GIP Limited	100	–	Property trading and investment
N & D London Limited	100	–	Property management
Derwent Developments Limited	100	–	Land development
BPT (Bradford Property Trust) Limited	100	–	Property trading
BPT (Assured Homes) Limited	100	–	Property investment
BPT (Residential Investments) Limited	100	–	Property investment
Bromley Property Investments Limited	100	–	Finance company
Home Properties Limited	100	–	Property trading

All subsidiaries are consolidated in the group accounts, are incorporated in England and Wales and operate within the United Kingdom.

On 26 September 2003, the company acquired the remaining 50% interest in the ordinary share capital of Bromley Property Holdings Limited ('Bromley'), a company incorporated in England and Wales. Prior to that date, the company held a 50% interest in Bromley and the company's share of its results for the year are disclosed separately within the profit and loss account. The assets and liabilities of Bromley at 30 September 2003 are consolidated within the group's balance sheet. At 30 September 2002 these were shown separately as an investment in Joint Venture. Further details of the acquisition are shown in note 27.

12 Intangible assets

	Group Negative goodwill £m
Cost	
At 1 October 2002	2.0
Additions	96.5
At 30 September 2003	**98.5**
Amortisation	
At 1 October 2002	1.1
Release for year	0.2
At 30 September 2003	**1.3**
Net book value	
At 30 September 2003	**97.2**
At 30 September 2002	0.9

The negative goodwill arising on acquisitions is being amortised in line with the disposal of acquired assets.

13 Capital commitments

The group had capital commitments contracted but not provided for of £nil at 30 September 2003 (2002: £nil).

14 Stocks

	Group	
	2003 £m	2002 £m
Trading and development properties	**888.3**	305.1

The market value of the group's trading and development properties is £1,185.8m (2002: £504.7m), as valued on the same basis as disclosed in note 10.

15 Debtors

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Trade debtors	**2.6**	1.7	**–**	–
Amounts owed by group undertakings	**–**	–	**112.6**	82.8
Other debtors	**0.6**	0.6	**0.3**	0.4
Prepayments and accrued income	**4.0**	1.2	**1.7**	0.8
Deferred tax asset (see note 19)	**2.8**	–	**–**	–
	10.0	3.5	**114.6**	84.0

16 Cash at bank and in hand

At 30 September 2003, bank balances included £53.8m (2002: £6.6m) which is held by lenders awaiting substitution of alternative security, represents deposits received or is held as a guarantee for loan note obligations.

17 Creditors

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Amounts falling due within one year:				
Mortgages and other loans	**11.7**	0.4	**–**	–
Loan notes	**41.2**	1.9	**1.9**	1.9
Bank loans	**23.5**	19.9	**2.0**	2.0
Deposits received	**1.0**	0.6	**–**	–
Trade creditors	**8.1**	7.5	**–**	–
Amounts owed to group undertakings	**–**	–	**25.6**	33.1
Corporation tax payable	**24.9**	8.3	**2.8**	1.9
Other taxation and social security	**2.0**	1.6	**0.1**	–
Accruals and deferred income	**38.9**	9.4	**11.0**	0.6
Dividends payable	**3.2**	2.8	**3.2**	2.8
	154.5	52.4	**46.6**	42.3

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Amounts falling due after more than one year:				
10½% debenture stock	**1.9**	1.9	**1.9**	1.9
11¾% debenture stock	**0.6**	0.9	**0.6**	0.9
Mortgages and other loans	**427.6**	28.6	**–**	–
Loan notes	**–**	0.8	**–**	0.8
Bank loans	**254.7**	179.3	**–**	2.0
	684.8	211.5	**2.5**	5.6
Maturity of finance debt (net of issue costs) is as follows:				
In one year or less	**76.4**	22.2	**3.9**	3.9
Between one and two years	**46.8**	32.5	**–**	2.8
Between two and five years	**210.6**	56.4	**–**	–
Between five and ten years	**358.7**	95.7	**–**	–
Over ten years	**68.7**	26.9	**2.5**	2.8
	761.2	233.7	**6.4**	9.5

The 10½% and 11¾% debenture stock is repayable on 31 March 2024 and is secured by way of fixed and floating charges over certain of the group's properties.

Mortgages and other loans bear interest rates of between 5% and 13% and are secured by fixed charges over certain of the group's properties. Repayments are over terms of 1 to 19 years. Bank loans bear interest rates between 0.75% and 1.40% above LIBOR and are secured by fixed and floating charges over the assets of the group. Repayments are over terms of 1 to 29 years.

Loan notes carry interest at 0.75% and 1.00% below LIBOR and are payable half-yearly/quarterly on demand. Final redemption is at par on 30 September 2009 and 30 April 2011.

