grainger trust plc

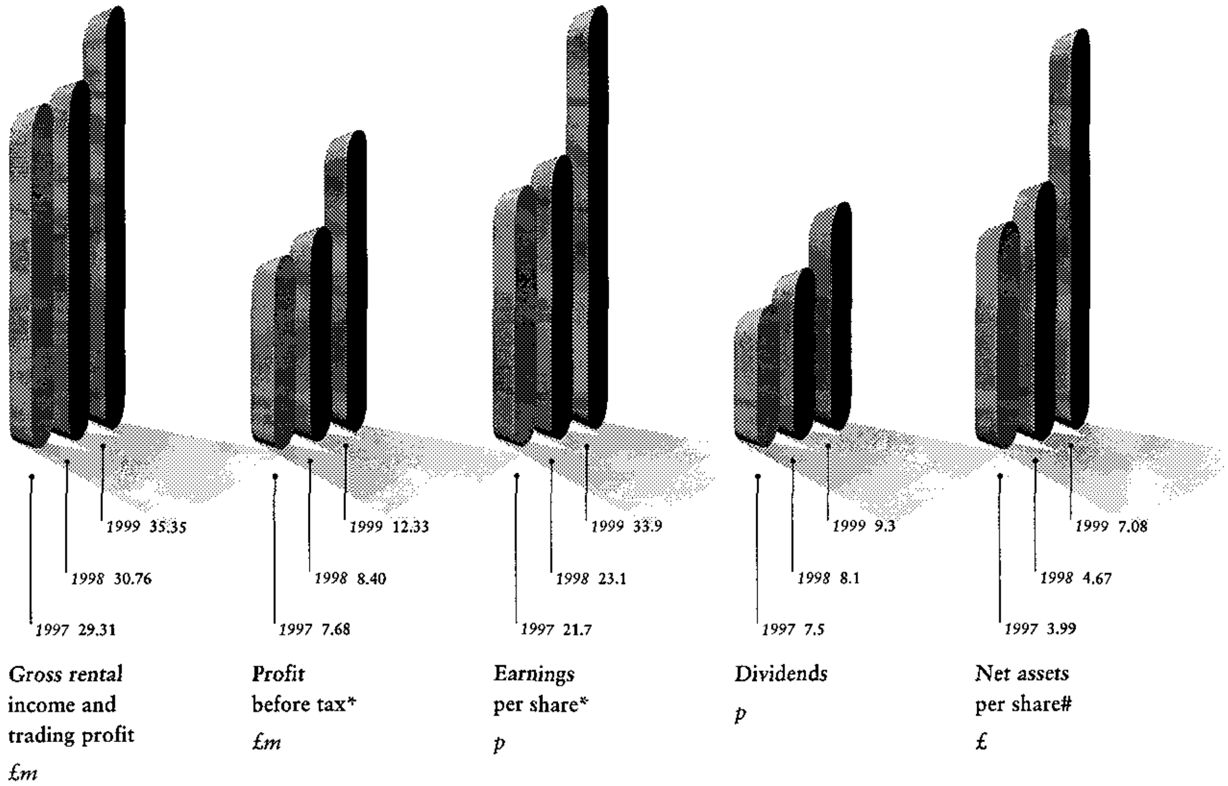
125575

looking back on 1999 and forward to 2000

Annual Report and Accounts 1999

ALH0WO0W
A37 0406
COMPANIES HOUSE 15/02/00

Registered No. 125575



NOTE * Excluding exceptional items # at market value before contingent tax.

Grainger Trust has been an active player in the property market since the Company's incorporation in 1912. The Group's core activity is the purchase, letting, management, refurbishment and sale of tenanted residential property. Currently 5,016 residential units are owned throughout the UK.

This is supported by land development which concentrates on major residential sites, and the commercial property portfolio, totalling some 1.6m sq. ft., which is actively managed with the aim of improving capital value.

