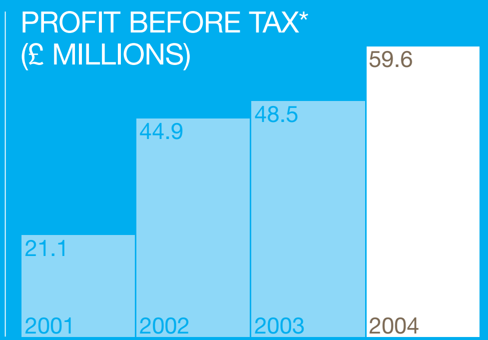
grainger trust plc

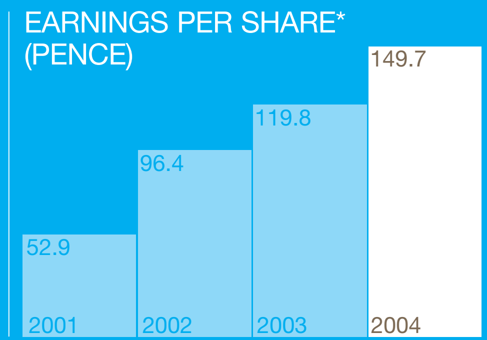
ANNUAL REPORT AND ACCOUNTS 2004

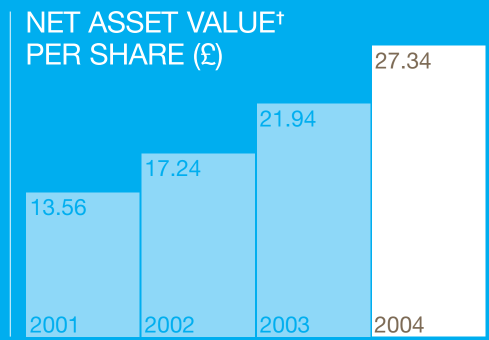
Grainger Trust is the UK's largest quoted residential property investor owning over 12,000 units. This core business is supplemented by our development and trading division, which is active in the delivery of residential and mixed use developments. In addition to our traditional long-term businesses we are making progress in growth markets such as life tenancies and mainland Europe.

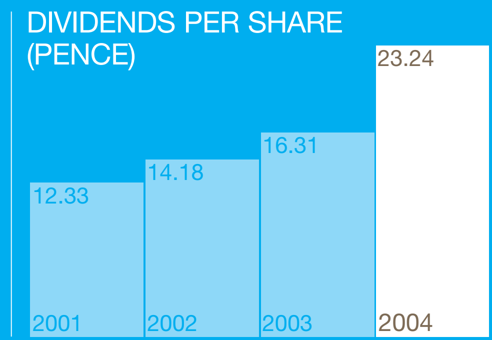
2004 Highlights

- **Profit before tax and exceptional interest rises 23% to £59.6m**
- **Earnings per share before exceptional interest up by 25% to 149.7p**
- **Dividends up to 23.24p for full year, increase of 42%**
- **Net asset value per share advances by 25%**
- **Share split and new dividend policy announced**
- **Bromley joint venture results consolidated for the first time**
- **Commercial investment portfolio rationalised**
- **Successful refinancing of debt portfolio**
- **Gearing down to 103% from 125%**
- **Market value of all properties £1.4 billion**









*excluding exceptional interest

†after adjusting for the market value of trading properties and investments

At a Glance

Group structure

Grainger Trust plc
- Tenanted residential division
- Development and trading division

The facts

Over the last five years our gross assets have increased from £0.4bn to £1.5bn

Over the last five years our share price has grown by 362%, the FTSE 250 by 10%

The vacant possession value of our most expensive residential property is £1.5m; the cheapest £15,000

We own a total of 12,041 residential units with vacant possession value of £1.9bn; these units have cost us £0.9bn

Two-thirds of our portfolio is valued between £100,000 and £250,000

Managing our portfolio

Our residential portfolio is managed by a network of six offices supported by managing agents in remote areas, giving us a nationwide presence:

1. Altrincham
2. Epsom
3. Harborne
4. London
5. Martlesham
6. Newcastle upon Tyne

Grainger Trust plc

Total market value of property assets

£1.4bn

Total operating contribution*

£107.2m

Group operations are defined by the following:

Performance criteria

Bulk of income comes from trading activities and realisation of reversionary surpluses, so alternatives to yield based valuation measures also presented.

Focus is therefore on profit before tax, earnings per share and net asset value.

Use of NAV, diluted NAV and Grainger NAV which takes account of long-term reversionary surplus in our core portfolios.

At individual project level, performance criteria such as cash generation, internal rate of return, profitability and strategic positioning used.

Risk review

Major risk relates to state of housing market, linked to interest rates and general economic environment.

Risk minimised by:
- Portfolio is geographically widespread, reduces cluster risk
- Portfolio spread across property types and values, reducing exposure to highly fluctuating top-end properties
- Relatively low average value where demand is consistent and strong
- Regulated properties are unmodernised on vacancy so demand tends to be high

Long-term view taken and financial stability enables short-term price fluctuations to be withstood.

Business review

All activities characterised by cash generation, high trading margins and willingness to take long-term view.

Regulated tenancy market diminishing, but we maintain position by active purchasing.

Review new and expanding business opportunities – life tenancies, European investment, development and trading, asset and property management.

At plc level, key criteria is total shareholder return.

*profit on ordinary activities before interest and taxation and excluding administration expenses

Tenanted residential division

Divisional key characteristics: long-term business, highly cash generative, high margins.

Market value of property assets by division	Operating contribution* by division
£1.3bn	£81.9m
Proportion of group operating contribution*	**Number of properties by division**
76%	12,041

Within this division, contributions come from two areas of operation:

Trading

Regulated (Investment value: £939m)
Key features:
- Tenant has security of tenure
- Rents set by rent officer and increases capped at retail price index +5% over two years
- Purchased at discount to vacant possession value and sold on vacancy
- Approximately 8% of the portfolio becomes vacant every year
- No new regulated tenancies being created

Characteristics: Low rental yield, high margin on sales.

Life tenancy (Investment value: £167m)
Key features:
- Tenant has security of tenure
- No rental income
- Whole or partial ownership purchased at discount to vacant possession
- Property sold on vacancy
- No maintenance obligation

Characteristics: No rental yield, high sales margin.

Assured, vacant and others (Investment value: £223m)
Key features:
- Market rented tenancies (£136m)
- Vacants to be sold (£49m)
- Other (including ground rents and serviced apartments £38m)

Characteristics: Market yield, some margin on sale.

Rental and management

Net rental income
Key features:
- Net rental income derived from regulated and assured tenancies after maintenance and management expenditure

Asset and management fees
Key features:
- Fee based activities remunerated by asset and property management fees

Characteristics: Management skills adapted to provide additional fee income with no capital investment.

Development and trading division

Divisional key characteristics: opportunistic and entrepreneurial.

Market value of property assets by division	Operating contribution* by division
£109m	£25.3m
Proportion of group operating contribution*	
24%	

Within this division, contributions come from three areas of operation:

Land and regeneration

Key features:
- Translates green and brownfield sites into residential or mixed use developments
- Highly profitable but complicated long-term business.
- Involves negotiations with planners, local communities and councils

Major sites:
Kennel Farm, Basingstoke; West Waterlooville, Hampshire; Widdrington/Hadston, Northumberland

Residential development

Key features:
- Uses group's asset base, expertise or equity type funding
- Often in partnerships with housing associations, local developers and councils

Major sites:
South London Hospital, Clapham; Macaulay Road, Clapham; Hornsey Road/Barnsbury, Islington, Smith Docks, North Shields

Grainger Homes

Key features:
- Small scale niche house building mostly in North East of England
- Produces consistent levels of cash and trading margins

Major sites:
The Kylins, Morpeth; Grangewood, Widdrington; Kingsfield, Seahouses; Omega Apartments, Birmingham

Chairman's Statement

Property expertise:

This has been a landmark year for Grainger Trust. We have achieved record levels of profits, asset and share price growth as well as making significant progress in our key strategic objectives. The year under review has also been important as it represents the first 12 month period in which our Bromley joint venture has been wholly owned and incorporated into the year's results.

Robert Dickinson
Chairman

We have continued to focus on our core tenanted residential business and we have increased the market value of this portfolio by 14% to £1.3 billion. Our total gross assets at market value now stand at £1.5 billion. We have maintained our leading position as the largest quoted investor in the long-term residential market by purchasing 486 regulated and 374 life tenancy units in the year. We have invested considerable management time and energy in positioning our life tenancy activities and believe that we are now well placed to take advantage of this exciting business opportunity. Our rationalisation of the commercial investment portfolio has been completed at a significant profit and we now have greater clarity and focus in our development and trading activities.

To help lay the foundations for the group's future growth, we completed a highly successful refinancing of our debt portfolio with a more flexible funding platform that will enable us to take full advantage of opportunities as they become apparent.

Results

The strong residential market, as well as a good performance from Grainger development and trading division, have been the major drivers of the year's record results. I am pleased to report that Grainger has produced profits before tax and exceptional interest of £59.6m for the year to 30 September 2004, a 23% increase over the previous year's £48.5m. As a result earnings per share before exceptional interest have grown 25% to 149.7p.

Net assets

Net assets per share have grown by 25% to £27.34 from £21.94. Fully diluted net asset value, taking into account contingent tax and the market value of our long-term debt and hedging, has increased by 34% to £18.62 from £13.91. Grainger net asset value, which incorporates an estimate of the reversionary surplus within our core portfolio, is £24.00 per share, a 30% increase from last year's figure of £18.40.

Dividends

For the last five years we have adopted a consistent dividend growth policy of 15% per annum. Given the group's outstanding record of profit increases however, this has resulted in a low dividend yield and high dividend cover in comparison to our peers. Your board is therefore recommending a step up increase in the year end dividend to 19.20p per share, to be paid on 4 March 2005 to shareholders on the register at close of business on 11 February 2005. This will produce a full year figure of 23.24p per share, an increase of 42% over last year. It is our intention to continue with a progressive dividend policy, albeit at a more moderate target growth of 10% per annum. We will also take the opportunity to restructure the phasing of our dividend payments and it is our intention that the interim dividend (to be paid in July of each year) will comprise approximately one third of the total, the balance being paid at the time of the final in March of each year.

Share structure

Five years ago our share price was approximately £4.00. At 30 September 2004 this had grown to £18.35. At this level, we consider it appropriate to introduce a share split on a five for one basis, replacing each 25p ordinary share with five 5p ordinary shares. We believe that this will improve liquidity in our shares and will help dampen share price volatility. Appropriate resolutions to approve this, together with others to modernise our Articles of Association, will be proposed at an extraordinary general meeting to be held immediately after our annual general meeting.

Board

Robin Herbert and Nichola Pease will be retiring from the board at the annual general meeting. Robin has been a board member since February 1994 and has served as chairman of the audit committee and latterly as senior non-executive director, a role which will be assumed by Robin Broadhurst. Nichola leaves the board after four years' service and her position as chairman of the remuneration committee will be taken by Robert Hiscox. We thank both Robin and Nichola for the very significant contribution they have made to the group. During a period of unprecedented growth and activity, they have been a source of wise counsel and encouragement.

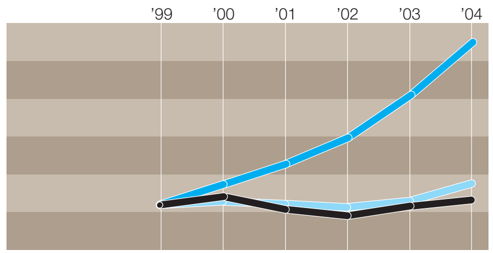
As announced in November 2004 Sean Slade has resigned as an executive director. Sean joined the group when we owned a significant commercial investment portfolio, however the redefinition of the group's focus into residential activities and the consequent disposal of the group's commercial portfolio has meant that the challenges and

+14%
Portfolio market value
The value of our core tenanted residential portfolio has increased by 14% to £1.3bn.

+30%
Grainger net asset value
Net asset value per share of £24.00, up from last years figure of £18.40.

+23%
Profit before tax and exceptional interest
A 23% increase over the previous year.

Share price performance
1999–2004



Performance of our share price compared to FTSE Real Estate and FTSE 250 companies.

opportunities for Sean were no longer available. We are grateful to Sean for the professional and efficient way in which the investment portfolio rationalisation was conducted and wish him every success for the future.

People

Grainger has a core of committed staff, expert in buying, selling, managing and developing residential property. As the group activities have expanded we have complemented this core group with several senior appointments to ensure that we are well placed to take advantage of future opportunities. I would like to thank our enthusiastic and hard working staff for the continuing contribution they have made to another successful year.

Strategy and outlook

We are delighted with the performance in the year but accept that our market place may present a more difficult trading environment in the short-term. Indeed since the year end we have seen a slowing in demand for our vacant properties. We are still exceeding, on average, September 2004 vacant possession values by circa 3% on recent sales, but the time taken to complete these sales has extended. However, we believe that our core business activities are resilient and can produce good levels of shareholder return even when economic conditions are less favourable.

It is clear that the property sector and our particular niche in it will face many new challenges and opportunities over the coming year. Whilst our business is robust we are aware that the overall perception of our potential success is driven by general and media comments on the state of the housing market. Our view is that the overall trend of house prices is flattening and that growth over the next year may well be limited. Indeed we believe that the market in London and the South East has already experienced a significant correction. The housing market is primarily affected by expectations of interest rate levels and many commentators are now indicating that rates may stabilise. If this happens then we would expect to see forecasts of healthier house price movements.

However, we believe that the case for residential property as a long-term investment remains strong. Increases in the number of households from a combination of smaller family units, greater levels of self occupancy and increasing life expectancy are sustaining demand. This at a time when new house build levels are at their lowest for several decades. Home ownership in the UK has long been seen as an investment, as well as a method of occupation – and its attraction as an alternative to equities or traditional forms of pension provision has become more pronounced over recent years. Interest rates remain at a comparatively low level and this helps to support affordability.

The property sector faces a future in which real estate investment trusts or ‘REIT’s’ may play a significant role, although the recent pre-budget report indicated that any legislation will not be introduced until July 2006 at the earliest. Whilst the trading nature of Grainger business does not immediately lend itself to a REIT type structure, we will ensure that we are at the forefront of any initiative that will facilitate investment in the private rented sector.

We will continue to focus on our core regulated business which is high margin and cash generative. We are optimistic about the growth potential of the life tenancy sector and are pushing hard for this to become a significant contributor to group profit. We are excited by opportunities that are being presented to us on mainland Europe and are confident that we can successfully transfer our skills and expertise to these emerging markets. Our development and trading activities are well defined and our vision is to build a series of coherent, related activities showing our ability to operate in all sectors of the residential market, while producing consistent levels of profitability and growth.

The future

We have in place the three key resources for us to continue as a consistently successful long-term business; a superb asset base, a sound funding platform and an expert and unrivalled team. We look forward to the future with confidence and enthusiasm.

Robert Dickinson
Chairman
21 December 2004

Chief Executive's Statement

Exciting times:
This has been a particularly exciting and fulfilling year. Not only have we produced record profits and an excellent growth in the value of our asset base but we have made substantial progress in achieving the goals we set at the beginning of the year.

These included the full and successful incorporation of our Bromley joint venture; the rationalisation and refocusing of our development and trading division, with the disposal of the bulk of our commercial property investment portfolio and the £900m refinancing of our loan portfolio, which gives us both greater flexibility and overall lower interest rates.

We have also achieved substantial progress in developing two key areas, which we believe will become significant growth areas for the group – life tenancies and investment in mainland Europe. In both these areas we hope to announce further developments, either through direct acquisition or the creation of important joint venture partnership agreements during the course of the current year.

Turning to the group's operations in more detail, I can report that the strong housing market we witnessed for most of the year under review was reflected in our tenanted residential division, where sales totalled almost £135m. In addition, we saw a valuation increase on the residential properties in our trading portfolio of 12.4% to September. This figure does mask regional variations of less than 5% in central London and greater than 30% in the North West of England. In our view these increases underline the benefit of our geographically widespread portfolio as well as the underlying strength of the housing market over the period. Some 42% by value of Grainger residential assets are outside London and the South East – the two regions that saw relatively sluggish growth through the year to 30 September 2004. The year end average vacant possession value of our residential properties rose to £164,000 from £144,000 last year. The reversionary surplus in our portfolio (the difference between vacant possession value and investment value) now stands at £536m, or £21.61 per share.

It is also worth noting that many of the sales that we achieved were of unmodernised or below UK average value properties. There

Group management board
Headed by Rupert Dickinson and Andrew Cunningham. The group's expert and unrivalled team allows the business to develop and grow with assurance and confidence.