18 Financial instruments

The group's policies relative to financial instruments are set out in the operating and financial review on page 11. All amounts are held in pounds sterling. Short-term debtors and creditors have been excluded from these disclosures as they do not have a significant impact on the financial risk profile of the group.

Interest rate risk profile of financial liabilities

	2003			
	Fixed rate liabilities £m	Capped rate liabilities £m	Floating rate liabilities £m	Total £m
Quoted debentures	2.5	–	–	2.5
Institutional debt	17.4	–	–	17.4
Loan notes	–	–	41.3	41.3
Bank debt	60.9	533.4	111.1	705.4
Total	80.8	533.4	152.4	766.6

	2002			
	Fixed rate liabilities £m	Capped rate liabilities £m	Floating rate liabilities £m	Total £m
Quoted debentures	2.8	–	–	2.8
Institutional debt	17.6	–	–	17.6
Loan notes	–	–	2.7	2.7
Bank debt	15.0	150.0	45.6	210.6
Total	35.4	150.0	48.3	233.7

The interest rate profile shown above takes into account the various derivative instruments used to manage interest rate fluctuations and is gross of issue costs.

Borrowings subject to caps, collars and swaps are included in capped rate liabilities.

	2003			
	Fixed rate Weighted average rate %	Weighted average period years	Capped rate Weighted average rate %	Weighted average period years
Hedge profile				
Quoted debentures	10.8	21	–	–
Institutional debt	11.8	2	–	–
Bank debt	6.9	20	5.8	4
Total	8.1	17	5.8	4

	2002			
	Fixed rate Weighted average rate %	Weighted average period years	Capped rate Weighted average rate %	Weighted average period years
Hedge profile				
Quoted debentures	10.9	22	–	–
Institutional debt	11.9	3	–	–
Bank debt	7.3	23	6.9	4
Total	9.9	13	6.9	4

The fixed and capped rates are inclusive of loan margins and reflect the effective cost of finance after taking account of the effect of interest rate swaps.

18 Financial instruments (continued)

Financial assets
The group's financial assets at the year end consist of cash at bank and in hand of £81.7m (2002: £10.5m). The interest rate on this is floating.

Borrowing facilities
The group had various unutilised borrowing facilities at the year end. The undrawn facilities available to the group amount to £41.0m (2002: £20.0m), of which £25.0m expires on 30 September 2004 and £16.0m expires on 9 January 2004 (2002: £20.0m expired on 30 September 2003).

Fair values of financial liabilities
The following fair values represent the amounts at which the financial instruments could be exchanged on an arm's length transaction between informed and willing parties, and exclude accrued interest.

	2003			2002		
	Book value £m	Fair value £m	Fair value adjustment £m	Book value £m	Fair value £m	Fair value adjustment £m
Financial instruments:						
Quoted debentures	2.5	3.4	(0.9)	2.8	3.9	(1.1)
Institutional debt	17.4	19.1	(1.7)	17.6	20.4	(2.8)
Short-term fixed rate bank debt	58.3	60.4	(2.1)	15.0	17.1	(2.1)
Total fixed rate debt	78.2	82.9	(4.7)	35.4	41.4	(6.0)
Debt fixed under one year	683.0	683.0	–	198.3	198.3	–
Derivative financial instruments:						
Interest rate swaps	–	1.6	(1.6)	–	2.7	(2.7)
Interest rate caps	–	(0.1)	0.1	–	(0.2)	0.2
Interest rate collars	–	–	–	–	–	–
Total current derivatives	–	1.5	(1.5)	–	2.5	(2.5)
Future interest rate swaps	–	4.9	(4.9)	–	3.2	(3.2)
Total derivatives	–	6.4	(6.4)	–	5.7	(5.7)
	761.2	772.3	(11.1)	233.7	245.4	(11.7)
Financial assets:						
Cash	(81.7)	(81.7)	–	(10.5)	(10.5)	–
	679.5	690.6	(11.1)	223.2	234.9	(11.7)

The fair values were calculated at 30 September 2003 using interest rates and market prices prevailing at that date and reflect the replacement values of the respective financial instruments. This has an after tax effect on NAV of 31p (2002: 33p).

In addition, the group made full provision of £6.8m for the fair value of the financial instruments of Bromley at the date of acquisition (see note 19).

Changes in the fair value of derivative instruments are only recognised when the position matures or terminates.