	1999	1998
Turnover	£60.1m	£44.8m
Gross rental income	£22.8m	£21.9m
* Profit before tax	£12.3m	£8.4m
* *Earnings per share*	33.9p	23.1p
Dividends per share	9.32p	8.1p
Net asset value per share	£7.08	£4.67
Property assets at market value		
Tenanted residential	£198m	£166m
Commercial	£106m	£100m
Land development	£30m	£4m
Total property assets	£334m	£270m
Net borrowings	£136m	£136m
Net assets at market value (prior to contingent tax)	£179m	£118m
Gearing	77%	115%
* Net rental income as percentage of net interest payable	114%	110%
Management expenses as percentage of turnover	5.3%	5.7%
* Dividend cover	3.6x	2.8x
Tax rate	30.5%	31%
Market capitalisation 30 September	£100m	£69m

Share Price

	1999	1998
Highest price during the year	405.0p	370.0p
Lowest price during the year	259.0p	273.5p
Price at 30 September	379.5p	273.5p

Capital gains tax

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

* Excluding exceptional items

Robert Dickinson
Chairman

"We are well placed to develop our established businesses and adopt a more entrepreneurial approach within our areas of expertise. The Board believes that the Group has the correct strategies, management team and asset base to continue to record strong growth."

I am very pleased to present such excellent results this year. These compensate in some part for the difficulties the whole industry faced in the earlier years of this decade, and the particular problems we experienced with our Kennel Farm site in Basingstoke. All the main operating statistics disclose significant increases:-

- Pre tax profit (before exceptional credit) up 46% to £12.3m.
- Earnings per share (before exceptional credit) up 47% to 33.9p.
- Net assets per share (including exceptional credit) up 52% to £7.08.

In these circumstances your Board are recommending a final dividend of 7.32p, which, taking into account the interim dividend of 2p already paid, will make a total of 9.32p for the year (1998: 8.1p), an increase of 15%.

The year has seen a particularly good performance from our tenanted residential activities in the South East, and the first sale to a national house builder at Kennel Farm. The programme of improving the quality and performance of the commercial portfolio continues to gain momentum.

These results strongly validate the Group's spread of activity across three sectors of property. The increased cashflows now available will allow the Group to develop its established businesses and adopt a more entrepreneurial approach within our areas of expertise.

None of these results could have been achieved without dedicated enthusiastic and committed personnel. We are extremely sorry, in this context, to have lost the services of Peter Milburn, because of illness, which led to his resignation from the Board at the year end. He made an invaluable contribution to the Group and we extend to him every good wish for the enjoyment of his retirement. We have been able to recruit further qualified personnel to improve the performance of our two offices in Newcastle and London. Your Board looks forward to the future with every confidence.

Robert Dickinson
Chairman
28 January 2000

Stephen Dickinson
Managing Director

"All of our main operating indicators show significant increases this year. These excellent results indicate that the Group has the capacity to continue to deliver further meaningful increases in both NAV and dividends per share"

Results

Pre tax profits increased 46% to £12.3m (prior to exceptional credit £11.9m) (1998: £8.4m). The net exceptional credit consists of the write back of provisions of £16.5m on Kennel Farm on obtaining Outline Planning Permission this year, net of loan restructuring costs of £4.6m.

Earnings per share before exceptional items rose 47% to 33.9p per share (1998: 23.1p). Year end Net Asset Value prior to contingent tax on valuation surpluses ("NAV") per share has increased 52% to £7.08 (1998: £4.67), 58p arising from retained profits including the exceptional items, and £1.83 from year end valuations. Your directors are recommending a final dividend of 7.32p, which, together with the interim already paid of 2p, will make a total of 9.32p per share for the year, an increase of 15% (1998: 8.1p).

	Tenanted Residential		Commercial		Land Development		Total	
	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m
Turnover	40.8	34.5	9.9	10.1	9.4	0.2	60.1	44.8
Net rental income	7.4	6.9	8.3	8.8	-	-	15.7	15.7
Operating Profit	17.4	14.6	7.3	7.9	0.9	(0.2)	25.6	22.3
Net assets	103.4	80.5	51.4	43.8	24.0	(6.3)	178.8	118.0

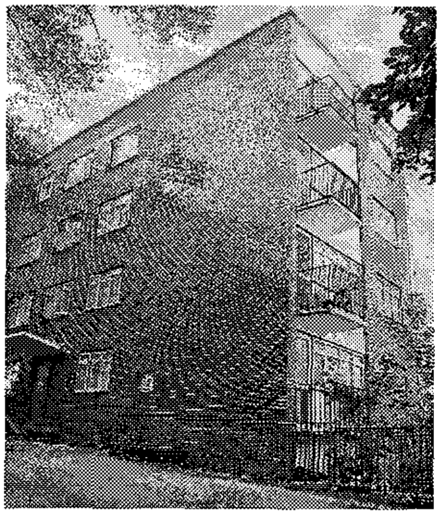
Tenanted Residential

The operating contribution increased 19% to £17.5m (1998: £14.7m). The increase in NAV arising from the year end valuations is £24.5m or 97p per share.