Pictured left to right:

1. Debra Yudolph
Director of Residential Management (South)

2. Mark Robson
Director of Residential Management (North)

3. Rupert Dickinson
Chief Executive

4. Andrew Cunningham
Deputy Chief Executive and Finance Director

5. Brian Crumbley
Director of Sales and Acquisitions (North)

6. Peter Schwerdt
Director of Sales and Acquisitions (South)

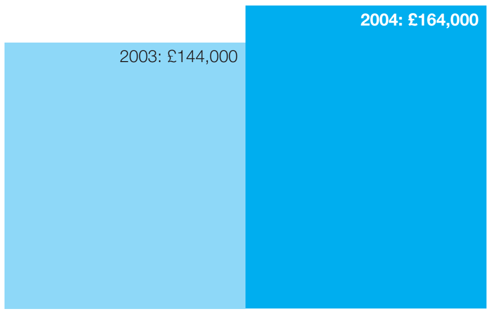
7. James Fielder
Director of Urban Development

8. Marie Glanville
Group Company Secretary
Director of Group Financial Operations

9. Andy James
Director of Land and Regeneration

10. Tony Dodds
Director of Grainger Homes

Average sale value of Grainger's properties on vacant possession
2003-2004



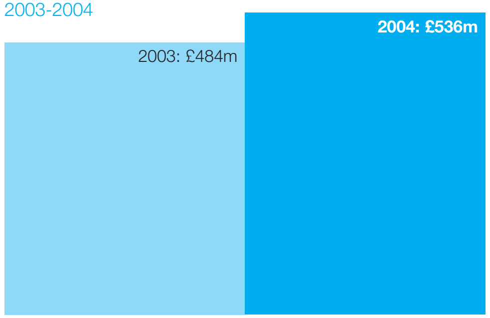
is strong and consistent demand for such properties from both first time buyers as well as the owner/developer market.

On the other side of the equation, we are extremely pleased with the level and quality of residential purchases we have made during the year. In fact we acquired, in total, slightly more residential units than we sold. After a slow start we invested approximately £118m to purchase 1,042 units, compared with the 1,031 units sold, which included 486 regulated tenancies (at a cost of £68m) and a further 374 life tenancies (for £23m).

At the start of the year one of the principal goals we set ourselves was to rationalise our development and trading activities through the orderly disposal of our commercial property investments in order to focus effort and resource on the residential sector. As a result we sold £25m of commercial property investments, showing a £3.5m surplus over September 2003 values, leaving the group with only one major development asset – Landmark Place, Slough. The 69,000 sq. ft. office element has been hard hit by current market conditions and we have taken a £1m write-down against its carrying value.

Following the disposal of virtually all our commercial property investments we have now reorganised the development and trading division into three distinct core activities: land and regeneration; residential development; and house building. This, we believe, now presents a coherent and structured approach.

Reversionary surplus
(the difference between vacant possession value and investment value)
2003-2004



A long-term business

Our portfolio is ‘pregnant’ with reversionary value – part of the value is realised each year as properties are vacated and sold.

Life tenancy – taking advantage of our expertise

We are excited by the opportunities presented by this sector. Diminishing pension returns and the opportunity to crystallise some of the increase in value of homes has increased the profile of, and demand for, this product.

In land and regeneration we sold the final major development plots, comprising 12.4 acres, at Kennel Farm for a total of £14.2m, generating operating profits of £10.7m. Future activity at Kennel Farm will focus on completion of the local centre, the five acres allocated for business use and the sale of minor plots on a piecemeal basis.

The main contribution in residential development has come from the development with Network Housing Association which incorporated 78 flats above a large Sainsbury's supermarket in Wilton Road, Pimlico. This scheme has generated income to us of almost £8m through the sale of 70 flats during the year; of the remaining eight flats, five have completed since the year end.

House building has made very satisfactory progress during the year as Grainger Homes completed the sale of 132 units for £14.7m, producing a trading profit of more than £2m.

Operationally, therefore, this has been a successful and eventful year. Externally this success has been recognised by our winning the EPRA Best Performance Small/Mid Cap Award for the year ended 2003. EPRA is the European Public Real Estate Association and has been set up to promote, develop and represent the European public real estate sector with a particular focus on establishing best practice standards in accounting, reporting and corporate governance. The award is granted to the company showing the greatest level of total shareholder return provided certain standards of disclosure and corporate governance were met – our return in the year was over 65%.

And what of the future at Grainger Trust? As ever our focus will remain on the regulated tenancy market. This business is high margin and cash generative and we will endeavour to make the most of any opportunities that arise. However, Grainger is a long-term business and we are busy preparing ourselves for the time when the supply of regulated tenancies begins to diminish.

Fundamental to this is the life tenancy market. We are excited by the opportunities presented by this sector. Diminishing pension returns, and the opportunity to crystallise some value from the increase in value of homes has increased the profile of and demand for this product. Regulation of the mortgage market and the future regulation of equity release reversion products will, we believe, introduce more discipline into the sector and reward suppliers with good reputations and a successful history.

We are delighted to announce the appointment of Peter Couch to head up our life tenancy activities. Peter is vastly experienced in the equity release and insurance business sectors having worked as national sales manager of financial planning services for NPI Limited and managing director of AMP Retirement Services before setting up his own equity release consultancy business. We are confident that Peter will help Grainger take full advantage of the opportunities this sector presents to us.

Concern has been expressed that equity release may be tax inefficient for home-owners as a result of the introduction of the pre-owned asset tax in April 2005. We are delighted to report that the Inland Revenue confirmed in an answer to Parliament in November that such assets would not be affected by the new tax.

Trust Grainger

The year under review has seen the papers full of stories of uncertainty in the housing market. It's reassuring to know that in the same period our share price has significantly increased, we have posted a record profit and seen an increase of 25% in our net asset value per share.

Entering new markets

With our wide skill base and expert knowledge we have created a unique platform from which to enter into new markets such as life tenancy and European investment.

We have received a number of approaches from financial services companies who want to create a reversionary equity release product and leverage our skills. They are offering us access to their distribution capability and we are exploring options in this regard.

We also feel that we can operate successfully in mainland Europe. We are concentrating our efforts in two areas. The first is investment in long-term reversionary residential portfolios in the more mature economies of Western Europe where we believe there is an opportunity to replicate the return characteristics of our main UK business. We are also looking at more opportunistic investments in residential development land in Central Europe. In both cases we are currently intending to invest alongside local operating partners.

Supporting these activities will be our development and trading division, now rationalised and with a clear strategy. The rationalisation of the commercial property portfolio and the last of the bulk sales at Kennel Farm indicate that this year's level of profitability will not be repeated in 2005, but we are confident that we will be able to position this division to produce high quality returns across a broad spectrum of residential development activity.

Rupert Dickinson
Chief Executive
21 December 2004

From houses to penthouses

While our properties range from houses to penthouses, 66% of our entire portfolio have a vacant possession value of between £100,000 and £250,000.

Operating and Financial Review

It's simple:
The business is growing and so are the opportunities coming our way.

Operating review

Tenanted residential highlights

Operating contribution* increased by 22% to £81.9m

1,031 properties sold for £134.9m, generating a rise in trading profits to £59.1m and profit on disposal of fixed assets of £3.0m

1,042 residential units purchased for £118m

Year end portfolio of 12,041 units, investment value £1,329m, vacant possession value £1,865m

*profit on ordinary activities before interest and taxation and excluding administration expenses

Tenanted residential

The scale of our tenanted residential activities has increased with the acquisition of the outstanding share of the Bromley joint venture. For the purposes of comparison in this division we have included our share of the results of the joint venture in last year's tenanted residential performance figures; for statutory reporting purposes, the joint venture results are aggregated as one disclosure item.

Key performance statistics

	2004	2003
Properties sold	1,031	1,414
Sales value £m	134.9	139.4
Trading and fixed asset profits £m	62.1	51.2
Net rental income £m	17.8	14.9

The geographic strength of our portfolio is reflected by the range of growth in vacant possession sales values achieved in comparison to last year's valuation, London and the South East showed growth levels of 7.7%, while the rest of the country showed 15.7%.

Geographic spread of our portfolio

	Investment value £m	% of assets
London	551	41
South East	224	17
South West	79	6
East	91	7
East Midlands	47	3
West Midlands	129	10
Wales	8	1
Yorkshire	47	3
North West	124	9
North East	20	2
Scotland	8	1
Northern Ireland	1	–
	1,329	**100**

Our portfolio composition also helps dampen the volatility associated with the higher end of the market. The analysis below shows the number and value of properties we own by vacant possession value.

Range of vacant possession values (excluding 'other interests')

	No. of properties	Vacant possession value £m
>£500K	58	38
£250K – £500K	963	320
£175K – £250K	2,593	540
£100K – £175K	4,867	676
<£100K	3,560	256
	12,041	**1,830**

The analysis of our portfolio by tenure is set out in figure 1, below.

A key feature of the tenure analysis is that the reversionary surplus (the difference between vacant possession and investment values) now amounts to £536m, or £21.61per share.

The average vacant possession value of our residential properties (adjusted to reflect the fact that many of our life tenancy assets are partially owned) at 30 September 2004 was £164,000 compared to last year's figure of £144,000 (a 13.9% increase) and to the average UK house price of £163,000. Over recent years we have sold many of our lower value properties and, as we have comparatively few very high value properties, this has meant that the price range within our portfolio is tending to consolidate towards the UK average.

Acquisitions in the year totalled £118m. Of particular note were the portfolio purchases of 128 London based units for a consideration of £25m and 308 life tenancy units for £14.2m.

Figure 1 - Analysis of tenanted residential portfolio by tenure

	No. of properties	Vacant possession value £m	Investment value £m	% of vacant possession value
Regulated	7,941	1,295	939	73
Assured	1,083	154	136	88
Vacant	356	55	49	89
Life tenancies	2,627	320	167	52
Hoteling complex – reviewed apartments	34	6	6	100
Other interests	–	35	32	91
30 September 2004	**12,041**	**1,865**	**1,329**	**71**
30 September 2003	12,030	1,648	1,164	71

Growing the business

Over the last five years our gross assets have increased from £0.4bn to £1.5bn, an average increase of approximately 30% per annum over that period.

Development and trading highlights

Operating contribution* increased by 74% to £25.3m

£25m of investment property sold at surplus of £3.5m

12.4 acres sold at Kennel Farm for £14.2m

Net income to date on Pimlico development £7.9m

Sales of 132 units worth £14.7m by Grainger Homes, generating profit of £2.1m

*profit on ordinary activities before interest and taxation and excluding administration expenses

Development and trading

Including profits on sales of fixed assets, net of valuation writedowns, and before administrative expenses this division contributed £25.3m (2003: £14.6m) as follows:

	2004 £m	2003 £m
Trading profits	13.5	10.3
Net profits on sale of fixed assets	3.5	1.9
Net rental income	0.4	1.9
Other income (Pimlico flats)	7.9	0.5
Operating profits	25.3	14.6

During the year we sold 12.4 acres of development land at Kennel Farm, Basingstoke for £14.2m generating profits of £10.7m. This now completes the sale of the major residential land blocks at this site. Since 1999 we have sold 78 acres for total revenues of £76.2m.

The opportunities for further income from Kennel Farm relate to the five acres allocated for business use, the local centre and to smaller residential land parcels totalling approximately seven acres, some of which is allocated for social housing. Given current market conditions and planning status we do not anticipate to benefit from the business use site until the financial year 2005/06.

We have disposed of the majority of our commercial investment portfolio, selling nine properties for £25.0m, representing a surplus of £3.5m over September 2003 values. We have written down the carrying value of our office development at Landmark Place, Slough by £1m in the year.

Other income in this division relates principally to the Pimlico development with Network Housing Association. 70 flats have been sold for a total value of £37.3m generating income of £7.9m. A further eight flats remained to be sold and five of these have completed since the year end.

Satisfactory progress is being made on the other major projects in this division. See figure 2, below.

During the year, Grainger Homes sold 132 units for £14.7m at a profit of £2.1m. Activity in this division has increased and we hope to sell in the region of 150 units in 2004/05.

The review highlights that 2003/04 has been something of a one-off year for the development and trading division. Major sales in the commercial portfolio and at Kennel Farm together with the income from Pimlico flats have produced a contribution from the division which is unlikely to be repeated in the short-term.

Figure 2 - Development and trading – overview of current projects

Project	Description	Status	Income expected from
West Waterlooville	Option over 640 acres	MDA Masterplan approved by Winchester Havant and Hampshire	2007+
Macaulay Road, Clapham, SW4	110,000 sq. ft. mixed use scheme	Application submitted, decision awaited	2007+
South London Hospital, SW4	77 residential units above new Tesco foodstore	Construction commenced	2006/07
Hornsey Road and Barnsbury Complex, Islington	Public/private partnership mixed use scheme, 350 residential units, 43,000 sq.ft. council office and community use	Contracts exchanged	2007+

Safe as houses

Our housing is well spread by geographical location, tenancy type, size and value. Our view is that a balanced business is a healthy business.

Financial review

Highlights

Profit before taxation and exceptional interest up to £59.6m from £48.5m, an increase of 23%

Net asset value per share up by 25% to £27.34 from £21.94

Gearing at 103% (2003: 125%)

Refinancing in the year to give increased capacity and greater flexibility

Results

Contributions from the tenanted residential and development and trading divisions have increased by 29.6% to give group profit before interest and taxation of £99.7m (2003: £76.9m).

Administrative expenses

Administrative expenses have increased by 59.6% to £7.5m, largely as a result of the consolidation of the Bromley joint venture for the first time. These expenses represent 3.4% of turnover.

Interest payable

Net interest payable has increased to £40.1m, from £11.5m, again because of the consolidation of Bromley's figures. We also had an exceptional charge of £5.4m relating to interest payments arising on the early repayment of our fixed debt, performed as part of our refinancing exercise. The average interest rate payable in the year has been 5.8% (2003: 5.6%), the increase coming from the general upward movement in borrowing rates in the year: at 30 September 2003 three month LIBOR stood at 3.7% and had increased to 4.9% a year later.

Pre-exceptional interest is covered 2.5 times by profit before interest and tax (2003: 2.7 times).

Taxation

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 has been 39.1% (2003: 39.4%). Major items affecting the tax charge are shown in figure 3, right.

Earnings per share and dividends

Earnings per share before exceptional interest have increased by 25% to 149.7p from 119.8p and dividends by 42%. Dividends are covered 6.5 times by profit after taxation but before exceptional items and minority interest (2003: 7.3 times).

Financial position

General

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 assets and we set out in figure 4, right, a statement of our net assets with the properties restated to market value.

Fixed assets

Fixed asset properties in the balance sheet comprise £97.0m tenanted residential and £8.4m commercial investment, totalling £105.4m (2003: £84.4m, £23.7m and £108.1m respectively).

Investment and intangible assets

Investments relate to our investment in Schroders ResPUT which has increased in value by £0.9m to £9.7m – book cost is £7.0m (2003: £7.0m) and a recent £3.3m investment in a limited liability partnership set up to develop land at Smiths Dock on Tyneside.

The negative intangible asset of £84.8m (2003: £97.2m) principally reflects negative goodwill arising on the acquisition of Bromley. It is being released to the profit and loss account in line with sales from that portfolio.

Trading properties

Statutory balance sheet

	30 Sept 2004 £m	30 Sept 2003 £m
Tenanted residential	843	807
Development and trading	76	81
Total	**919**	**888**

Market value balance sheet

	30 Sept 2004 £m	30 Sept 2003 £m
Tenanted residential	1,232	1,080
Development and trading	101	106
Total	**1,333**	**1,186**

The cost of our tenanted residential stock has increased from £807m to £843m, the movement being stock purchases of £95m, sales, write offs and transfers to development and trading of £63m and capitalised improvement costs of £4m.

The market value figures have risen to £1,232m from £1,080m. Valuation uplifts account for £140m of the increase and the balance of £12m relates to the net effect of sales, acquisitions and transfers. The total market value of all of our tenanted residential properties, including those held as fixed assets, is £1,329m (2003: £1,164m).

The group's development and trading assets held as stock fell in cost terms to £76m and in market terms to £101m (2003: £81m and £106m respectively), principally as a result of sales of commercial properties and plots of land at Kennel Farm. Our investment in this division in the year amounted to £22.6m, of which £14.2m related to Grainger Homes and a further £5.0m to projects in the land and regeneration division.