An analysis of the unrecognised gains and losses arising on financial instruments used as hedges is as follows:

	Gains £m	Losses £m	Net total £m
Gains/(losses) on hedges at 1 October 2002	0.4	(6.1)	(5.7)
Losses arising in previous periods that were recognised during the year	–	1.1	1.1
Gains/(losses) not recognised in the year to 30 September 2003			
Arising before 1 October 2002	0.4	(5.0)	(4.6)
Arising during the year to 30 September 2003	(0.2)	(1.6)	(1.8)
Unrecognised gains/(losses) on hedges at 30 September 2003	**0.2**	**(6.6)**	**(6.4)**
Of which:			
Losses expected to be recognised in the year to 30 September 2004	–	(0.8)	(0.8)
Gains/(losses) expected to be recognised in the year to 30 September 2005 or later	0.2	(5.8)	(5.6)

19 Provisions for liabilities and charges

	Group	
	2003 £m	2002 £m
Deferred taxation	**–**	3.7
Provision for retirement liabilities	**6.0**	–
Provision for fair value of financial instruments	**6.8**	–
	12.8	3.7

The provision for retirement liabilities reflects an estimate for the amount required to meet a shortfall in retirement liabilities within Bromley at the date of acquisition and is to be amortised over the expected remaining service lives of relevant employees.

The provision for fair value of financial instruments reflects the mark to market adjustment calculated on the financial instruments of Bromley at the date of acquisition and will be amortised over the maturity periods of those financial instruments.

Deferred taxation

	Amount provided		Amount unprovided	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Group				
Tax effect of timing differences due to:				
Accelerated capital allowances	**0.2**	0.5	**–**	–
Net short-term timing differences	**(6.3)**	(0.1)	**–**	–
Held over gains in stock arising from transfers from fixed assets	**3.3**	3.3	**–**	–
Revalued investment properties	**–**	–	**16.5**	1.5
Transferred to debtors	**2.8**	–	**–**	–
Balance at 30 September 2003	**–**	3.7	**16.5**	1.5

	£m
Group	
The movements on the provisions for deferred taxation are as follows:	
1 October 2002	3.7
Amount credited to profit and loss account	(1.6)
Balance acquired on acquisitions	(4.9)
Transferred to debtors	2.8
Balance at 30 September 2003	**–**

The company has no liability, potential or otherwise, to deferred taxation.

The group does not provide deferred tax on revalued investment properties, in line with FRS19 'Deferred taxation', as there is no binding agreement to sell the revalued investment properties as at the balance sheet date.

20 Called-up share capital

	2003 £m	2002 £m
Company and group		
Authorised:		
32,000,000 (2002: 32,000,000) ordinary shares of 25p each	8.0	8.0
Allotted, called-up and fully paid:		
24,762,697 (2002: 24,744,546) ordinary shares of 25p each	6.2	6.2

	Number	Nominal value £'000	Consideration £'000
Shares issued during the year:			
SAYE scheme at £2.58	6,282	2	16
SAYE scheme at £4.68	11,869	3	56
	18,151	5	72

Potential issues of ordinary shares

Certain senior executives hold options to subscribe for shares in the company under executive share option schemes at prices ranging from 231.2p to 959.0p. In addition, the company operates a SAYE share option scheme for employees. Under this scheme, employees hold options to subscribe for shares in the company at prices ranging from 258.0p to 932.3p. Under these various schemes, options on 18,151 shares were exercised in the year and options on 2,939 shares lapsed. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below:

Year of grant	Exercise price (pence)	Exercise period	2003 Number	2002 Number
Executive share options				
1994	231.2	1997-04	40,000	40,000
1996	292.0 – 342.5	1999-06	19,032	19,032
1997	267.1	2000-07	27,856	27,856
2003	959.0	2006-13	169,506	–
			256,394	86,888

Year of grant	Exercise price (pence)	Exercise period	2003 Number	2002 Number
SAYE share options				
1998	258.0	2001-04	–	6,282
1999	308.0	2002-05	4,382	4,382
2000	466.0	2003-06	1,153	13,022
2001	690.0	2004-07	9,388	11,492
2002	818.0	2005-08	22,706	23,541
2003	932.3	2006-09	19,302	–
			56,931	58,719
Total share options			313,325	145,607

21 Reserves

	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Profit and loss account £m
Group				
At 1 October 2002	21.3	11.6	0.2	81.8
Issue of shares	0.1	–	–	–
Investment properties:				
Surplus on revaluation				
Group	–	3.1	–	–
Joint Venture	–	4.4	–	–
Less: Recognised in the profit and loss account in the year	–	(1.3)	–	–
Realisation on disposals	–	(3.1)	–	3.1
Tax on realisation of revaluation surpluses of Joint Venture	–	–	–	(0.9)
Arising upon consolidation of Joint Venture	–	–	–	(2.9)
Retained profit for the year	–	–	–	25.3
At 30 September 2003	**21.4**	**14.7**	**0.2**	**106.4**

	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m
Company			
At 1 October 2002	21.3	0.2	85.7
Issue of shares	0.1	–	–
Retained profit for the year	–	–	50.0
At 30 September 2003	**21.4**	**0.2**	**135.7**

The group financial statements do not include a separate profit and loss account for the company as permitted under section 230 of the Companies Act 1985. The amount of group profit after taxation dealt with in the financial statements of the parent company is £54.0m (2002: £4.6m). Included within the company's profit and loss account balance of £135.7m is a total of £60.5m which is non-distributable as the profit arose on a transfer of assets between group companies (2002: £60.5m).

22 Reconciliation of movements in equity shareholders' funds

	2003 £m	2002 £m
Profit for the financial year	29.3	20.9
Dividends	(4.0)	(3.5)
	25.3	17.4
Other recognised gains and losses for the year	2.4	7.4
New share capital issued	0.1	0.6
Net additions to equity shareholders' funds	27.8	25.4
Opening equity shareholders' funds	121.1	95.7
Closing equity shareholders' funds	148.9	121.1

23 Reconciliation of net cash flow to movement in net debt

	2003 £m	2002 £m
Increase/(decrease) in cash	71.2	(12.6)
Cash inflow from increase in debt	(33.8)	(8.7)
Change in net debt resulting from cash flows	37.4	(21.3)
Other non-cash items:		
Loans acquired with subsidiary	(493.7)	(1.1)
Movement in net debt for the year	(456.3)	(22.4)
Net debt at 1 October 2002	(223.2)	(200.8)
Net debt at 30 September 2003	(679.5)	(223.2)

24 Analysis of net debt

	At 1 Oct 2002 £m	Cash flow £m	On purchase of subsidiary £m	Other non cash changes £m	At 30 Sept 2003 £m
Cash at bank and in hand	10.5	71.2	–	–	81.7
Debt due within one year	(22.2)	30.2	(39.5)	(44.9)	(76.4)
Debt due after one year	(211.5)	(64.0)	(454.2)	44.9	(684.8)
Total	(223.2)	37.4	(493.7)	–	(679.5)

25 Minority interest – equity

	2003 £m	2002 £m
At 1 October 2002	–	–
Minority share of profit for the year	0.1	–
At 30 September 2003	0.1	–

26 Acquisitions

The following acquisitions were made during the year:

Company	Percentage purchased	Date of acquisition	Satisfied by Cash £m	Contingent deferred consideration £m	Acquisition expenses £m	Total consideration £m
Bromley Property Holdings Limited	50%	26 September 2003	24.3	10.0	0.6	34.9
Upminster Holdings Limited	100%	2 December 2002	1.2	–	–	1.2
BPT Peachey Limited	100%	13 December 2002	–	–	–	–
BPT (Peachey No2) Limited	100%	13 December 2002	–	–	–	–
Hamsard 2492 Limited	100%	13 December 2002	–	–	–	–
Hamsard 2342 Limited	100%	13 December 2002	0.4	–	0.1	0.5
BPT Bridgewater (Home Reversions No1) Limited	100%	13 December 2002	–	–	–	–
BPT Bridgewater (Home Reversions No2) Limited	100%	13 December 2002	–	–	–	–
			25.9	10.0	0.7	36.6

These purchases have been accounted for using the acquisition method of accounting.

Details of the acquisition of Bromley Property Holdings Limited are shown separately in note 27.

The contingent deferred consideration of £10.0m has been recognised because the directors believe the relevant criteria will be met. The £10.0m is calculated by reference to the percentage increase in the non-seasonally adjusted Nationwide House Price Index which the figure published in respect of August 2004 represents over the figure representing August 2002. If the increase amounts to 10%, the sum of £5.0m will be payable, rising by £0.1m for every 0.1% additional increase to a maximum of £10.0m when the increase amounts to 15% or more. This consideration is payable on or before 17 December 2004.

The aggregate assets and liabilities acquired, and their provisional fair values, of the other acquisitions were:

	Book value £m	Fair value adjustments £m	Provisional fair value £m
Tangible fixed assets	0.7	–	0.7
Current assets			
Trading properties	13.5	1.2	14.7
Total assets	14.2	1.2	15.4
Liabilities			
Creditors	(13.4)	–	(13.4)
Net assets acquired	0.8	1.2	2.0
Negative goodwill			(0.3)
Total consideration			1.7

The fair value of the trading properties at the dates of acquisition were prepared internally on a market value basis.