Figure 3 - Group tax charge

	£m
Group profit before tax	**54.2**
Tax at 30%	16.3
Adjusted for:	
Additional tax on the difference between book and tax value of trading property sales	7.2
Negative goodwill (not taxable)	(2.3)
Actual tax charge	21.2

Figure 4 - Proforma net asset statement

	30 Sept 2004 £m	30 Sept 2003 £m
Properties at market value:		
Tenanted residential	**1,329**	1,164
Development and trading	**109**	130
	1,438	1,294
Investments and other assets	**16**	12
Cash	**54**	81
Total assets	**1,508**	1,387
Borrowings	**(750)**	(761)
Net current liabilities	**(68)**	(69)
Deferred tax/other liabilities	**(12)**	(14)
Total liabilities	**(830)**	(844)
Net assets	**678**	**543**

Figure 5 - Net assets at market value

	Reflected in the accounts £m	Not reflected in the accounts £m	Total £m
Net assets at 1 October 2003	149	394	543
Required change in accounting policy re owned shares	(2)	2	–
Restated net assets at 1 October 2003	147	396	543
Retained profits	27	(7)	20
Revaluation surpluses			
Tenanted residential	4	115	119
Development and trading	–	–	–
Investments	–	1	1
Goodwill movements	–	(5)	(5)
Market value net assets at 30 September 2004	**178**	**500**	**678**
Market value net assets per share	£7.17	£20.17	£27.34

Figure 6 - Analysis of net asset value

	Statutory balance sheet £m	Market value adjustments £m	Market value balance sheet £m	FRS13 £m	Contingent tax £m	NNNAV balance sheet £m
Properties	1,024	414	1,438	–	–	1,438
Investments/other assets/cash	66	4	70	–	–	70
Negative goodwill	(85)	85	–	–	–	–
	1,005	503	1,508	–	–	1,508
Borrowings	(750)	–	(750)	(5)	–	(755)
Net current liabilities	(68)	–	(68)	–	–	(68)
Provisions/contingent tax	(9)	(1)	(10)	5	(216)	(221)
Minority interest	–	(2)	(2)	–	–	(2)
	(827)	(3)	(830)	–	(216)	(1,046)
Market value net assets at 30 September 2004	**178**	**500**	**678**	**–**	**(216)**	**462**
Market value net assets per share	£7.17	£20.17	£27.34	£(0.01)	£(8.71)	£18.62

Figure 7 - Summary of gross borrowings

	Principal £m	Interest rate %	Terminating
Fixed to termination	45	6.3	2005-32
Hedged by swap contracts	223	6.4	2005-09
Hedged by financial caps	233	6.0	2005-09
Variable/fixed under one year	256	5.6	2005-14
Total debt	757	6.0	
Less: cash	(54)		
Net debt	**703**		

Other assets and liabilities

Other net liabilities, excluding current instalments due on borrowings and cash balances, have remained at a level consistent with last year.

Net assets

Net assets at market value have increased from £543m to £678m. Major movements are shown in figure 5, left.

Net assets have increased by £135m from £543m to £678m, the increase coming from retained earnings less negative goodwill of £20m, net revaluation surpluses of £120m and adjustments to goodwill of £5m.

Diluted NAV (or NNNAV) is computed by adjusting NAV for the market value of long-term debt and derivatives and for contingent tax.

These amount to 1p and £8.71 per share respectively as shown in figure 6 below (2003: 31p and £7.72 respectively).

The FRS13 adjustment has fallen as a result of the refinancing undertaken in the year, which eliminated all expensive fixed rate debt. Contingent tax, which will only crystallise on the realisation of the assets and is therefore payable some time in the future, has increased because of the increases in valuation surpluses in the year.

We also present Grainger NAV to reflect our estimate of the present value of the reversionary surplus in our regulated and life tenancy portfolios (i.e. the difference between vacant possession value and market value after tax). We have calculated the present value of those surpluses net of tax using a discount rate of 8.6% (our weighted average of cost of capital plus a risk premium of 3%) (2003: 8.9%). This adjustment increases NNNAV by £5.38 per share to give Grainger NAV of £24.00 (2003: £18.40). It should be stressed that our calculation is based upon current house prices; no future house price movement is assumed.

Cash and debt

Cash balances at the year end amounted to £54m, representing some 3.6% of our total market value gross assets. Of this, £30m (2003: £54m), represents deposits received or acts as security for cash backed loan notes.

Group borrowings have decreased slightly from £761m to £750m.

Gearing on a revalued balance sheet basis fell to 103% from last year's figure of 125%.

Refinancing

During the year the group rearranged its debt structure. All of the group's debt with the exception of a non-recourse loan of £45m and loan notes of £32m were repaid. This led to early repayment charges of £5.4m on the fixed rate elements.

The new financing comprises a £900m facility with a club of eight banks, split into three tranches; a five year revolving credit facility of £475m, a five year term loan of £225m and a ten year term loan of £200m. The new facility is arranged on a floating charge basis and has a far simpler and more relevant covenant structure; this means that it is both cheaper and easier to manage and provides the group with greater flexibility in its day-to-day operations. Funding levels are more certain as there are no annual repayments and the average cost of debt has been reduced by approximately 32 basis points.

At 30 September 2004 £680m of the facility had been drawn down leaving headroom of £220m.

The refinancing exercise has been short listed by 'The Treasurer' magazine as one of the loan deals of the year 2004.

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). At 30 September 2004 our estimate of WACC was 5.64% (2003: 5.89%).

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 subject to protective swaps, caps or collars or is maintained at fixed rates of interest. At 30 September 2004, £501m (71%) of the group's net debt was either fixed to termination, or for over one year, or was protected by financial instruments (2003: 90%).

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 2004 the group held £223m of swap contracts at an average rate of 5.4% maturing between 2004 and 2014 (2003: £298m at 5.4%). There were also financial caps in place of £233m at an average cap rate of 6.1%, expiring between 2005 and 2009 (2003: £235m at 6.1%). A summary of our gross borrowings is shown in figure 7, left.

The notional effect of the fair value adjustment of marking the group's fixed rate debt and derivatives to current market rates ('FRS 13 adjustments') would be to produce a notional 'liability' after tax of £0.4m or 1p per share (2003: 31p). This adjustment represents approximately 0.05% of group gross borrowings at 30 September 2004 and will not be recognised in the accounts until the position matures or is terminated.

The group also maintains a range of borrowings maturities to enable it to balance continuity of funding with flexibility. At 30 September 2004 the average duration of the group's debt was 6.4 years (2003: 6.0 years).

International Financial Reporting Standards (IFRS)
IFRS are mandatory for UK quoted companies for accounting periods ending on or after 31 December 2005. Grainger's accounts will therefore be prepared in accordance with these standards for the year ended 30 September 2006. We are continuing to prepare for this change, ensuring we have the relevant information and systems that will be required.

Andrew Cunningham

Andrew Cunningham
Deputy Chief Executive and Finance Director
21 December 2004

Good prospects:
Our business model is solid and our strategy strong and focused.

Spotting an opportunity

Most people see a derelict site. We see an opportunity that will deliver profit over a number of years. This year we have made several senior appointments to ensure we continue to take advantage of opportunities in the market.

Corporate Social Responsibility Report

In last year's report we set out our CSR policy and commissioned a study which identified the CSR issues that we consider to be the most important to our business:

- How we treat our tenants;
- How we look after our employees;
- How we meet environmental, social and legal requirements;
- How we support the communities in which we operate

Based on these issues and with the aim of improving our performance, we defined our three year objectives which are set out on the following pages.

We have made satisfactory progress against these over the course of the year and our key achievements are described in more detail later on. This report describes each objective and contains case studies demonstrating our CSR in action.

As part of the risk assessment process (see corporate governance report), the board considers all risks including environmental risks and health and safety risks. A CSR committee has also been established, with representation from across the organisation. Rupert Dickinson heads the committee, demonstrating the group's commitment to CSR. He has overall responsibility for community issues, although other senior management are also involved.The main purpose of the committee is to disseminate information around the group and involve other employees in specific CSR projects where their roles or skills are relevant.

Grainger is a forward-thinking entrepreneurial organisation, which seeks to conduct its business in a socially responsible manner at all times. We believe that this is achieved by being mindful of an overall framework of suitable standards, rather than by abiding by hard and fast, self-imposed CSR regulations.

Grainger, in common with all businesses, has many stakeholders, with differing requirements. Our business is rooted in communities, and can affect the lives of many tenants and the communities in which we operate. The focus of our energy externally is therefore on social and community issues. Internally, Grainger recognises the value of its employees, and provides staff with a clear path to reward and recognition for success.

We are in the process of defining suitable CSR Key Performance Indicators (KPIs) in order to monitor our progress and performance. These are presented for the first time this year, under the relevant objectives section, and contain historical information where it is available. As Grainger pursues strategies into new business areas, we will develop further appropriate KPIs.

Finally, although not a full audit opinion, an external commentary has been provided by Casella Stanger, similar to last year.

External commentary 2004
Grainger Trust CSR Performance

Casella Stanger are pleased to be invited again to comment on Grainger Trust's progress since the publication of their first Corporate Social Responsibility (CSR) Policy in 2003. Last year four key objectives were established to improve CSR performance and Grainger Trust is reporting on their progress to date, as well as setting out plans for the future.

It is extremely encouraging that Grainger Trust has also been very clear in establishing plans for future improvements in CSR that will be co-ordinated and reviewed by a specific Board-level CSR Committee.

In our opinion, Grainger Trust has made good progress in its first year against their CSR objectives. In particular, the establishment of "Charity of the Year" and a focussed programme for employee involvement in charitable activities are to be encouraged. In addition, Grainger Trust's activities to support employees and merge terms and conditions of employment is to be commended. Grainger Trust's identification of KPIs in some key CSR areas demonstrates that more formal data collection and reporting has been established and that year-on-year data will begin to show performance and further demonstrate progress.

The focus for Grainger Trust over the coming year should be to communicate its CSR policy and progress to stakeholders, as well as gathering data in a simple and formalised manner. Grainger Trust will then be able to assess the costs, benefits and value added from its CSR programme.

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

Prepared by
Emma Griffiths
Principal Consultant
Casella Stanger

Reviewed by
Ken Smith
Business Director
Casella Consulting

Grainger CSR committee
Terms of reference

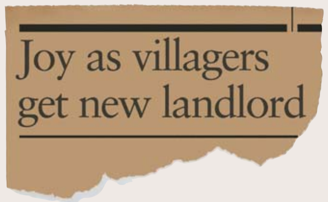
- An executive director of Grainger will head the CSR committee
- It will report through that executive director to the board where appropriate
- The committee will aim to meet quarterly, subject to there being matters for consideration
- The main purposes of the committee are initially to:
  - Review progress against the three year objectives;
  - Plan, implement and monitor targets set to achieve these objectives by involving other group employees and/or consultants as appropriate;
  - Disseminate CSR information to stakeholders.

and after the initial three year phase to:

- Prepare new objectives relevant to Grainger situation at that time;
- Initiate any further projects necessary to achieve these objectives;
- Re-evaluate communication to stakeholders, to ensure information is communicated effectively.

EPRA Award
In September 2004, Grainger was delighted to receive the EPRA Best Small/Mid-cap Performance Award, based on the year ended December 2003 in a ceremony in Berlin.

Dedicated telephone numbers
We have dedicated telephone numbers for our tenants to call in respect of repairs to their properties.


Joy as villagers get new landlord

Capitalising on an opportunity
In April 2004, Grainger gave assurances that the village of Gittisham would be preserved and that residents would be able to stay in their homes for the long-term.

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

Our key CSR issues were identified with Casella Stanger, and they reported on these in September 2003. Casella also assisted in our response to an EIRIS report.

We have recognised that our tenants are our biggest group of non-financial stakeholders. As such, our initial focus has been on ensuring that they are treated with respect and understand how and when to contact us.

The last year has seen significant changes in Grainger, with the bringing in of the former Bromley joint venture. Property Management – the term we use to describe all dealings with tenants, has been brought under one roof – Grainger Residential Management. All property management activities are performed under this name, from repairs to rent collection. Reviews of best practice in several areas of property management have been completed and others are ongoing, to ensure that we offer a consistent, efficient and effective service to our tenants and contractors. We have several payment methods, allowing tenants to choose the most suitable for them and there is a centralised, dedicated telephone number for rent queries. We have arrears targets each year, which have fallen relative to our rent roll year-on-year. Repairs, however, are dealt with locally, from our offices and agents around the country, where we feel our tenants can best be serviced. We utilise the skills, flexibility and local knowledge of many small contractors.

Gittisham
In April 2004, an opportunity arose for Grainger to enhance its property portfolio and provide some security to existing tenants. 27 properties in the picturesque village of Gittisham in Devon had been put up for sale by the landlord. Grainger stepped in to buy 15 of the properties, giving assurances that the village community would be preserved and that residents would be able to stay in their homes long-term.

EPRA Award
In September 2004, Grainger was delighted to receive the EPRA Best Small/Mid-cap Performance Award, based on the year ended December 2003 in a ceremony in Berlin. EPRA (European Public Real Estate Association) is a common interest, not-for-profit organisation, which has aims to promote, develop and represent the European public real estate sector. It endeavours to establish best practice in accounting, reporting and corporate governance.

The trophy was awarded on the basis of total shareholder return, providing certain standards of corporate governance had been maintained.

- Number of tenants paying by direct debit
At 30 September 2004 5,295 tenants paid by direct debit. This is 43% of all tenants. A further 13% paid by swipe card. These electronic methods make rent payments easier for both the tenant and us. We regularly send out letters offering these payment methods to tenants.

- Number of complaints
We have started to collect data regarding complaints, and expect to report next year.

Planned activities
Over the next year we plan to continue our 'best practice reviews' to ensure a forward-looking and consistent service is offered to tenants.


Our people
Grainger has a core of committed staff expert in buying, selling, managing and developing residential property, as well as enthusiastic support staff based in our six offices.

Intranet
We are overhauling our intranet. This will result in a useful tool for communicating with our employees, and an invaluable source of guidelines to best practice.

Sponsorship success
Ann Johnson is one of several sponsorship success stories for Grainger. Her achievements were featured in the local press in August 2004, when she graduated with a BA in Housing Sustainable Communities.

Objective 2
To formalise HR systems to provide support and appropriate CSR training for all staff.

We have made a significant effort to integrate the staff from Grainger and the former Bromley joint venture. Terms and conditions were somewhat different, and almost all have now been harmonised. All staff are now employed by one group company and development and training activities encompass staff from all of our offices as appropriate.

We now have standardised policies relating to all significant employment issues, including equal opportunities, further education, family leave, harassment, and maternity.

Worthy of note again this year is our enlightened attitude towards our employees. The group's share schemes have been opened up to the former Bromley staff, so that approximately two-thirds of staff are now shareholders.

Grainger is an entrepreneurial organisation. Staff of all levels are encouraged to put forward ideas and all are given consideration. Although formal employee satisfaction surveys are not yet undertaken, employees are encouraged to give feedback, particularly during the performance review process see in figure 8, right.

In September 2004 a diligent process of formally aligning each employee's personal objectives with the overall objectives of the group was initiated. Objectives for each 'division' were agreed between the head of that division and the executive board member responsible for that division. As performance reviews were performed, the objectives of the organisation were cascaded throughout and personal targets set which were in line with the overall objectives. Further training needs in order to achieve objectives set are being gathered together, therefore we can be certain that the money we spend on direct training will specifically enhance our ability to meet stated objectives.

We also support employees to achieve further relevant qualifications through our further education policy. During the year to 30 September 2004, we sponsored 13 employees to obtain degrees or other professional qualifications, plus seven employees studying for the IRPM – the Institution of Residential Property Manager's qualification.

Ann Johnson is one of several sponsorship success stories for Grainger. Her achievements were featured in the local press in August 2004, when she graduated with a BA in Housing Sustainable Communities and also won an award from the Chartered Institute of Housing, North East Region for Best Undergraduate Student. Ann joined Grainger in 1997 as a secretary to the surveying department. She has taken on more responsibility over the years and has recently moved to another position within Grainger land and regeneration division. We feel this demonstrates Grainger support and development of staff for the benefit of the group as well as the individual.

Grainger take all staff matters seriously. The group employs an HR manager for general matters and a specific HR manager for training and development. Both of these employees report directly to the deputy chief executive officer and finance director, who has overall responsibility for HR. No changes to terms and conditions are made without consultation with relevant staff.

A full overhaul of our intranet is ongoing. The end product should be a most useful tool for both communicating with our employees and as an invaluable source of best practice guidelines. The CSR policy will be included on it. It is intended that our progress on our CSR objectives will be updated after each CSR committee meeting. Employees will be encouraged to offer suggestions and take part in charitable events.

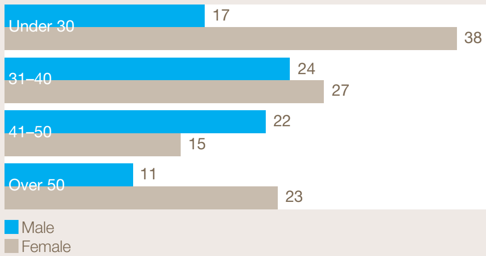
The health and safety of our employees is also paramount. We have an overall policy and significant guidance on our current intranet.

Figure 8 - Performance review process

Figure 9 - Grainger staff statistics

	At 30 Sept 2004
Women in senior management/ holding board positions	3
Total members of staff	177
	Year ended 30 Sept 2004
No. staff who received training	125
No. staff sponsored in further education	20
No. leavers	23

Figure 10 - Grainger employee ages



Objective 3

To structure our approach to charitable giving and community support.

We have taken time to consider how best this objective can be achieved so as to ensure our actions are appropriate for our varied stakeholders.