The post acquisition cash flows and results of the above companies are not considered material by the directors and therefore have not been disclosed separately in the profit and loss account or cash flow statement.

The subsidiaries acquired on 13 December 2002 were purchased from the Bromley Joint Venture. As part of this transaction, the group also purchased properties valued at £4.5m.

27 Bromley Property Holdings Limited

The company purchased the remaining 50% interest in the ordinary share capital of Bromley Property Holdings Limited ('Bromley') on 26 September 2003. Prior to that, Bromley was treated as a Joint Venture in the group's financial statements.

The aggregate assets and liabilities acquired and their provisional fair values for the purpose of calculating negative goodwill of the Bromley acquisition were:

	Book value £m	Fair value adjustments £m	Provisional fair value £m
Fixed assets			
Intangible assets	(80.3)	80.3	–
Tangible assets	84.8	–	84.8
Current assets			
Trading properties	428.0	144.9	572.9
Debtors	7.3	2.4	9.7
Cash at bank and in hand	74.9	–	74.9
Total assets	514.7	227.6	742.3
Liabilities			
Creditors: amounts falling due within one year	(92.7)	–	(92.7)
Creditors: amounts falling due after more than one year	(454.2)	–	(454.2)
Provisions for liabilities and charges	(4.7)	(8.1)	(12.8)
Net (liabilities)/assets acquired	(36.9)	219.5	182.6
50% thereof			91.3
Consideration			34.9
Negative goodwill on acquisition			(56.4)
50% share of Bromley's negative goodwill			(40.1)
Unamortised goodwill on initial acquisition of Joint Venture			0.3
Total negative goodwill			(96.2)

The fair value of the properties at the date of acquisition was prepared internally on a market value basis and reviewed by Allsop & Co., as stated in note 10. The other fair value adjustments reflect provisions for deficits on retirement schemes and the mark to market adjustment for Bromley's debt, together with associated provisions for deferred taxation.

The aggregate assets and liabilities acquired and their provisional fair values for the purpose of the group accounts were:

	£m
Net assets as reported above	182.6
Less 50% of the fair value uplift of trading properties	(72.5)
Net assets acquired on consolidation	110.1

A 50% adjustment has been made to the fair value of net assets used in the goodwill analysis above to reflect the proportion of ownership of these assets as part of the Joint Venture prior to Bromley becoming a subsidiary.

The post acquisition cash flows and results of Bromley are not considered material by the directors and therefore have not been disclosed separately in the profit and loss account or cash flow statement.

The trading and profitability of Bromley, which is a 'substantial acquisition' as defined in FRS6, for the period to acquisition are summarised as follows:

	1 October 2002 to 26 September 2003 £m
Turnover	114.1
Operating profit	48.3
Profit before taxation	24.4
Taxation	(16.1)
Profit for the period	8.3

The profit after tax for the year ended 30 September 2002 was £8.0m.

27 Bromley Property Holdings Limited (continued)

The statement of total recognised gains and losses for Bromley for the period to acquisition is as follows:

	1 October 2002 to 26 September 2003 £m
Profit on ordinary activities after taxation	8.3
Unrealised surplus on revaluation of properties	8.8
Tax on realisation of revaluation surpluses	(1.8)
Total recognised gains and losses	**15.3**

28 Pension schemes

Grainger Trust plc operates defined contribution pension schemes for its employees. The assets of the schemes are held separately from those of the group in independently administered funds. Pension arrangements for executive directors are disclosed in the remuneration committee report. The pension cost charge in these financial statements represents contributions payable by the group (see note 6).

BPT Limited, a wholly owned subsidiary of Bromley, currently contributes to two pension schemes. The first is a defined contribution scheme, implemented during the year and open to all employees. The contributions are charged to the profit and loss account during the year. The second is a defined benefit scheme, which was closed to new members and employee contributions during the year. The group will continue to contribute so as to spread the cost over the expected remaining lives of the relevant employees.

Defined benefit scheme

The assets of the defined benefit scheme are held separately from those of the group in funds administered by trustees and are invested with an independent investment manager. Costs and funding are assessed with the advice of an independent qualified actuary using the projected unit method.

Actuarial valuations are carried out every three years and the last full actuarial valuation using the projected unit method was undertaken as at 1 July 2001. Based on actuarial assumptions of an investment return of 7.5% per annum and salary increases of 6% per annum, the assets were valued at £9.0m. These were held in a relevant insurance contract. These assets represented 85% of the value of the scheme's accrued liabilities. The deficiency is being met over the expected working lifetimes of the members. The pension cost in the Joint Venture for the year ended 30 September 2003 was £0.4m (2002: £0.6m).

The actuary also undertook a Minimum Funding Requirement valuation as at 1 July 2001 in accordance with the Pensions Act 1995. The value of the assets of the scheme was determined at 95% of the liabilities of the scheme.

FRS17 transitional disclosures

The FRS17 calculations for disclosure purposes have been based on a valuation at 1 August 2003 adjusted to 30 September 2003 by a qualified independent actuary. The major assumptions used by the actuary were:

Discount rate	5.30% pa
Rate of increase in salaries	3.70% pa
Rate of increase in pensions in payment	5.00% pa
Inflation assumption	2.70% pa

The assets are invested in a with-profits deposit administration insurance policy with AXA Sun Life. The fund value of the assets of the scheme was £10.5m as at 30 September 2003.

The expected rate of return on the assets was 6.3% as at 30 September 2003.

The following approximate amounts were measured in accordance with the requirements of FRS17:

	30 September 2003 £m
Total market value of assets	**10.5**
Present value of scheme liabilities	**(14.2)**
Deficit in the scheme	**(3.7)**
Related deferred tax assets	**1.1**
Net pension liability	**(2.6)**

28 Pension schemes (continued)

If these amounts had been recognised as part of the net assets of Bromley, the adjustment to the pension liability of £2.6m would have been reflected in the net assets acquired as at 26 September 2003. The adjustment to pensions balances to reflect the adoption of FRS17 would be to goodwill, with nil net impact on net assets and the profit and loss reserve. Consequently, the disclosure requirements of FRS17 with respect to the impact of the above net pension liability measured in accordance with FRS17 have not been presented.

The following amounts would have been recognised in the performance statements of the Joint Venture in the year to 30 September 2003 under the requirements of FRS17:

	£m
Operating profit	
Current service cost	**0.3**
Past service cost	**–**
Total operating charge	**0.3**
Other finance income	
Interest on pension scheme liabilities	**(0.7)**
Expected return on pension scheme assets	**0.6**
Net return	**(0.1)**
Statement of total recognised gains and losses	
Actual return less expected return on pension scheme assets	**(0.3)**
Experience gains and losses arising on the scheme liabilities	**0.1**
Changes in assumptions underlying the present value of the scheme liabilities	**(1.1)**
Actuarial loss recognised	**(1.3)**

Movements in deficit for the year ended 30 September 2003

	£m
Deficit in scheme at 1 October 2002	(3.1)
Movement in year:	
Current service cost	(0.3)
Past service cost	–
Contributions	1.1
Other finance income	(0.1)
Actuarial loss	(1.3)
Deficit in scheme at year end	**(3.7)**

28 Pension schemes (continued)

Details of experience gains and losses for the year ended 30 September 2003.

1. Difference between the expected and actual return on scheme assets	
Amount	£(0.3m)
Percentage of scheme assets	(2.9%)
2. Experience gains and losses on scheme liabilities	
Amount	£0.1m
Percentage of the present value of the scheme liabilities	0.1%
3. Total amount recognised in statement of total recognised gains and losses	
Amount	£(1.3m)
Percentage of the present value of the scheme liabilities	(9.2%)

29 Contingent liabilities

The company, in conjunction with certain other group companies, has guaranteed bank loans and other loans of subsidiary companies amounting at 30 September 2003 to £243.8m (2002: £208.3m).

30 Post balance sheet events

On 21 November 2003, the company announced the early redemption of its 2024 quoted debenture stock, of £2.5m, with an early redemption cost of £1.8m.

31 Related party transactions

In accordance with the provisions of FRS8 'Related Party Disclosures', details of transactions with subsidiary undertakings are not disclosed. There are no other related party transactions in addition to those already disclosed in the financial statements.

Notice of the annual general meeting

For the year ended 30 September 2003.

Notice is hereby given that the ninety-first annual general meeting of the company will be held at Citygate, St James' Boulevard, Newcastle upon Tyne NE1 4JE on 26 February 2004 at 12.15 pm for the following purposes:

As routine business, to consider and, if thought fit, pass the following resolutions as ordinary resolutions of the company:

1. That the directors' report and the audited financial statements for the year ended 30 September 2003 be approved and adopted.

2. That the remuneration committee report for the year ended 30 September 2003 be approved.

3. That a dividend of 12.80p per share be paid on 5 March 2004 to all holders of ordinary shares on the register of members of the company at the close of business on 13 February 2004, in respect of all ordinary shares then registered in their names.

4. That Robert Dickinson be re-elected as a director.

5. That Robin Herbert be re-elected as a director.

6. That John Barnsley (having been appointed since the last annual general meeting) be re-elected as a director.

7. That PricewaterhouseCoopers LLP be re-appointed auditors of the company to hold office until the conclusion of the next general meeting at which accounts are laid before the company and that their remuneration be fixed by the directors.