The regeneration of arts and culture is important to Grainger and as a company we have made a commitment to make sure our business supports the cultural development of the North East region, where Grainger has its roots. Following the sponsorship of Antony Gormley's 'Domain Field' exhibition at the Baltic last year, this year we sponsored an English Heritage project – Fashion at Belsay (FAB). Well-known fashion designers and some not so well known from the University of Northumbria, each selected an area within Belsay Hall and its grounds, to create an original piece of work. Grainger guests were invited to the launch night and we also held an event at our year end to thank the key people we work with in other organisations. We aim to sponsor one prominent art related event each year.

In the South of the country, we have been investigating several potential partnerships. We are pleased to announce that we have agreed to support Open House on an ongoing basis. Open House is an architectural education charity with three principal objectives:

- To foster public awareness and appreciation of London's excellent built environment and architecture through free access
- To promote architectural literacy and further a better understanding of architecture and the public environment across all sections of the community, particularly with children and young people
- To create dialogues about the present and future environments between the Capital's residential and business community

We hope to be involved in various activities including Annual London Open House, an event that takes place over a weekend each September and attracts over 350,000 people to some 500 buildings and Junior Open House, an educational scheme for 11-14 year olds, involving an extended training programme for teachers, building visits for 2,000 school children, and culminating in an awards scheme. Open House have also offered their support with community and educational events in conjunction with our development projects such as the regeneration site in Hornsey.

From the current financial year, which started in October 2004, we will be nominating a charity of the year. If employees participate in sponsored events, then Grainger will match the sponsorship raised up to £100 per employee, provided it is donated to our charity of the year. We are delighted to announce that our first nominated charity is Shelter – the housing and homelessness charity. Shelter aim to end homelessness and bad housing in Britain by advising and campaigning, as well as research and fundraising. Shelter was a natural choice for us, but we will be defining appropriate conditions and criteria for our future nominees.

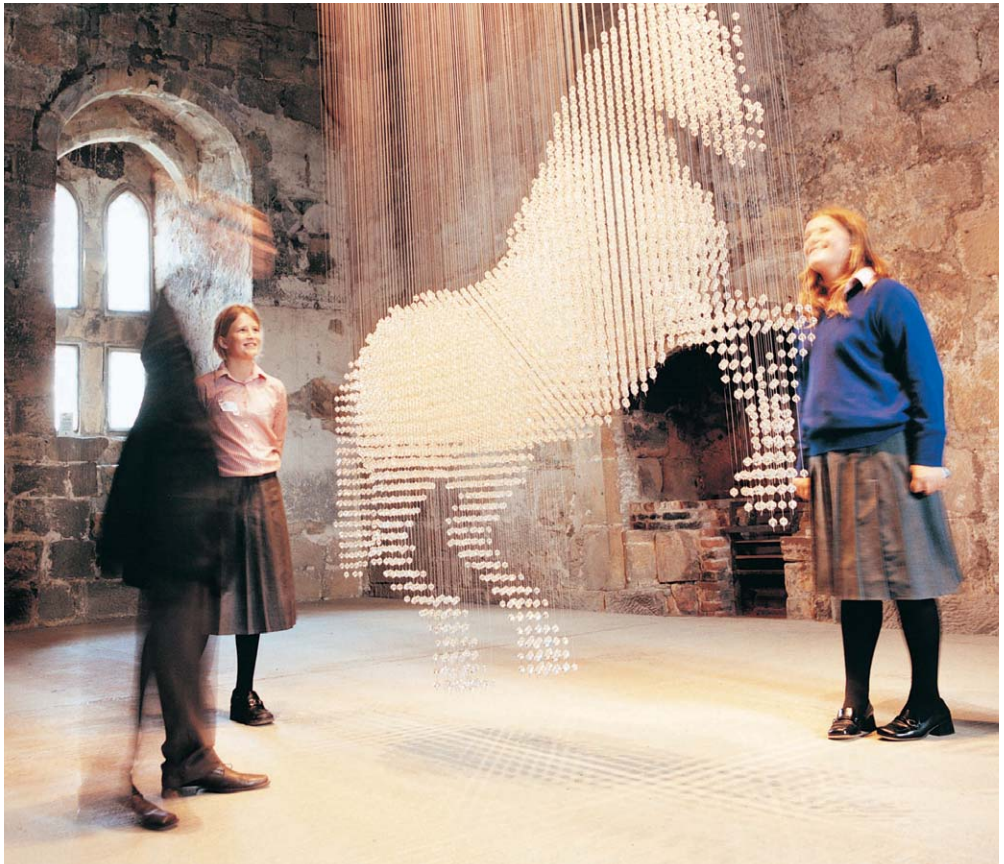
Each office will also be encouraged to organise a fundraising event in aid of our chosen charity. Employees organising these events will be invited to the next CSR committee meeting to report the outcome.

Other events in which we participated during the year include the Cancer Research 'world's biggest coffee morning', where employees baked cakes and sold them, with the proceeds going to the charity, and 'JeansforGenes' day.

In total in 2004 we gave £25,455 to charitable causes. This included £1,000 for a new 85cc scrambler bike for a 14 year old boy in Hadston, one of our development areas where we have worked closely with the local community. His own new bike had been stolen and without one he could no longer participate in moto-cross, where he had won 75 trophies in the two previous years.

£25,455

Given to charitable causes in 2004



Fashion at Belsay

This year we sponsored an English Heritage project – Fashion at Belsay (FAB). Well-known fashion designers and some not so well known from the University of Northumbria, each selected an area within Belsay Hall and its grounds, to create an original piece of work. The above horse was designed by Stella McCartney.

Shelter

Charity of the year

Shelter – the housing and homelessness charity aim to end homelessness and bad housing in Britain by advising and campaigning, as well as research and fundraising.

OPENHOUSE

Open House

We are pleased to announce that we have agreed to support Open House on an ongoing basis.

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

As a matter of course, senior managers read relevant trade press, and are therefore aware of regulations which could materially impact on Grainger, as they develop. In this current climate of constantly emerging legislation, it is increasingly difficult to monitor and interpret its volumes. We therefore took the decision to maintain a register of all relevant legislation, which is provided to us and regularly updated by consultants who specialise in this field.

The committee will review the register after each update in order to disseminate changes to senior management whose departments will be affected.

We monitor our performance where key regulations affect us. The main one relates to the necessity for a landlord to check gas supplies/appliances. The Gas Safety (Installation and Use) Regulations 1998 place a duty on landlords to ensure that gas appliances, fittings and flues provided for tenants' use are not posing a health risk. The inspections must be undertaken by a CORGI registered contractor in each dwelling on an annual basis, and remedial action must be taken where required. Sometimes it can be difficult to gain entry for various reasons, and we have best practice guidelines which are followed rigorously to ensure both tenant and landlord protection.

Redevelopment of brownfield site at North Shields, Tyne & Wear
Of note this year is a joint venture/partnership arrangement for the redevelopment of a 30-acre brownfield site at North Shields.

Another major concern for us is that the contractors we engage adhere to the relevant health and safety standards. All contractors and consultants employed directly or indirectly (via agents) by Grainger are to be risk assessed and the results held on a database.

The database will include the following details:
- Area of operation and expertise
- Date of assessment/approval
- Current public liability insurance
- Member of specialist organisation (i.e. Corgi/FENSA)

Any new contractors will have to ensure they meet all the criteria including risk assessments before they can be added to the database. Contractors who fail to comply or have outstanding relevant details will not be able to be used.

Grainger land and regeneration division is becoming increasingly involved in both social and physical regeneration. Of note this year is a joint venture/partnership arrangement for the redevelopment of a 30-acre brownfield site at North Shields, Tyne & Wear. Significant contamination exists at the site, which was viewed as potentially harmful to the surrounding community.

In the South East, Grainger has begun to work on projects to redevelop run-down locations. We are pleased with the progress we have made on these projects, which demonstrate effectively how business can be conducted with favourable social outcomes and expect to be able to report further next year.

In 2005 we hope to develop briefing notes for staff on the CSR legal requirements of their activities. This will be as a result of a thorough review of our register of legislation.

Having made a tentative start, based on careful consideration, we hope to make significant progress on all of our stated objectives over the coming year.

The most significant environmental issues affect primarily some 10% of the business – our development and trading division, further we negotiate with external parties to ensure standards are maintained. In Grainger Homes, for example, we employ a main contractor for each site and that contractor takes the responsibility for all health and safety and environmental matters on that site. Our agreement with the contractor stipulates minimum standards, and requires compliance with all applicable legislation and regulations.

No separate environmental report is therefore produced. Following further CSR work, we will attempt to justify the expense of a formal environmental audit, whilst considering any likely benefit.

We are able to report that we now recycle waste paper in our offices and during the period between November 2003 and 30 September 2004 we have saved over 100 trees.

Health and safety policy
We have duties to our employees, tenants of owned or managed properties, contractors, visitors, clients and the general public.

We aim to:
- Comply with the Health and Safety at Work etc. Act 1974 and all relevant statutory provisions.
- Provide adequate resources to enable this policy to be implemented.
- Ensure the health, safety and welfare of our employees and others who may be affected by our activities.
- Provide such information, instruction, training and supervision as is necessary to ensure the health and safety of our employees.
- Ensure that all plant and equipment under our control is maintained in a safe condition and is subject to routine and statutory inspections and examinations.
- Ensure that assessments of the risks arising from our activities are undertaken and the appropriate control measures and safe systems of work are implemented.
- Ensure that all accidents and dangerous occurrences are reported and where necessary, investigated and appropriate action taken to prevent recurrence.

Equal opportunities
It is our policy to treat job applicants and employees in the same way, regardless of their sex, sexual orientation, age, race, ethnic origin or disability. Further, the organisation will monitor the composition of the workforce and introduce positive action if it appears that this policy is not fully effective.

Board Members

A strong board:
We have in place the three key resources for us to continue as a consistently successful long-term business: a superb asset base, a sound funding platform and an expert and unrivalled team.

1 Robert Dickinson C.B.E., D.L.
Chairman, chairman of nomination committee
Aged 70
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, chairman of AON Minet Pension Trust.

2 Rupert Dickinson M.R.I.C.S.
Chief executive
Aged 45
Joined the company in 1992 from Richard Ellis (now Insignia Richard Ellis). Appointed a director of the company in 1994. Appointed chief executive in October 2002.

3 Andrew Cunningham F.C.A.
Deputy chief executive and finance director
Aged 48
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.

Non-executive directors

4 Nichola Pease
Chairman of remuneration committee, member of nomination committee
Aged 43
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.

Retiring from the board at the annual general meeting.

5 Robin Herbert C.B.E.
Senior independent non-executive director, member of audit and nomination committees
Aged 70
Appointed a director of the company in 1994. Appointed senior independent non-executive director in June 2002. Chairman of Investors Capital Trust plc.

Retiring from the board at the annual general meeting.

6 Stephen Dickinson F.C.A.
Deputy chairman
Aged 70
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 1993-2004.

7 Robert R S Hiscox A.C.I.I.
Member of remuneration and nomination committees
Aged 61
Appointed a director of the company in March 2002. Chairman of Hiscox plc. Deputy chairman of Lloyd's 1993 to 1995.

8 John Barnsley F.C.A.
Chairman of audit committee, member of remuneration committee
Aged 56
Appointed a director of the company in February 2002. Non-executive director of Northern Investors Company plc and American Appraisal Associates LLP. Until December 2001 was a senior partner at PricewaterhouseCoopers.

9 Robin Broadhurst C.B.E., F.R.I.C.S.
Member of audit committee
Aged 58
Appointed a director in February 2004. Recently retired from Jones Lang LaSalle where he was European chairman. Trustee and director of the Grosvenor Estate, a senior adviser to Credit Suisse First Boston, property consultant to Sir Robert McAlpine Limited, member of the Prince's Council for the Duchy of Cornwall.

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Corporate Governance Report

The Applicable Code

The group is committed to high standards of corporate governance. The 'Applicable Combined Code' for Grainger for the year ended 30 September 2004 was the Combined Code issued in June 1998. This was the last year in which this code was relevant, and as such the board has made diligent progress towards compliance with the New Combined Code, published in July 2003. Where relevant, provisions of the New Combined Code are referred to within this report.

The terms of reference of the board's committees have been reviewed in the light of the New Combined Code and have been adopted by the board. The terms of reference refer specifically to relevant matters that are reserved for the attention of the full board. Copies of these terms of reference are available from the Company Secretary upon request.

Board meetings

The group believes in recruiting and retaining the best staff throughout the organisation – and this begins at the top. There is a working balance of non-executives and executives, entrepreneurial and cautious. The board meets four times per year, with additional meetings as required. Telephone and video conference are used where short notice is necessary. In June each year the board meets for a two day period. During this time extended strategy discussions are held; there is often a visit to group properties and dinners are held with senior staff and group contacts, including advisers, bankers and agents.

Attendance at board meetings:

	Date of meeting			
	Dec 03	Feb 04	Jun 04	Sept 04
Robert Dickinson	✓	✓	✓	✓
Stephen Dickinson	✓	✓	✓	✓
Rupert Dickinson	✓	✓	✓	✓
Andrew Cunningham	✓	✓	✓	✓
Sean Slade	✓	✓	✓	–
Robin Herbert	✓	✓	✓	✓
Robert Hiscox	–	✓	✓	✓
Nichola Pease	✓	✓	–	✓
John Barnsley	✓	✓	✓	✓
Robin Broadhurst*			✓	✓
John Ward**	✓	✓		

✓ attended – apologies

* appointed after February 2004 board meeting
** resigned at February 2004 annual general meeting

The board's responsibilities and procedures

The primary obligations of the board are detailed in a schedule of matters reserved for board attention. These include overall strategy, investment strategy, acquisitions and debt over certain limits and accounting policies. The executive directors are responsible for communicating the board's strategy to the senior management of the organisation and hence the effective implementation of strategy and day-to-day running of the group.

The board is supplied with relevant financial and non-financial information to enable it to make decisions. Information is supplied in a timely manner, before each board meeting. During the year a new monthly report has been developed to provide the non-executive directors with up-to-date financial analysis. Any director may request further information at any time, such requests are given high priority. Procedures are in place for directors to take independent professional advice, when necessary, at the group's expense.

The chairman is responsible for the running of the board. He has instigated a process of evaluation of the directors as individuals, the committees and the board as a whole. The process will begin in the financial year commencing 1 October 2004. The chief executive is responsible for the management of the day to day running of the group. Robin Herbert served as senior independent non-executive director throughout the year. He is therefore the director to whom shareholders may turn should any concerns fail to be resolved through the normal channels of chairman, chief executive or finance director. Following Robin Herbert's impending retirement at the annual general meeting in February 2005, Robin Broadhurst will fulfil this role.

Board membership and independence

Although board members have been required to stand for re-election at intervals of no more than three years for several years now, the board believes it is important to maintain stability and continuity for longer periods. Principally, this is due to the long-term nature of the group's core businesses. The process of purchasing land, negotiating planning and then subsequent development to sale can amount to many years' hard work, where continuity of leadership is a real asset. The board in fact considers itself fortunate to have retained the services of several long-standing directors for extended periods. Further, the board does not consider that such service periods prohibit a director from being considered independent. Length of service does not in itself, in the board's view, impair character or judgement.

During the year, the board comprised the chairman, six non-executive directors and three executive directors. Robin Broadhurst was appointed to the board following the annual general meeting in February 2004 when John Ward retired, thus maintaining the number of non-executives throughout the year. Robin Broadhurst will stand for re-election at the next annual general meeting. Sean Slade resigned on 12 November 2004.

Training for directors is available, where appropriate, both on appointment to the board and thereafter.

The independence of the non-executive directors who served during the year, as assessed by the Applicable Combined Code and by the board, is set out opposite.

Director	Applicable combined code	Board's opinion
Robert Dickinson Chairman	Not independent – close family ties, more than nine years' service, cross directorships.	Not independent. The board has decided that taking all relevant facts into consideration, Robert Dickinson cannot be considered independent.
Stephen Dickinson Deputy Chairman	Not independent – close family ties, more than nine years' service, cross directorships. Part time executive responsibilities	Not independent. The board has decided that taking all relevant facts into consideration, Stephen Dickinson cannot be considered independent.
Robin Herbert Senior Independent Director	Not independent – more than nine years' service.	Independent. As stated above, the board does not consider length of service, on its own, to affect the independence of its directors. It considers that Robin Herbert is of sound character and judgement and thus independent.
John Barnsley	Independent as at the date of this report. Until December 2001 John Barnsley was a senior partner for the group's auditors. Minor cross directorship. From December 2004 John Barnsley's former position with the group's auditors is no longer relevant for the determination of independence. He was however strictly not independent throughout the year under review.	Independent as at the date of the report and throughout the year. Although it is suggested that three years should elapse following a relationship with a professional adviser of the group, John Barnsley was not connected with any service provided to the group during his time with the group's auditors. He has no continuing personal interests with the group's auditors and is not any form of conduit of information. Although John Barnsley is a director of Northern Investors Company PLC, where Robert Dickinson is also a director, this mutual interest is not considered to have any impact on his independent judgement as a director of Grainger.
Robert Hiscox	Not independent – Trustee for Estate containing material shareholding.	Independent. Robert Hiscox's trusteeship is not, on its own, sufficient to affect his independent character and judgement. Robert Hiscox brings significant skill and business experience to the board in his own right.
Nichola Pease	Independent.	Independent.
Robin Broadhurst (appointed 26 February 2004)	Independent.	Independent.
John Ward (retired 26 February 2004)	Not independent – more than nine years' service, cross directorships.	Independent. As stated above, the board does not consider length of service, on its own, to affect the independence of its directors. It considers that John Ward was of sound character and judgement and thus independent during his time on the board this year. John Ward was also a director of Northern Investors PLC, along with Robert Dickinson and John Barnsley, but this was not considered to have any impact on his independent judgement.