As special business, to consider and, if thought fit, pass the following resolutions 8 and 9 which will be proposed as special resolutions of the company.

8. That the directors be empowered pursuant to section 95 of the Companies Act 1985 (the 'Act') to allot equity securities (as defined in section 94(2) of the Act) (including as described in section 94(3A) of the Act) for cash pursuant to the authority conferred by resolution 7 passed at the annual general meeting of the company on 29 February 2000 as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

(a) the allotment of equity securities in connection with any rights issue, open offer or other pre-emptive offer to holders of equity securities in proportion (as nearly as may be practicable) to their respective holdings of such equity securities, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange in any territory or any other matter whatsoever; and

(b) otherwise than pursuant to paragraph (a) above, the allotment of equity securities up to an aggregate nominal amount of £310,033.

and shall expire on the conclusion of the next annual general meeting of the company after the passing of this resolution or 15 months from the date of this resolution (whichever is earlier) except that the company may before such expiry 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 any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

All powers previously conferred under section 95 of the Act are revoked, but such revocation shall not have retrospective effect.

9. That the company be generally and unconditionally authorised for the purposes of section 166 of the Companies Act 1985 (the 'Act') to make one or more market purchases (within the meaning of section 163(3) of the Act) on the London Stock Exchange of ordinary shares of 25p each in the capital of the company provided that:

(a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 3,720,404;

(b) the minimum price which may be paid for such shares is 25p per ordinary share;

(c) the maximum price which may be paid for such ordinary shares shall not be more than 5% above the average of the market values for an ordinary share as derived from the London Stock Exchange's Daily Official List for the five business days immediately preceding the date on which the ordinary shares are purchased;

(d) unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the company's next annual general meeting or 15 months from the date of this resolution (whichever is earlier); and

(e) the company may make a contract or contracts to purchase ordinary shares under the authority conferred by this resolution prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares in pursuance of any such contract or contracts.

By order of the board

Marie Glanville
Company secretary
16 January 2004

Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE

Five year record

For the year ended 30 September 2003

	1999	2000	2001 £m	2002	2003
Turnover**	60.1	68.2	124.7	213.8	**173.6**
Gross rentals	22.8	24.7	23.2	22.0	**21.4**
Sales of investment properties	13.3	19.9	40.0	7.1	**2.1**
Trading profits	12.6	19.7	26.5	33.7	**38.8**
Profit before taxation**	12.4	16.4	21.1	44.9	**48.5**
Profit after taxation and minority interests**	9.0	11.1	12.9	23.5	**29.3**
Dividends paid	2.4	2.7	3.0	3.5	**4.0**
			pence per share		
Earnings**	35.7	44.1	52.5	95.3	**118.5**
Dividends	9.32	10.72	12.33	14.18	**16.31**
			£m		
Fixed assets and stocks on a financial statement basis	250.4	284.6	316.0	374.7	**909.4**
Fixed assets and stocks at market value***	335.0	439.3	554.9	680.3	**1,305.8**
Share capital and reserves	95.1	86.8	95.7	121.1	**148.9**
			£ per share		
Net asset value on financial statements basis	3.77	3.52	3.88	4.89	**6.01**
Net asset value including fixed assets and stocks at replacement value*	7.13	9.79	13.56***	17.24***	**21.94**
Dividend cover**	3.8x	4.2x	4.3x	6.7x	**7.3x**
Gearing	76%	74%	60%	52%	**125%**
Share price at 30 September	397.5p	575.0p	757.5p	992.5p	**1,365.0p**

Figures for 1999 to 2001 are restated, where relevant, to take account of FRS19. In addition:
*Corporation tax has not been provided on valuation surpluses relating to stocks.
**Excluding exceptional items and including share of Joint Venture
***2001 and 2002 includes share of the market value of Joint Venture properties and negative goodwill write back.

Shareholders' information

Financial calendar
Annual general meeting
26 February 2004

Payment of 2003 final dividend
5 March 2004

Announcement of 2004 interim results
June 2004

Payment of 2004 interim dividend
July 2004

Announcement of 2004 final results
December 2004

Share price
During the year ended 30 September 2003, the range of mid market prices of the company's ordinary shares were:

Price at 30 September 2003	1,365.0p
Lowest price during the year	926.5p
Highest price during the year	1,460.0p

Daily information on the company's share price can be obtained on our website or by telephoning:
The Financial Times Cityline Service
on 09068 432 750.

Capital gains tax
The market value of the company's shares for capital gains tax purposes at 31 March 1982 was 30.4p.

Website
Website address www.graingertrust.co.uk

Shareholders' enquiries
All administrative enquiries relating to shareholdings (for example, notification of change of address, loss of share certificates, dividend payments) should be addressed to the company's registrar at:

Capita IRG plc, The Registry,
34 Beckenham Road, Beckenham, Kent

Secretary and registered office
Marie Glanville
Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE

Advisers

Solicitors
Dickinson Dees, St Ann's Wharf,
112 Quayside, Newcastle upon Tyne

Denton Wilde Sapte, 5 Chancery Lane,
Cliffords Inn, London

Hammonds,
2 Park Lane, Leeds

Financial public relations
Baron Philips Associates,
131 Finsbury Pavement, London

NP Public Relations and Marketing
8 Mosley Street,
Newcastle upon Tyne

Bankers
Barclays Bank PLC, Regent Centre,
Gosforth, Newcastle upon Tyne

Bank of Scotland, 41/51 Grey Street,
Newcastle upon Tyne

Nationwide Building Society,
Kings Park Road, Moulton Park,
Northampton

Royal Bank of Scotland, Keel Row House,
Quayside, Newcastle upon Tyne

Lloyds TSB Bank plc,
6/7 Park Row, Leeds

Auditors
PricewaterhouseCoopers LLP,
89 Sandyford Road,
Newcastle upon Tyne

Stockbrokers
Cazenove & Company Ltd,
20 Moorgate, London

Brewin Dolphin Securities,
Commercial Union House,
39 Pilgrim Street, Newcastle upon Tyne

Registrars and transfer office
Capita IRG plc, The Registry,
34 Beckenham Road, Beckenham, Kent

Glossary of terms

Property

Assured periodic tenancy (‘APT’)	Market rented tenancy arising from succession from regulated. Tenant has security of tenure.
Assured shorthold tenancy (‘AST’)	Market rented tenancy where landlord may obtain possession if appropriate notice served.
Assured tenancy (‘AT)’	Market rented tenancy where tenant has right to renew.
Investment value (‘IV’)	Open market value of a property subject to relevant tenancies in place.
Life tenancy	Rent free tenancy where tenant has right of occupation until possession is forfeited (usually on death). If tenant retains an equity interest in the property this is a partial life tenancy.
Regulated tenancy	Tenancy regulated under 1977 Rent Act, rent (usually sub market) set by rent officer and tenant has security of tenure.
Tenanted Residential (‘TR’)	Activity covering the acquisition, renting out and subsequent sale (usually on vacancy) of residential units subject to a tenancy agreement.
Vacant possession value (‘VP’)	Open market value of a property free from any tenancies.

Financial

Cap	Financial instrument which, in return for a fee, guarantees an upper limit for the interest rate on a loan.
Contingent tax	The amount of tax that would be payable should assets be sold at the market value shown in the accounts.
Dividend cover	Earnings per share divided by dividends per share.
Earnings per share (‘EPS’)	Profit attributable to shareholders divided by the weighted average number of shares in issue in the year.
FRS13	Accounting standard requiring the disclosure of the market value of long-term debt and financial instruments.
FRS19	Accounting standard prohibiting the provision of deferred tax on stock revaluation surpluses when companies are acquired.
Gearing	The ratio of borrowings net of cash to net asset value.
Hedging	The use of financial instruments to protect against interest rate movements.
Interest cover	Profit on ordinary activities before interest and tax divided by net interest payable.
Negative goodwill	On acquisition of a company, the surplus of the value of the statutory net assets acquired over the purchase price paid.
Net asset value (‘NAV’)	Shareholders’ funds adjusted for the market value of property assets held as stock.
Net net asset value (triple net or ‘NNNAV’)	NAV adjusted for contingent tax liabilities which would accrue if assets sold at market value and for the market value of long-term debt and derivatives.
Swap	Financial instrument to protect against interest rate movements.
Total Shareholder Return (‘TSR’)	Return attributable to shareholders on basis of share price growth with dividends reinvested.
Weighted average cost of capital (‘WACC’)	The weighted average cost of funding the group’s activities through a combination of shareholders’ funds and debt.

Corporate

BPT plc	Formerly Bradford Property Trust plc. Major residential investor acquired by Bromley in May 2001.
Bromley Joint Venture (‘Bromley JV’)	The Joint Venture between Grainger and Deutsche Bank which acquired BPT plc.
Bromley Property Holdings Limited (‘Bromley’)	Holding company of the vehicle used to acquire BPT plc.
Deutsche Bank (‘DB’)	Joint venture partners in acquisition of BPT plc.

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