Under the New Combined Code, Nichola Pease, Robin Broadhurst and John Barnsley would be considered independent as at the date of this report.

The board therefore considers that it had a majority of independent non-executives throughout the year.

Biographical details of all directors appear on page 21.

Board committees
The three principal committees of the board – Audit, Nomination and Remuneration, were maintained throughout the year. Each committee has terms of reference, which indicate matters that must be retained for the main board.

Audit committee
John Ward was succeeded as chairman on 26 February 2004 by John Barnsley, who was already a member of the committee. On appointment to the board on the same date, Robin Broadhurst also joined the committee. Robin Herbert served throughout the year. The board therefore considers that the committee comprised three independent non-executive directors throughout the period under review. As noted earlier, Robin Herbert will be retiring at the annual general meeting in February 2005. The board intends to appoint a further independent non-executive director to the board, and that director will also serve on the audit committee in order to retain the required constitution.

The audit committee met four times and updated its terms of reference during the year.

Nomination committee
Robert Dickinson (chairman) and Robin Herbert served on the nomination committee throughout the year. Nichola Pease replaced Stephen Dickinson during the year. Robert Hiscox was also appointed.

Remuneration committee
Nichola Pease, chairman of the remuneration committee, served throughout the year, as did Robert Hiscox and John Barnsley. John Ward retired at the annual general meeting on 26 February 2004.

Relations with shareholders
The company meets regularly with institutional shareholders and analysts. In addition to the usual meetings after results announcements, ad hoc meetings are arranged to continue dialogue throughout the year. In particular, during the year under review, the group's chief executive and deputy chief executive/finance director have visited other countries in Europe where there is interest in Grainger's shares.

The annual general meeting is the primary route for communication with smaller/private shareholders, although the group's website also includes a specific Investor Relations section. All directors attend the annual general meeting, and the chairmen of all committees are available to answer questions. The notice of meeting and annual report and accounts are sent out at least 20 working days before the meeting. Separate votes are held for each proposed resolution, including the approval of the remuneration committee report, and a proxy count is available in each case.

Corporate Governance Report continued

Internal control

The group has a cyclical process for identifying, assessing and managing its significant risks. The process is designed to enable the board to be confident that such risks are mitigated, or controlled as far as possible. It should be noted however that no system can eliminate the risk of failure to achieve business objectives entirely and can only provide reasonable and not absolute assurance against material misstatement or loss. The audit committee is delegated the task of reviewing all identified risks, with the absolute key risks retained for full board review. Risks and controls are reviewed to ensure effective management of appropriate strategic, financial, operational and compliance issues. The audit committee also reviews the half year and full year financial statements and holds discussions with the group's auditors. In addition, the group has an internal audit function which performs relevant reviews as part of a programme approved by the audit committee. The committee considers any issues or risks arising therefrom in order that appropriate actions can be undertaken to their satisfactory resolution.

In particular, over the last year, there have been many changes to the group's systems made as a result of the acquisition of the remaining 50% of Bromley just prior to the year ended 30 September 2003. The group's external auditors were involved in reviewing these changes as part of their normal audit procedures to the extent that they considered necessary. The group also enjoyed a unique opportunity to redesign the organisational structure, which, whilst not stifling the entrepreneurial nature of the group, allows the board to retain full control of the business.

An annual budget is produced, together with longer term projections, which are presented to the board for approval. At each meeting the board discusses progress against the budget and monitors any variances. If applicable, revisions are made to the expected outturn against which further progress can be monitored.

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 or, where meetings are required between board meetings and a full complement of directors cannot be achieved, 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 group has, throughout the year ended 30 September 2004, been in compliance with the Applicable Combined Code.

Independence: A3.2, B2.2, D3.1

As shown in the table on page 23, although the Applicable Combined Code strictly considers several of the non-executive directors to be not independent, the board differs in opinion.

Length of contracts: B1.7 to B1.10

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, the notice period on their original contracts is being reduced from two years to one year on a straight line basis over a period of five years from 1 October 2002. At the date of this report, the notice period outstanding stood at approximately 18 months.

By order of the board

Marie Glanville
Company Secretary
21 December 2004

Directors' Report

For the year ended 30 September 2004.

The directors present their report and the audited financial statements for the year ended 30 September 2004.

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 4 and 5 and the chief executive's statement on pages 6 to 9.

Results for the year

The results of the group are set out in the consolidated profit and loss account on page 34, which shows a profit on ordinary activities after taxation for the financial year of £33.0m (2003: £29.4m).

An interim dividend of 4.04p per share (2003: 3.51p) was paid on 23 July 2004 amounting to £1.0m (2003: £0.8m) and the directors recommend the payment of a final dividend of 19.20p per share (2003: 12.80p), to be paid on 4 March 2005, amounting to £4.7m (2003: £3.2m). The profit, after dividend, of £27.3m (2003: £25.3m) will be transferred to reserves.

Directors

The directors of the company who served during the year are listed on page 29.

Directors' and other interests

The interests of the directors in the shares of the company at 30 September 2004 and 7 December 2004 (or date of resignation, if earlier), with comparative figures as at 1 October 2003 (or date of appointment, if later), are as follows:

	Ordinary shares of 25p each (thousands)					
	Beneficial			Non-beneficial		
	1 Oct 2003	30 Sept 2004	7 Dec 2004	1 Oct 2003	30 Sept 2004	7 Dec 2004
Robert Dickinson	222	202	202	494	457	457
Stephen Dickinson	780	771	771	576	541	541
Rupert Dickinson	182	249	249	46	43	42
Robin Herbert	50	50	50	–	–	–
Andrew Cunningham	73	74	74	–	–	–
Nichola Pease	71	48	48	37	37	37
Robert Hiscox	–	–	–	2,500	2,500	2,500
Sean Slade	40	32	32	–	–	–
John Barnsley	2	3	3	–	–	–
Robin Broadhurst	–	–	–	–	–	–
	1,420	1,429	1,429	3,653	3,578	3,577

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

	Ordinary shares of 25p each (thousands)					
	Beneficial			Non-beneficial		
	1 Oct 2003	30 Sept 2004	7 Dec 2004	1 Oct 2003	30 Sept 2004	7 Dec 2004
Stephen Dickinson	2	1	1	–	–	–
Rupert Dickinson	2	1	1	–	–	–
Andrew Cunningham	2	1	1	–	–	–
Sean Slade	2	1	1	–	–	–

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

	–	–	–	14	14	14

Details of directors' share options are given on page 30.

Save as disclosed above, as at 7 December 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*	2,220	8.95
Aberforth Partners*	1,252	5.05
Barclays Global Investors Limited*	1,067	4.30
F & C Asset Management Plc*	1,001	4.03
Morley Fund Management Limited*	877	3.53
Henderson Global Investors*	806	3.25

*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

Robin Herbert and Nichola Pease will retire from the board of directors at the annual general meeting to be held in February 2005. Robin Broadhurst was appointed a director on 26 February 2004, and in accordance with the Articles of Association, will offer himself for re-election at the annual general meeting. Stephen Dickinson, Robert Hiscox and Andrew Cunningham retire by rotation and, being eligible, offer themselves for re-election at the annual general meeting. Robert Dickinson is standing for re-election again this year. The Companies Act 1985 requires him to do so as he attained the age of 70 since the last annual general meeting in February 2004. Stephen Dickinson has also reached the age of 70.

On 12 November 2004 Sean Slade resigned from the board.

Directors' Report continued

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

Directors' insurance
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 state of 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 that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 30 September 2004. 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and of the group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Acquisitions
There were no material corporate acquisitions in the year. Details of minor acquisitions are given in note 26.

Creditor payment policy
In respect of the financial year following that covered by this report, 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 2004 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 30 days (2003: 38 days).

Charitable donations
During the year the group made charitable donations amounting to £25,455 (2003: £4,480).

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.

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 and group. A resolution to reappoint them as auditors to the company will be proposed at the next annual general meeting.

Issue of shares
As disclosed in note 20 to the financial statements, the company issued 48,307 25p ordinary shares during the year for an aggregate consideration of £132,000.

By order of the board

Marie Glanville
Company Secretary
21 December 2004

Remuneration Committee Report

This report meets the disclosure requirements of the Companies Act 1985 and the Listing Rules and in accordance with usual practice will be put to shareholders for approval at the annual general meeting.

PricewaterhouseCoopers LLP have audited the directors' remuneration, share options, share awards and deferred bonus sections of this report ('the auditable part'). The remainder of the report comprises the unaudited part.

The remuneration committee
Throughout the year, the remuneration committee was chaired by Nichola Pease, and other members were Robert Hiscox, John Barnsley and John Ward until his retirement from the board in February 2004. As noted in the chairman's statement, Nichola Pease will be retiring at the annual general meeting in February 2005. Robert Hiscox will take over as chairman of the committee, and Robin Broadhurst will join. The committee will therefore retain its membership of three non-executive directors, all of whom are independent in the board's opinion. Nichola Pease will be available at the annual general meeting to answer related questions from shareholders.

The committee appointed New Bridge Street Consultants LLP (NBSC) and received advice from them during the year regarding the competitiveness of overall packages for the executive directors and on the group's incentive schemes. NBSC also provided updates on Grainger's performance in relation to the long-term incentive schemes.

The committee met three times during the year to consider the remuneration policy for the executives and senior management, in order to make recommendations to the board.

The committee's terms of reference were recently revised and are available on the group's website.

Remuneration policy
Grainger's remuneration policy is designed to attract, motivate and retain high calibre individuals to enable the group to operate strategically for the continued benefit of shareholders, over the long-term. In order to operate this policy, the remuneration committee receives information on remuneration packages awarded to directors in comparable organisations.

The policy is also designed to align the directors' interests with those of shareholders. This is principally achieved through the use of share-based incentives and by encouraging executive directors to maintain a reasonable shareholding in the group. Details of executive directors' shareholdings are shown on page 25.

Remuneration packages include salary, bonus and pension elements as well as long-term share incentive and option schemes. Benefits are also afforded.

No executive director is involved in the determination of his own remuneration. Fees of the non-executive directors, which are set partly under consideration of their committee responsibilities, are determined by the board as a whole.

'Senior management' are viewed as the group of people known in Grainger as the 'subsidiary directors'. The salaries and bonuses of this group of eight people (pictured with Rupert Dickinson and Andrew Cunningham on page 6), are recommended by the executive directors and reviewed by the remuneration committee. These employees also participate in the long-term incentive scheme described below.

Service contracts
As stated in the corporate governance report, Rupert Dickinson and Andrew Cunningham each hold service contracts with notice periods decreasing on a straight line basis from two years to one year, over a period of five years which began on 1 October 2002. At the date of this report therefore the notice periods have been reduced to approximately 18 months. Their contracts were dated 19 July 1996 and 26 July 2000 respectively. Sean Slade held a contract with a 12 month notice period, which was dated 22 January 2002.

Apart from salary and benefits in relation to the notice period described above, there are no other terms in any of the contracts that would give rise to compensation payable for early termination, or any other liability of the company.

No executive director holds a non-executive directorship outside of the group.

Each non-executive director has specific terms of reference. Their letters of appointment state an initial one year period, with a continuation subject to review at that time. The letters of appointment contain no entitlement to compensation for early termination.

Non-performance related remuneration
Basic salaries and benefits
Basic salaries are reviewed by the remuneration committee annually. Uplifts are by reference to cost of living, responsibilities and market rates, as for all employees, and are performed at the same time of year. Executive directors and the deputy chairman, Stephen Dickinson, who has part-time executive responsibilities, specifically including land and regeneration, along with other senior members of staff, received a fully expensed company car, or a car allowance. Along with all members of staff, executive directors also benefit from health and life insurances.

The chairman's and non-executive directors' fees are reviewed on a biennial basis by the whole board.

Pensions
The group contributes 15% of basic salary to the money purchase pension schemes of Rupert Dickinson and Andrew Cunningham, and contributed 10% to that of Sean Slade. No other elements of remuneration are pensionable.

Share schemes open to all employees
Executive directors, and Stephen Dickinson, deputy chairman, are eligible to participate in two share schemes which are open to all employees with relevant service, subject to the rules of the schemes.

The first is a Save As You Earn scheme (SAYE), and the second a Share Incentive Plan (SIP). Both are Inland Revenue approved and therefore subject to the limits prescribed.

Amounts relating to directors' share options under the SAYE scheme are shown on page 30.

Performance related remuneration
A significant element of executive directors' and senior management's potential remuneration is performance related. The combination of short and long-term incentives attempt to align the interests of executives and senior management with the interests of shareholders, and to reward significant outperformance of budgeted expectations.

Non-executive directors do not receive performance related remuneration.

Remuneration Committee Report continued

Annual discretionary bonus
Each year the remuneration committee considers the award of a bonus to the executive directors, which is at their ultimate discretion. Rupert Dickinson and Andrew Cunningham, participate in an arrangement introduced last year whereby the provisional bonus is calculated over a three year period by reference to the enhancement of the triple net asset value of Grainger, relative to a theoretical market comparator. The comparator movement is calculated with regard to the Nationwide and Halifax house price indices and also interest rates, using five year swap rates. Bonuses remain capped at 150% of salary. Subject always to the committee's discretion, one-third of the calculated amount is approved for payment and the provisional balance is taken into account over the next two years. The award payable for the year ending 30 September 2004 represents 61% of salary for that year (2003: 88%).

Long-term incentives
Grainger's policy in relation to long-term incentive schemes has evolved over time to align the long-term interests of executives and senior management more closely with those of shareholders, to reward sustained performance over a number of financial years and to encourage the executives to increase their shareholdings.

Executive directors and senior management are eligible to receive annual conditional awards of shares worth up to 50% of salary under the Long-Term Incentive Scheme and of share options up to a maximum of 125% of salary under the Executive Share Option Scheme. The awards under both schemes become unconditional provided performance criteria are satisfied over a single three year performance period following grant. The criteria for all awards granted since March 2002 has been based on Total Shareholder Return (TSR) – dependent upon where Grainger's TSR lies with respect to a pre-determined comparator group as follows:

Comparator companies	Performance condition	Vesting of option
Brixton plc		
Capital and Regional plc	If Grainger's TSR is equal to or greater than the	
CLS Holdings plc	upper quartile TSR of the comparator companies	100%
Daejan Holdings plc		
Derwent Valley Holdings plc	If Grainger's TSR is equal to the median TSR of	
Freeport plc	the comparator companies	40%
Great Portland Estates plc		
London Merchant Securities plc	If Grainger's TSR is above the median but	
Minerva plc	below the upper quartile TSR of the	
Mountview Estates plc*	comparator companies	Pro-rata vesting
Pillar Property plc	If Grainger's TSR is below the median TSR of the	
Quintain Estates and Development plc	comparator companies	0%
Shaftesbury plc		
The Unite Group plc		

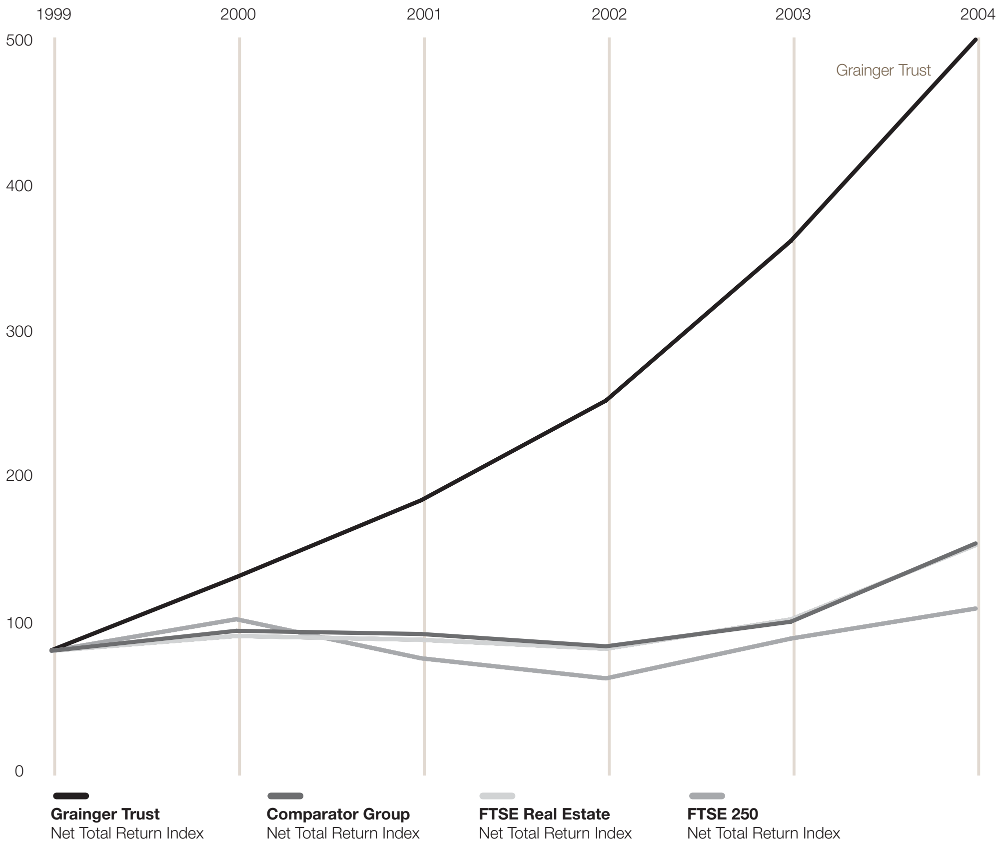
* Benchmark Group plc delisted during the year and was replaced by Mountview Estates plc.
As shown in the table above, no award vests unless Grainger's TSR is higher than the median TSR of the comparator group.

These performance criteria are believed to be stretching but realistic, and reward executives if Grainger's return to shareholders outperforms this group of companies operating in broadly similar markets.

Options are granted at the current mid-market price and any material changes to the long-term incentive schemes are presented to shareholders for approval.

The graph below shows TSR (based upon share price growth with dividends reinvested) for Grainger, compared to the comparator group, the FTSE 250 and the FTSE Real Estate Index. These comparators have been chosen on the basis that they are the markets within which Grainger operates.

Total Shareholder Return
Five years to 30 September 2004



Directors' remuneration

	Chairman, deputy chairman and executive directors						Non-executive directors								
	Robert Dickinson £'000	Stephen Dickinson £'000	Rupert Dickinson £'000	Andrew Cunningham £'000	Sean Slade £'000	Total £'000	Robin Herbert £'000	John Barnsley £'000	Robin Broadhurst £'000	Robert Hiscox £'000	Nichola Pease £'000	John Ward £'000	Robin Oldfield £'000	Total £'000	**Total £'000**
Non-performance related remuneration															
Salary and fees	90	120	400	300	160	1,070	30	28	15	25	30	12	–	140	**1,210**
Taxable benefits	–	20	27	20	14	81	–	–	–	–	–	–	–	–	**81**
Share incentive plan	–	6	6	6	6	24	–	–	–	–	–	–	–	–	**24**
Total non-performance related remuneration	90	146	433	326	180	1,175	30	28	15	25	30	12	–	140	**1,315**
Performance related remuneration															
Annual discretionary bonus	–	–	245	180	35	460	–	–	–	–	–	–	–	–	**460**
Total performance related remuneration	–	–	245	180	35	460	–	–	–	–	–	–	–	–	**460**
Total remuneration for the year ended 30 September 2004	**90**	**146**	**678**	**506**	**215**	**1,635**	**30**	**28**	**15**	**25**	**30**	**12**	**–**	**140**	**1,775**
Total remuneration for the year ended 30 September 2003	90	239	602	437	231	1,599	30	12	–	25	30	30	10	137	1,736
Pension contributions into money purchase schemes															
Year ended 30 September 2004	**–**	**–**	**60**	**45**	**16**	**121**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**121**
Year ended 30 September 2003	–	–	30	33	13	76	–	–	–	–	–	–	–	–	76

On 26 February 2004, Robin Broadhurst was appointed. This followed John Ward's resignation of the same date. In the previous year, Robin Oldfield resigned and John Barnsley was appointed, both on 27 February 2003.

Remuneration Committee Report continued

Directors' share options

		Ordinary shares of 25p each (thousands)									
		Stephen Dickinson		Rupert Dickinson		Andrew Cunningham		Sean Slade		Total	
Dates exercisable	Exercise price	**30 Sept 2004**	1 Oct 2003	**30 Sept 2004**	1 Oct 2003	**30 Sept 2004**	1 Oct 2003	**30 Sept 2004**	1 Oct 2003	**30 Sept 2004**	1 Oct 2003
Non-performance related (available to all staff)											
SAYE scheme											
8 Aug 07 to 8 Feb 08	£8.180	**–**	–	**2**	2	**2**	2	**2**	2	**6**	6
1 Sept 08 to 1 March 09	£9.323	**2**	2	**–**	–	**–**	–	**–**	–	**2**	2
Performance related (conditional awards)											
Inland Revenue Approved Executive Share Option Scheme											
6 Jan 97 to 6 Jan 04	£2.312	**–**	–	**–**	40	**–**	–	**–**	–	**–**	40
19 July 99 to 19 July 06	£2.920	**–**	–	**–**	–	**–**	–	**10**	10	**10**	10
23 Dec 99 to 23 Dec 06	£3.425	**–**	–	**–**	–	**9**	9	**–**	–	**9**	9
Long-Term Incentive Scheme											
9 July 00 to 9 July 07	£2.671	**–**	–	**13**	13	**7**	7	**8**	8	**28**	28
24 Jan 06 to 24 Jan 13	£9.590	**–**	–	**39**	39	**29**	29	**20**	20	**88**	88
12 Jan 07 to 12 Jan 14	£16.320	**–**	–	**31**	–	**23**	–	**12**	–	**66**	–
		2	2	**85**	94	**70**	47	**52**	40	**209**	183

During the year, Rupert Dickinson exercised 40,000 options under the company's Inland Revenue Approved Executive Share Option Scheme at the option price of £2.312. At the date of exercise, the mid-market price was £16.15 per share. The total gain before tax was £553,520.

The market price of the company's shares at the end of the financial year was £18.35, and the range during the year was £13.38 to £19.55.

The current long-term incentive scheme replaced the old Executive Share Option Scheme, however some options granted under this scheme are still in existence and are disclosed above. Exercise 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.

Directors' share awards

	Ordinary shares of 25p each (thousands)								
		Rupert Dickinson		Andrew Cunningham		Sean Slade		Total	
	Earliest vesting date	**30 Sept 2004**	1 Oct 2003	**30 Sept 2004**	1 Oct 2003	**30 Sept 2004**	1 Oct 2003	**30 Sept 2004**	1 Oct 2003
Performance related (conditional awards)									
Long-Term Incentive Scheme									
1999 scheme (matching awards)	5 Dec 05	**10**	10	**9**	9	**4**	4	**23**	23
2002 scheme	24 Jan 06	**16**	16	**11**	11	**8**	8	**35**	35
2003 scheme	12 Jan 07	**12**	–	**9**	–	**5**	–	**26**	–
		38	26	**29**	20	**17**	12	**84**	58

The share price at the date of award of the 2003 scheme was £16.32.

Deferred bonus

As reported fully in previous years, Rupert Dickinson and Andrew Cunningham participate in a one-off deferred bonus scheme as detailed below:

	Original monetary amount	Equivalent number of shares, based on average share price 1 Oct 00 – 30 Sept 01 (£7.1319)	First tranche – vested 11 Dec 03 (mid-market value £15.75)	Second tranche to vest in Dec 2005 following results announcement
Rupert Dickinson	£600,000	84,130	42,065	Providing still in full time employment and not under notice to leave
Andrew Cunningham	£300,000	42,064	21,032	

Sean Slade announced his resignation on 12 November 2004. He received compensation of one year's basic salary and benefits, and an ex-gratia payment of £30,000. In addition the remuneration committee awarded him 3,011 shares and 7,527 options under current long-term incentive schemes. These awards took into account the time that had elapsed since the grant of the awards and the performance of the group as required by the rules of the scheme. Sean also received 2,655 shares relating to the matching award which would have vested in December 2005. Just prior to resignation he exercised 10,273 approved share options and he retains 7,712 options which are exerciseable until 12 May 2005.

Nichola Pease
Chairman of the Remuneration Committee
21 December 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, the statement of group total recognised gains and losses, note of group historical cost profits and losses, balance sheets, the consolidated cash flow statement, 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, the corporate social responsibility 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.

The maintenance and integrity of the Grainger Trust plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 2004 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
21 December 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 with the exception of the adoption of UITF38.

Accounting convention
The group prepares its annual financial statements on the historical cost basis of accounting, as modified by the revaluation of investment properties and in accordance with the Companies Act 1985 and applicable UK 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 eliminated or credited immediately against reserves and will 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.

Turnover
Turnover comprises gross sale proceeds of trading properties and developments, gross rentals, commissions and sundry other income, and is exclusive of VAT. Sales of land and properties are only recognised when the cash proceeds are received in full or the group has entered into a legally binding undertaking. Gross rentals and commissions 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 which is open to all employees. The contributions are charged to the profit and loss account during the year to which they relate. The second is a defined benefit scheme, which was closed to new members and employee contributions in 2003. 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 impairment.

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.

Prior year adjustment
The group has adopted Urgent Issues Task Force Abstract 38: 'Accounting for ESOP trusts' for the 2004 financial statements. As a result of the implementation of the requirements of this Abstract, shares in the company held by an employee share scheme trustee company which were previously reported as investments are now recorded as a deduction from equity shareholders' funds. At 30 September 2004, the carrying value of these shares was £2.3m, which has been set against the profit and loss account in the balance sheet. The comparative figures for investments and profit and loss account have been amended to reflect the change in treatment. The comparative figures have been restated in a prior year adjustment to reflect this changed treatment such that shareholders' funds at 30 September 2003 have been reduced by £2.2m. Details of the effect of the prior year adjustment are shown in note 21.

Consolidated profit and loss account

For the year ended 30 September 2004	Notes	Year ended 30 September 2004 £m	Year ended 30 September 2003 £m
Turnover (2003: including share of joint venture)	1	**217.4**	173.6
Less: share of turnover of joint venture		**–**	(55.6)
Group turnover		**217.4**	118.0
Gross rentals		**41.0**	21.4
Trading profits		**72.6**	38.8
Other income		**9.8**	0.9
		123.4	61.1
Less:			
Property expenses		**(22.7)**	(9.1)
Administration expenses		**(7.5)**	(4.7)
Group operating profit		**93.2**	47.3
Share of operating profit of joint venture (after amortisation of goodwill of £nil (2003: £35,000))		**–**	23.6
Total operating profit: Group and share of joint venture		**93.2**	70.9
Net profit on disposal of and provisions against fixed assets			
– Group		**6.5**	1.9
– Joint venture		**–**	4.1
	2	**6.5**	6.0
Profit on ordinary activities before interest		**99.7**	76.9
Net interest payable and similar charges			
– Group		**(40.1)**	(11.5)
– Group exceptional	3, 4	**(5.4)**	–
– Joint venture		**–**	(16.9)
	3	**(45.5)**	(28.4)
Profit on ordinary activities before taxation	1, 5	**54.2**	48.5
Tax on profit on ordinary activities	7	**(21.2)**	(19.1)
Profit on ordinary activities after taxation		**33.0**	29.4
Minority interest – equity	25	**–**	(0.1)
Profit attributable to shareholders		**33.0**	29.3
Dividends	8	**(5.7)**	(4.0)
Retained profit for the year	21	**27.3**	25.3
Basic earnings per share	9	**134.2p**	119.8p
Diluted earnings per share	9	**133.4p**	119.3p
Basic earnings per share before exceptional interest	9	**149.7p**	119.8p

All results relate to continuing operations.

Statement of group total recognised gains and losses

For the year ended 30 September 2004	Notes	2004 £m	2003 £m
Profit on ordinary activities attributable to shareholders		**33.0**	29.3
Taxation on realisation of property revaluation gains of previous years	7	**(0.4)**	–
Unrealised surplus on revaluation of properties	10, 21	**4.3**	3.1
Surplus recognised in the profit and loss account in the year		**–**	(1.3)
Adjustment to reserves arising from the consolidation of the joint venture		**–**	(2.9)
Total gains and losses recognised – group		**36.9**	28.2
Share of joint venture tax on realisation of revaluation surpluses		**–**	(0.9)
Unrealised surplus on revaluation of joint venture properties		**–**	4.4
Total gains and losses recognised since the last annual report – group and joint venture		**36.9**	31.7

Note of group historical cost profits and losses

	Notes	2004 £m	2003 £m
Reported profit on ordinary activities before taxation		**54.2**	48.5
Realisation of property revaluation gains of previous years	21	**5.1**	3.1
Historical cost profit on ordinary activities before taxation		**59.3**	51.6
Taxation		**(21.6)**	(20.0)
Minority interest		**–**	(0.1)
Dividends		**(5.7)**	(4.0)
Retained historical cost profit for the year		**32.0**	27.5

Balance sheets

At 30 September 2004	Notes	Group 2004 £m	Group 2003 (restated) £m	Company 2004 £m	Company 2003 £m
Fixed assets					
Intangible assets	12	**(84.8)**	(97.2)	**–**	–
Tangible assets	10	**106.7**	109.1	**0.6**	0.4
Investments	11	**10.3**	7.0	**91.3**	97.3
		32.2	18.9	**91.9**	97.7
Current assets					
Stocks	14	**918.6**	888.3	**–**	–
Debtors	15	**10.6**	10.0	**146.4**	114.6
Cash at bank and in hand	16	**53.8**	81.7	**0.7**	0.3
		983.0	980.0	**147.1**	114.9
Creditors: amounts falling due within one year	17	**(109.0)**	(154.5)	**(71.8)**	(46.6)
Net current assets		**874.0**	825.5	**75.3**	68.3
Total assets less current liabilities		**906.2**	844.4	**167.2**	166.0
Creditors: amounts falling due after more than one year	17	**(717.9)**	(684.8)	**–**	(2.5)
Provisions for liabilities and charges	19	**(10.4)**	(12.8)	**–**	–
Net assets		**177.9**	146.8	**167.2**	163.5
Capital and reserves					
Called up equity share capital	20	**6.2**	6.2	**6.2**	6.2
Share premium account	21	**21.5**	21.4	**21.5**	21.4
Revaluation reserve	21	**13.9**	14.7	**–**	–
Capital redemption reserve	21	**0.2**	0.2	**0.2**	0.2
Profit and loss account	21	**136.1**	104.2	**139.3**	135.7
Equity shareholders' funds	22	**177.9**	146.7	**167.2**	163.5
Minority interests – equity	25	**–**	0.1	**–**	–
		177.9	146.8	**167.2**	163.5

The financial statements on pages 32 to 46 were approved by the board of directors on 21 December 2004 and were signed on their behalf by:

Rupert Dickinson
Director

Andrew Cunningham
Director

Consolidated cash flow statement

For the year ended 30 September 2004	Notes	2004 £m	2003 (restated) £m
Net cash inflow/(outflow) from operating activities (see below)		**56.7**	(37.3)
Dividends from joint venture		**–**	52.0
Returns on investments and servicing of finance			
Interest received		**3.3**	2.9
Interest paid – normal		**(42.2)**	(14.0)
– exceptional		**(5.4)**	–
Dividends received		**0.2**	0.2
		(44.1)	(10.9)
Taxation			
UK Corporation tax paid		**(24.1)**	(11.8)
Capital expenditure and financial investment			
Purchase of fixed asset investments		**(4.5)**	–
Purchase of tangible fixed assets		**(29.8)**	(0.5)
Sale of fixed asset investments		**1.2**	–
Sale of tangible fixed assets		**41.1**	2.1
		8.0	1.6
Acquisitions and disposals			
Purchase of subsidiaries	26	**(2.3)**	(25.9)
Costs on purchase of subsidiaries		**–**	(0.3)
Cash acquired on purchase of subsidiaries	26	**0.2**	74.9
		(2.1)	48.7
Equity dividends paid		**(4.2)**	(3.6)
Cash (outflow)/inflow before financing		**(9.8)**	38.7
Financing			
New loans raised	24	**726.1**	64.0
Repayment of loans	24	**(743.7)**	(30.2)
Purchase of shares		**(0.6)**	(1.4)
Issue of shares	20	**0.1**	0.1
Net cash (outflow)/inflow from financing		**(18.1)**	32.5
(Decrease)/increase in cash in the year	23	**(27.9)**	71.2

Reconciliation of group operating profit to net cash inflow/(outflow) from operating activities

	2004 £m	2003 £m
Operating profit	**93.2**	47.3
Depreciation	**0.4**	0.2
Movement in provisions for liabilities and charges	**(0.2)**	–
Amortisation of goodwill	**(6.1)**	(0.2)
Increase in debtors	**(2.0)**	(1.6)
Increase/(decrease) in creditors	**1.7**	(13.6)
Increase in stocks	**(30.3)**	(69.4)
Net cash inflow/(outflow) from operating activities	**56.7**	(37.3)

Notes to the financial statements

For the year ended 30 September 2004.

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

	2004 Turnover £m	2004 Profit before taxation £m	2003 Turnover £m	2003 Profit before taxation £m
Class of business				
Continuing operations				
Tenanted residential	**157.5**	**76.1**	81.0	35.6
Development and trading	**59.9**	**23.6**	37.0	13.6
	217.4	**99.7**	118.0	49.2
Joint venture	–	–	55.6	27.7
	217.4	**99.7**	173.6	76.9
Net interest payable – group	**–**	**(45.5)**	–	(11.5)
Net interest payable – joint venture	**–**	**–**	–	(16.9)
	217.4	**54.2**	173.6	48.5

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*	
	2004 £m	2003 (restated) £m	2004 £m	2003 £m
Class of business				
Continuing operations				
Tenanted residential	**148.0**	94.0	**623.6**	464.8
Development and trading	**29.9**	52.8	**54.7**	78.6
	177.9	146.8	**678.3**	543.4

*Adjusted net assets represent balance sheet net assets plus the excess of market value over book cost of trading stock, as valued on the same basis as disclosed in note 10, 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

	2004 £m	2003 £m
Group		
Profit on disposal of investment properties	**6.5**	0.6
Write back of impairment of investment properties	**–**	1.3
	6.5	1.9
Joint venture		
Profit on disposal of investment properties	**–**	4.1
Group and joint venture	**6.5**	6.0

3 Net interest payable and similar charges

	2004 £m	2003 £m
Group		
Bank loans and overdrafts	**38.4**	9.7
Debentures and other loans	**2.7**	3.2
Other interest costs	**2.5**	1.7
	43.6	14.6
Less:		
Income from listed fixed asset investments	**(0.2)**	(0.2)
Interest receivable	**(3.3)**	(2.9)
	40.1	11.5
Exceptional interest:		
Cost of redemption of loans and debenture stock (note 4)	**5.4**	–
	45.5	11.5
Joint venture		
Bank loans and overdrafts	**–**	12.8
Debentures and other loans	**–**	0.9
Other interest costs	**–**	4.4
	–	18.1
Less:		
Interest receivable	**–**	(1.2)
	–	16.9
Group and joint venture	**45.5**	28.4

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

4 Exceptional interest

	2004 £m	2003 £m
Cost of early redemption of loans and debenture stock	**5.4**	–

The exceptional interest was paid in cash during the course of the year and represented the premium paid upon early redemption of quoted debentures and penalties on the early repayment of loans.

5 Profit on ordinary activities before taxation

	2004 £m	2003 £m
Profit on ordinary activities before taxation is stated after charging:		
Depreciation of tangible owned fixed assets	**0.4**	0.2
Auditors' remuneration (including expenses)		
(Company £6,000 (2003: £6,000))	**0.1**	0.1
And after crediting:		
Amortisation of goodwill	**7.6**	0.2

Remuneration of the company's auditors for the provision of non-audit services to the company and its UK subsidiary undertakings was £61,000 (2003: £81,000). Of this £34,000 (2003: £62,000) related to tax compliance and advisory services.

6 Directors and employees

	2004 £m	2003 £m
Staff costs (including executive directors) during the year:		
Wages and salaries	**8.7**	5.3
Social security costs	**1.2**	1.0
Other pension costs (see note 28)	**0.9**	0.3
	10.8	6.6
Less: recharged to joint venture	**–**	(0.7)
	10.8	5.9

The average weekly number of persons employed by the group during the year (including executive directors) was 164 (2003: 94). 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 27 to 30.

7 Taxation

	2004 £m	2003 £m
Analysis of charge in year		
Current tax:		
Group		
UK Corporation tax on profits for the period	**20.8**	12.3
Adjustments in respect of prior periods	**(0.6)**	0.2
Transferred to appropriate reserve (see below)	**(0.4)**	–
Joint venture		
UK corporation tax on profits for the period	**–**	6.3
Adjustments in respect of prior periods	**–**	1.9
Total current tax	**19.8**	20.7
Deferred tax:		
Origination and reversal of timing differences		
Group	**1.4**	(0.6)
Joint venture	**–**	(1.0)
Total deferred tax	**1.4**	(1.6)
Group and joint venture	**21.2**	19.1

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. Tax attributable to the exceptional interest charges is a credit of £1.6m.

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:

	2004 £m	2003 £m
Profit on ordinary activities before tax	**54.2**	48.5
Profit on ordinary activities before tax at a rate of 30%	**16.3**	14.6
Expenses not deductible for tax purposes	**0.6**	0.7
Effect of negative goodwill written back	**(2.3)**	(1.5)
Tax on fair values released on sales	**7.2**	4.4
Effect of timing differences	**(0.5)**	0.6
Difference between tax and accounting profit on disposals	**(0.9)**	(0.2)
Adjustments in respect of prior periods	**(0.6)**	2.1
Total current tax	**19.8**	20.7

Financial Statements 2004 continued

7 Taxation continued

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 £15.9m (2003: £16.5m).

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 2004 is £83.3m (2003: £91.8m).

8 Dividends

	2004 £m	2003 £m
Dividends on equity shares:		
Ordinary – interim paid of 4.04p per share (2003: 3.51p per share)	**1.0**	0.8
Ordinary – final proposed of 19.20p per share (2003: 12.80p per share)	**4.7**	3.2
	5.7	4.0

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 2004			Year ended 30 September 2003		
	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	**33.0**	**24,563**	**134.2**	29.3	24,473	119.8
Exceptional interest (note 4) less tax	**3.8**		**15.5**	–		–
Adjusted earnings	**36.8**		**149.7**	29.3		119.8
Effect of dilutive securities						
Options	**–**	**144**	**–**	–	117	–
Diluted earnings per share						
Profit attributable to shareholders	**33.0**	**24,707**	**133.4**	29.3	24,590	119.3
Exceptional interest (note 4) less tax	**3.8**		**15.4**	–		–
Adjusted earnings	**36.8**		**148.8**	29.3		119.3

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

9 Earnings per share continued

The impact of shares held by the ESOP trustee company have been taken into account in the calculation of the weighted average number of shares for the year ended 30 September 2004. The comparatives for 2003 have been restated on the same basis.

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 2003	108.1	2.0	110.1	1.0
Surplus on revaluation	4.3	–	4.3	–
Additions	28.9	0.9	29.8	0.4
Disposals	(35.9)	(0.7)	(36.6)	(0.2)
At 30 September 2004	**105.4**	**2.2**	**107.6**	**1.2**
Depreciation				
At 1 October 2003	–	1.0	1.0	0.6
Charge for year	–	0.4	0.4	0.1
Released on disposals	–	(0.5)	(0.5)	(0.1)
At 30 September 2004	**–**	**0.9**	**0.9**	**0.6**
Net book value				
At 30 September 2004	**105.4**	**1.3**	**106.7**	**0.6**
At 30 September 2003	108.1	1.0	109.1	0.4

Group investment properties were revalued at their market value at 30 September 2004 by Jones Lang LaSalle, Chartered Surveyors, independent of the company, or by in-house valuations. A structured sample of the in-house valuations has been reviewed by Allsop & Co., Chartered Surveyors, independent of the company. 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 2004 £m	Group 2003 £m
Freehold	**97.7**	99.8
Long leasehold	**7.7**	8.3
Net book value	**105.4**	108.1

10 Tangible fixed assets continued

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

	Group 2004 £m	Group 2003 £m
Net book value	**101.0**	104.9

11 Fixed asset investments

	Group Other investments £m	Investment in subsidiaries £m	Company Other investments £m	Total £m
Cost				
At 1 October 2003 (restated)	7.0	90.3	7.0	97.3
Additions	4.5	–	–	–
Disposals	(1.2)	–	–	–
Permanent diminution arising in the year	–	(6.0)	–	(6.0)
At 30 September 2004	**10.3**	**84.3**	**7.0**	**91.3**

The group's other investments have been restated to take account of UITF 38, as explained in note 21.

	Group Other investments 2004 £m	Group Other investments 2003 (restated) £m
Investments at net book value include:		
Investments listed on a recognised stock exchange	**7.0**	7.0
Aggregate market value of listed investments	**9.7**	8.8

The directors consider that providing details of all subsidiaries as at 30 September 2004 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 Property & Durham Trust Limited	100	–	Property trading
GIP Limited	100	–	Property trading & investment
Grainger Residential Management Limited	100	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
Bridgewater Tenancies Limited	100	–	Property trading
Home Properties Limited	100	–	Property trading
Grainger Homes Limited	100	–	House building

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

12 Intangible assets

	Group Positive goodwill £m	Negative goodwill £m	Total £m
Cost			
At 1 October 2003	–	(98.5)	(98.5)
Adjustment to prior year additions (see note 27)	–	4.5	4.5
Additions	0.3	–	0.3
At 30 September 2004	**0.3**	**(94.0)**	**(93.7)**
Amortisation			
At 1 October 2003	–	1.3	1.3
Amortisation for year	–	7.6	7.6
At 30 September 2004	**–**	**8.9**	**8.9**
Net book value			
At 30 September 2004	**0.3**	**(85.1)**	**(84.8)**
At 30 September 2003	–	(97.2)	(97.2)

The goodwill and negative goodwill arising on acquisitions are being amortised in line with the disposal of acquired assets. £6.1m of the amortisation in the year was recognised within trading profits and £1.5m within profit on disposal of fixed assets.

13 Capital commitments

The group had capital commitments contracted but not provided for of £nil at 30 September 2004 (2003: £nil).

14 Stocks

	Group 2004 £m	Group 2003 £m
Trading and development properties	**918.6**	888.3

The market value of the group's trading and development properties is £1,332.5m (2003: £1,185.8m), as valued on the same basis as disclosed in note 10.

15 Debtors

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Trade debtors	**5.8**	2.6	**–**	–
Amounts owed by group undertakings	**–**	–	**145.0**	112.6
Other debtors	**0.5**	0.6	**–**	0.3
Prepayments and accrued income	**2.9**	4.0	**1.4**	1.7
Deferred tax asset (see note 19)	**1.4**	2.8	**–**	–
	10.6	10.0	**146.4**	114.6

16 Cash at bank and in hand

At 30 September 2004, bank balances included £30.4m (2003: £53.8m) 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 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Amounts falling due within one year:				
Mortgages and other loans	**–**	11.7	**–**	–
Loan notes	**31.8**	41.2	**1.6**	1.9
Bank loans	**–**	23.5	**–**	2.0
Deposits received	**0.8**	1.0	**–**	–
Trade creditors	**22.2**	8.1	**–**	–
Amounts owed to group undertakings	**–**	–	**55.1**	25.6
Corporation tax payable	**20.5**	24.9	**–**	2.8
Other taxation and social security	**3.2**	2.0	**–**	0.1
Accruals and deferred income	**25.8**	38.9	**10.4**	11.0
Dividends payable	**4.7**	3.2	**4.7**	3.2
	109.0	154.5	**71.8**	46.6

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Amounts falling due after more than one year:				
10½% debenture stock	**–**	1.9	**–**	1.9
11¾% debenture stock	**–**	0.6	**–**	0.6
Mortgages and other loans	**–**	427.6	**–**	–
Bank loans	**717.9**	254.7	**–**	–
	717.9	684.8	**–**	2.5

17 Creditors continued

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Maturity of finance debt (net of issue costs) is as follows:				
In one year or less	**31.8**	76.4	**1.6**	3.9
Between one and two years	**–**	46.8	**–**	–
Between two and five years	**475.2**	210.6	**–**	–
Between five and ten years	**199.1**	358.7	**–**	–
Over ten years	**43.6**	68.7	**–**	2.5
	749.7	761.2	**1.6**	6.4

Bank loans bear interest at rates between 0.9% and 1.0% above LIBOR and are secured by fixed and floating charges over the assets of the group. Repayments are over terms of 4 to 28 years.

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

18 Financial instruments

The group's policies in relation to financial instruments are set out in the operating and financial review on page 14. 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

2004	Fixed rate liabilities £m	Capped rate liabilities £m	Floating rate liabilities £m	Total £m
Loan notes	**–**	**–**	**31.8**	**31.8**
Bank debt	**45.0**	**456.1**	**223.9**	**725.0**
Total	**45.0**	**456.1**	**255.7**	**756.8**

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

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.

18 Financial instruments continued

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

	2004			
	Fixed rate weighted average rate %	**Weighted average period years**	**Capped rate weighted average rate %**	**Weighted average period years**
Hedge profile				
Bank debt	**6.3**	**20**	**6.1**	**3**

	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

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.

Financial assets
The group's financial assets at the year end consist of cash at bank and in hand of £53.8m (2003: £81.7m). The interest rate on this is floating.

Borrowing facilities
The group had unutilised borrowing facilities at the year end. The undrawn facilities available to the group amount to £230m (2003: £41m), of which £10m expires on 30 September 2005 and £220m expires on 23 June 2009 (2003: £25m expired on 30 September 2004 and £16m expired on 9 January 2004).

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.

18 Financial instruments continued

	2004			2003		
	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)
Institutional debt	**–**	**–**	**–**	17.4	19.1	(1.7)
Fixed rate bank debt	**42.5**	**43.8**	**(1.3)**	58.3	63.0	(4.7)
Total fixed rate debt	**42.5**	**43.8**	**(1.3)**	78.2	85.5	(7.3)
Debt fixed under one year	**707.2**	**707.2**	**–**	683.0	683.0	–
Derivative financial instruments:						
Interest rate swaps	**–**	**2.1**	**(2.1)**	–	6.5	(6.5)
Interest rate caps	**–**	**(0.1)**	**0.1**	–	(0.8)	0.8
Interest rate collars	**–**	**(0.1)**	**0.1**	–	–	–
Total current derivatives	**–**	**1.9**	**(1.9)**	–	5.7	(5.7)
Future interest rate swaps	**–**	**1.9**	**(1.9)**	–	4.9	(4.9)
Total derivatives	**–**	**3.8**	**(3.8)**	–	10.6	(10.6)
	749.7	**754.8**	**(5.1)**	761.2	779.1	(17.9)
Financial assets:						
Cash	**(53.8)**	**(53.8)**	**–**	(81.7)	(81.7)	–
	695.9	**701.0**	**(5.1)**	679.5	697.4	(17.9)
Less amount provided (see note 19)			**4.6**			6.8
			(0.5)			(11.1)

The fair values were calculated at 30 September 2004 using interest rates and market prices prevailing at that date and reflect the replacement values of the respective financial instruments. After deduction of provisions, this has an after tax effect on NAV of 1p (2003: 31p).

The figures for 2003 have been re-presented to include the gross fair values and fair value adjustments arising before the fair value provision of £6.8m made on the acquisition of Bromley Property Holdings Limited. Previously these figures were presented net of the £6.8m provision.

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

18 Financial instruments continued

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 2003	1.1	(11.7)	(10.6)
Losses arising in previous periods that were recognised during the year	–	3.5	3.5
Gains/(losses) not recognised in the year to 30 September 2004			
Arising before 1 October 2003	1.1	(8.2)	(7.1)
Arising during the year to 30 September 2004	(0.8)	4.1	3.3
Unrecognised gains/(losses) on hedges at 30 September 2004	**0.3**	**(4.1)**	**(3.8)**
Of which:			
Losses expected to be recognised in the year to 30 September 2005	–	(1.5)	(1.5)
Gains/(losses) expected to be recognised in the year to 30 September 2006 or later	0.3	(2.6)	(2.3)

19 Provisions for liabilities and charges

	Provision for retirement liabilities	Group Provision for fair value of financial instruments	Total
Cost at 1 October 2003	6.0	6.8	12.8
Credited to profit and loss account	(0.2)	(2.2)	(2.4)
At 30 September 2004	**5.8**	**4.6**	**10.4**

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 being 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 is being amortised over the maturity periods of those financial instruments.

Deferred taxation

	Amount provided		Amount unprovided	
	2004 £m	2003 £m	**2004 £m**	2003 £m
Group				
Tax effect of timing differences due to:				
Accelerated capital allowances	**0.1**	0.2	**–**	–
Net short-term timing differences	**(4.3)**	(6.3)	**–**	–
Held over gains in stock arising from transfers from fixed assets	**2.8**	3.3	**–**	–
Revalued investment properties	**–**	–	**15.9**	16.5
Transferred to debtors	**1.4**	2.8	**–**	–
Balance at 30 September 2004	**–**	–	**15.9**	16.5

19 Provisions for liabilities and charges continued

	£m
Group	
The movements on the provisions for deferred taxation are as follows:	
1 October 2003 (included within debtors)	(2.8)
Amount charged to profit and loss account	1.4
Transferred to debtors	1.4
Balance at 30 September 2004	**–**

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. In addition to the above, the total contingent tax to the group on the difference between original cost and carrying value of trading properties not provided at 30 September 2004 is £83.3m (2003: £91.8m).

20 Called up equity share capital

	2004 £m	2003 £m
Company and group		
Authorised:		
32,000,000 (2003: 32,000,000) ordinary shares of 25p each	**8.0**	8.0
Allotted, called-up and fully paid:		
24,811,004 (2003: 24,762,697) ordinary shares of 25p each	**6.2**	6.2

	Number	Nominal value £'000	Consideration £'000
Shares issued during the year:			
Executive share option scheme at £2.31	40,000	10	92
SAYE scheme at £3.08	4,382	1	13
SAYE scheme at £6.90	3,925	1	27
	48,307	**12**	**132**

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 267.1p to 1,632.0p. 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 466.0p to 1,359.0p. Under these various schemes, options on 48,307 shares were exercised in the year and options on 711 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 right:

20 Called up equity share capital continued

Year of grant	Exercise price (pence)	Exercise period	2004 Number	2003 Number
Executive share options				
1994	231.2	1997-04	**–**	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**	169,506
2004	1,632.0	2007-14	**125,099**	–
			341,493	256,394

Year of grant	Exercise price (pence)	Exercise period	2004 Number	2003 Number
SAYE share options				
1999	308.0	2002-05	**–**	4,382
2000	466.0	2003-06	**1,153**	1,153
2001	690.0	2004-07	**5,379**	9,388
2002	818.0	2005-08	**22,079**	22,706
2003	932.3	2006-09	**19,302**	19,302
2004	1,359.0	2007-10	**21,595**	–
			69,508	56,931
Total share options			**411,001**	313,325

21 Reserves

	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Profit and loss account £m
Group				
At 1 October 2003 as previously reported	21.4	14.7	0.2	106.4
Prior year adjustment – UITF 38	–	–	–	(2.2)
At 1 October 2003 as restated	21.4	14.7	0.2	104.2
Issue of shares	0.1	–	–	–
Investment properties:				
Surplus on revaluation	–	4.3	–	–
Realisation on disposals	–	(5.1)	–	5.1
Tax on realisation of revaluation surpluses	–	–	–	(0.4)
Movement in own shares	–	–	–	(0.1)
Retained profit for the year	–	–	–	27.3
At 30 September 2004	**21.5**	**13.9**	**0.2**	**136.1**

The group has adopted Urgent Issues Task Force Abstract 38: 'Accounting for ESOP Trusts' for the 2004 financial statements. As a result of the implementation of the requirements of the Abstract, shares in the company held by an employee share scheme trustee company which were previously reported as investments are now recorded as a deduction from equity shareholders' funds.

21 Reserves continued

	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m
Company			
At 1 October 2003	21.4	0.2	135.7
Issue of shares	0.1	–	–
Tax credit taken to reserves	–	–	2.0
Retained profit for the year	–	–	1.6
At 30 September 2004	**21.5**	**0.2**	**139.3**

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 £7.3m (2003: £54.0m). Included within the company's profit and loss account balance of £139.3m is a total of £60.5m which is non-distributable as the profit arose on a transfer of assets between group companies (2003: £60.5m).

The Grainger Trust Employee Trustee Company Limited holds 238,542 (2003: 263,639) shares with a cost of £2.3m (2003: £2.2m) and an open market value at 30 September 2004 of £4.4m (2003: £3.6m). These shares were acquired at various dates in the open market. The trustee company used funds provided by the group to meet the group's obligations under its long-term incentive scheme. These shares are retained until awarded to employees by the trustee company in accordance with the wishes of the company.

22 Reconciliation of movements in equity shareholders' funds

	2004 £m	2003 (restated) £m
Profit for the financial year	**33.0**	29.3
Dividends	**(5.7)**	(4.0)
	27.3	25.3
Other recognised gains and losses for the year	**3.9**	2.4
Movement in own shares	**(0.1)**	(0.3)
New share capital issued	**0.1**	0.1
Net additions to equity shareholders' funds	**31.2**	27.5
Opening equity shareholders' funds	**146.7**	119.2
Closing equity shareholders' funds	**177.9**	146.7

Financial Statements 2004 continued

23 Reconciliation of net cash flow to movement in net debt

	2004 £m	2003 £m
(Decrease)/increase in cash	**(27.9)**	71.2
Cash outflow/(inflow) from decrease/(increase) in debt	**17.6**	(33.8)
Change in net debt resulting from cash flows	**(10.3)**	37.4
Other non-cash items:		
Loans acquired with subsidiary	**–**	(493.7)
Others	**(6.1)**	–
Movement in net debt for the year	**(16.4)**	(456.3)
Net debt at 1 October 2003	**(679.5)**	(223.2)
Net debt at 30 September 2004	**(695.9)**	(679.5)

24 Analysis of net debt

	At 1 Oct 2003 £m	Cash flow £m	Other non cash changes £m	At 30 Sept 2004 £m
Cash at bank and in hand	81.7	(27.9)	–	**53.8**
Debt due within one year	(76.4)	743.7	(699.1)	**(31.8)**
Debt due after one year	(684.8)	(726.1)	693.0	**(717.9)**
Total	(679.5)	(10.3)	(6.1)	**(695.9)**

25 Minority interest – equity

	2004 £m	2003 £m
Minority interest brought forward	**0.1**	–
Minority share of profit for the year	**–**	0.1
Eliminated upon acquisition of minority interest	**(0.1)**	–
Minority interest carried forward	**–**	0.1

26 Acquisitions

The following acquisitions were made during the year:

Company	Percentage purchased	Date of acquisition	Satisfied by cash £m
The Farm House Enterprise Limited	48%	6 May 2004	0.3
City Property Developments Limited	100%	10 June 2004	2.0
			2.3

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

26 Acquisitions continued

The purchase of the remaining 48% interest in The Farm House Enterprise Limited was to acquire the minority interest existing in that company, resulting in the group now owning 100% of the equity share capital thereof.

The aggregate assets and liabilities acquired, and their provisional fair values, were:

	Book value £m	Fair value adjustments £m	Provisional fair value £m
Current assets			
Trading stock	0.5	1.2	1.7
Cash at bank	0.2	–	0.2
Minority interest	0.1	–	0.1
Net assets acquired	0.8	1.2	2.0
Goodwill			0.3
Total consideration			**2.3**

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.

27 Prior year acquisition

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.

27 Prior year acquisition continued

The acquisition of Bromley was 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. For the purpose 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 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. Full details are included in the financial statements for the year ended 30 September 2003.

Details of the aggregate assets and liabilities relating to the 50% interest acquired, on 26 September 2003 and the provisional and final fair value adjustments made for the purpose of calculating negative goodwill of the Bromley acquisition were:

	Book value £m	Provisional fair value adjustments £m	Provisional fair values £m	Final fair value adjustments £m	Final fair values £m
Fixed assets					
Intangible assets	(40.1)	40.1	–	–	–
Tangible assets	42.4	–	42.4	–	42.4
Current assets					
Trading properties	214.0	72.5	286.5	(1.7)	284.8
Debtors	3.6	1.2	4.8	–	4.8
Cash at bank and in hand	37.5	–	37.5	–	37.5
Total assets	257.4	113.8	371.2	(1.7)	369.5
Liabilities					
Creditors: amounts falling due within one year	(46.4)	–	(46.4)	–	(46.4)
Creditors: amounts falling due after more than one year	(227.1)	–	(227.1)	(2.8)	(229.9)
Provisions for liabilities and charges	(2.3)	(4.1)	(6.4)	–	(6.4)
Net (liabilities)/assets acquired	(18.4)	109.7	91.3	(4.5)	86.8
Consideration			34.9	–	34.9
Negative goodwill on acquisition			(56.4)	4.5	(51.9)
50% share of Bromley's negative goodwill			(40.1)	–	(40.1)
Unamortised goodwill on initial acquisition of joint venture			0.3	–	0.3
Total negative goodwill			(96.2)	4.5	(91.7)

The adjustments to provisional fair values relate to the finalisation of property valuations and assessment of the carrying value of borrowings.

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).

28 Pension schemes continued

BPT Limited, a wholly owned subsidiary of Bromley, currently contributes to two pension schemes. The first is a defined contribution scheme, implemented in 2003 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 2003. The group will continue to contribute so as to spread the cost over the expected remaining service 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. The defined benefit scheme is due to be valued as at 1 July 2004 and the actuary's comments are currently awaited. Therefore the results of the 1 July 2001 valuation have been included below. 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. At the time, these were held in a relevant insurance contract but subsequently the assets have been transferred to an AXA Sun Life managed fund. 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 for the year ended 30 September 2004 was £0.4m (2003: £0.4m).

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 2004 by a qualified independent actuary. The major assumptions used by the actuary were:

	30 September 2004	30 September 2003
Discount rate	5.50% pa	5.30% pa
Rate of increase in salaries	4.00% pa	3.70% pa
Rate of increases in pensions in payment	5.00% pa	5.00% pa
Inflation assumption	3.00% pa	2.70% pa

The assets were transferred to a managed fund with AXA Sun Life on 12 August 2004. Prior to this the assets were held with AXA Sun Life in a with-profits fund. This policy was surrendered during the year.

The breakdown of the assets and the associated expected rate of return is given in the table below:

	30 September 2004		30 September 2003	
	Value (£m)	**Expected rate of return (pa)**	Value (£m)	Expected rate of return (pa)
AXA Sun Life with-profits fund	–	–	10.5	6.3%
Equities	4.0	7.3%	–	–
Bonds	6.2	5.2%	–	–
Other	0.5	5.0%	–	–
Total value of assets	**10.7**		10.5	

Financial Statements 2004 continued

28 Pension schemes continued

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

	30 September 2004 £m	30 September 2003 £m
Total market value of assets	**10.7**	10.5
Present value of scheme liabilities	**(15.3)**	(14.2)
Deficit in the scheme	**(4.6)**	(3.7)
Related deferred tax assets	**1.4**	1.1
Net pension liability	**(3.2)**	(2.6)

If the above amounts had been recognised in the financial statements, the net assets and profit and loss reserve would be as follows:

	30 September 2004 £m	30 September 2003 £m
Net assets excluding SSAP24 pension liability	**179.9**	148.9
FRS17 pension liability	**(1.6)**	(1.3)
Net assets including FRS17 pension liability	**178.3**	147.6
Profit and loss reserve excluding SSAP24 pension liability	**138.1**	109.3
FRS17 pension reserve	**(1.6)**	(1.3)
Profit and loss reserve	**136.5**	108.0

If the net pension liability had been recognised as part of the net assets of Bromley, the adjustment to the pension liability would have been included in the net assets acquired as at 26 September 2003. The adjustment to pensions balances to reflect the adoption of FRS17 would therefore have been to goodwill and the profit and loss reserve as indicated above.

The following amounts would have been recognised in the group's performance statements in the year to 30 September 2004 and in the joint venture's for the year ended 30 September 2003, under the requirements of FRS17:

	Year ended 30 September 2004 £m	Year ended 30 September 2003 £m
Operating profit		
Current service cost	**–**	0.3
Past service cost	**–**	–
Total operating charge	**–**	0.3
Other finance expense		
Interest on pension scheme liabilities	**(0.8)**	(0.7)
Expected return on pension scheme assets	**0.7**	0.6
Net finance expense	**(0.1)**	(0.1)
Statement of total recognised gains and losses (STRGL)		
Actual return less expected return on pension scheme assets	**(0.9)**	(0.3)
Experience gains and losses arising on the scheme liabilities	**(0.5)**	0.1
Changes in assumptions underlying the present value of scheme liabilities	**–**	(1.1)
Actuarial loss recognised in STRGL	**(1.4)**	(1.3)

28 Pension schemes continued

Movements in deficit for the year to 30 September 2004

	Year ended 30 September 2004 £m	Year ended 30 September 2003 £m
Deficit in scheme at beginning of the year	**(3.7)**	(3.1)
Current service cost	**–**	(0.3)
Past service gain	**–**	–
Contributions	**0.6**	1.1
Other finance expense	**(0.1)**	(0.1)
Actuarial loss	**(1.4)**	(1.3)
Deficit in scheme at end of year	**(4.6)**	(3.7)

Details of experience gains and losses for the year to 30 September 2004

	Year ended 30 September 2004 £m	Year ended 30 September 2003 £m
1. Difference between the expected and actual return on scheme assets		
Amount	**(0.9)**	(0.3)
Percentage of scheme assets	**(8.4%)**	(2.9%)
2. Experience gains and losses on scheme liabilities		
Amount	**(0.5)**	0.1
Percentage of the present value of the scheme liabilities	**(3.3%)**	0.1%
3. Total amount recognised in statement of total recognised gains and losses		
Amount	**(1.4)**	(1.3)
Percentage of the present value of the scheme liabilities	**(9.2%)**	(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 2004 to £680.0m (2003: £243.8m).

30 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 2004.

Notice is hereby given that the ninety-second annual general meeting of the company will be held at Citygate, St James' Boulevard, Newcastle upon Tyne NE1 4JE on 24 February 2005 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 2004 be approved and adopted.

2. That the remuneration committee report for the year ended 30 September 2004 be approved.

3. That a dividend of 19.20p per share be paid on 4 March 2005 to all holders of ordinary shares on the register of members of the company at the close of business on 11 February 2005, in respect of all ordinary shares then registered in their names.

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

5. That Stephen Dickinson be re-elected as a director.

6. That Robert Hiscox be re-elected as a director.

7. That Andrew Cunningham be re-elected as a director.

8. That Robin Broadhurst (having been appointed since the last annual general meeting) be re-elected as a director.

9. 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.

By order of the board

Marie Glanville
Company Secretary
21 December 2004

Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE

Notes

(1) A member entitled to attend and vote at the annual general meeting ('AGM') may appoint one or more proxies (who need not be a member of the company) to attend and, on a poll, to vote on his or her behalf. A form of proxy is enclosed for use by members and in order to be valid this form must be returned by post, by courier or by hand together with, if applicable, the power of attorney or other authority under which it is signed, to the company's registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU. In the case of a corporation, the proxy should be executed under its common seal or under the hand of a duly authorised officer or attorney.

Alternatively CREST members may use the CREST electronic proxy appointment service in accordance with the procedures set out below.

In each case the proxy appointments must be received by the company not less than 48 hours before the time for the holding of the meeting.

CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed (a) voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed (a) voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

(2) Appointment of a proxy does not preclude a shareholder from attending the AGM and voting in person.

(3) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, in order to be able to attend and vote at the AGM or any adjourned meeting, (and also for the purposes of calculating how many votes a person may cast), a person must have his/her name entered on the register of members of the company by 6.00pm on 22 February 2005 (or 6.00pm on the date two days before any adjourned meeting). Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

(4) Copies of the directors' service contracts with the company and the register of interests of the directors and their families in the share capital of the company are available for inspection at the registered office of the company during usual business hours (Saturdays, Sundays and public holidays excepted) and will be available at the place of the AGM from 15 minutes prior to and during the AGM.

Five Year Record

For the year ended 30 September 2004.

	2000	2001	2002 £m	2003	**2004**
Turnover**	68.2	124.7	213.8	173.6	**217.4**
Gross rentals	24.7	23.2	22.0	21.4	**41.0**
Sales of investment properties	19.9	40.0	7.1	2.1	**41.1**
Trading profits	19.7	26.5	33.7	38.8	**72.6**
Profit before taxation**	16.4	21.1	44.9	48.5	**54.2**
Profit after taxation and minority interests**	11.1	12.9	23.5	29.3	**33.0**
Dividends paid	2.7	3.0	3.5	4.0	**5.7**
			Pence per share		
Earnings**	44.3	52.9	96.4	119.8	**149.7**
Dividends	10.72	12.33	14.18	16.31	**23.24**
			£m		
Fixed assets and stocks on a financial statement basis	283.7	315.1	372.8	907.2	**950.8**
Fixed assets and stocks at market value***	439.3	554.9	680.3	1,305.8	**1,454.5**
Share capital and reserves	85.9	94.8	119.2	146.7	**177.9**
			£ per share		
Net asset value on financial statements basis	3.49	3.84	4.82	5.92	**7.17**
Net asset value including fixed assets and stocks at replacement value*	9.79	13.56***	17.24***	21.94	**27.34**
Dividend cover**	4.2x	4.3x	6.7x	7.3x	**6.5x**
Gearing	74%	60%	52%	125%	**103%**
Share price at 30 September	575.0p	757.5p	992.5p	1,365.0p	**1,835.0p**

Figures for 2000 and 2001 are restated, where relevant, to take account of FRS19.
Figures for 2000 to 2003 are restated, where relevant, to take account of UITF 38.
Earnings are restated to reflect ESOP shares held by the group.

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 2003 includes share of the market value of joint venture properties and negative goodwill write back.

Shareholders' Information

Financial calendar

Annual general meeting 24 February 2005

Payment of 2005 final dividend 4 March 2005

Announcement of 2005 interim results June 2005

Payment of 2005 interim dividend July 2005

Announcement of 2005 final results December 2005

Share price

During the year ended 30 September 2004, the range of mid market prices of the company's ordinary shares was:

Price at 30 September 2004	£18.35
Lowest price during the year	£13.38
Highest price during the year	£19.55

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

Company secretary and registered office

Marie Glanville
Grainger Trust plc
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
Clearing bank and facility agent
Barclays Bank PLC

Other bankers
Lloyds TSB Bank plc
The Royal Bank of Scotland plc
Allied Irish Bank plc
Bradford & Bingley plc
HBOS PLC
National Australia Bank Limited
Nationwide Building Society

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.

Financial continued

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.

Corporate Addresses

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