Trading profits and net rentals increased by 27% and 7% respectively to £11.5m and £7.4m.

The £2.5m increase in trading profits reflects a strong performance in London and the South East, where selling prices realised on stock sold during the year increased by 20% in comparison with our estimates of vacant possession values as at 30 September 1998. We have increased the rate of spend on our residential properties, both to increase ultimate vacant possession values and because an uncapped registered rental review is allowed if works are undertaken to a property, which, in the opinion of the Rent Officer, would cause the market rental to rise by more than 15%.

We spent £23m on stock replacement during the year, over two thirds of which were regulated tenancies. This included major portfolios in London, Liverpool and Glasgow, and the purchase of the land on which 21 flats are to be built by a major house builder at Redcliff Backs in Bristol.



Photograph above:

Lansdowne Lodge, Ladbroke Grove, London W11

A block of 11 flats, purchased as part of the Real Estate Securities acquisition, which has planning permission for redevelopment.

	1999	1998	% Increase
No. of residential units	5,016	4,881	3
Investment value £m	198	166	19
Vacant possession value residential units, other interests at valuation £m	284	247	15
Gross year end rentroll £m	13	12	8

Since the year end we have acquired Real Estate Securities Limited, which owns nine properties in Kensington and Chelsea, valued at £12m. The majority of these properties are currently let on commercial tenancies and have Outline Planning Permission for redevelopment, primarily for residential use. These represent an exciting challenge for our London development team. We have also entered into a conditional agreement with a major Housing Association concerning the 79 flat and car space private housing element of the redevelopment of Victoria Bus Station.

We will be entitled to share in the gross proceeds of the private housing element, and can also opt to retain all or part for our own account. The development should start next year and complete in late 2002.

In February 1999, Government introduced a cap on regulated rental increases to reflect inflation plus 7½% for the first two yearly registration, and inflation plus 5% for later re-registrations. This alteration in arrangements, *by secondary rather than primary* legislation, is currently under challenge by way of judicial review in the High Court.

	Investment Value				Gross Rentals	
	No. *Residential* Units	Vacant Possession Value/Other *Interests* £m	% of Vacant *Possession* Value	*Total* £m	Current Gross *Rentals* £m	Estimated at *Market* £m
Regulated tenancies	3,935	229.1	66	150.4	11.0	16.6
Assured tenancies	550	19.8	81	16.0	1.8	1.9
Vacant properties	477	17.8	88	15.7	-	-
Life tenancies	54	4.0	64	2.6	0.1	0.2
Other interests (freeholds, leaseholds, garages, etc.)	-	13.3	-	13.3	0.3	0.3
	5,016	284.0	-	198.0	13.2	19.0

Our registered rents continue to be some 33% nationally below market levels, with the discrepancy increasing to 45% in London and the South East.

This Government introduced distortion continues the policy of interference in the private rented sector, which has been a serious constraint on the freedom of movement of labour in the United Kingdom, and thus upon its long term economic performance.

As one of the more experienced operators in tenanted residential property, we are widening our approach to the sector.

Besides concentrating on the ownership of regulated tenancies, which remain our core business, we are purchasing life tenancies, new build where we can obtain bulk purchases at a margin, and are also retaining a considerable number of assured shortholds when bought in mixed portfolios.

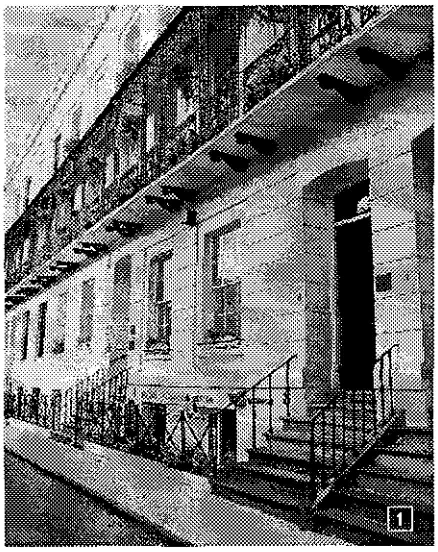
Photographs clockwise from top left:

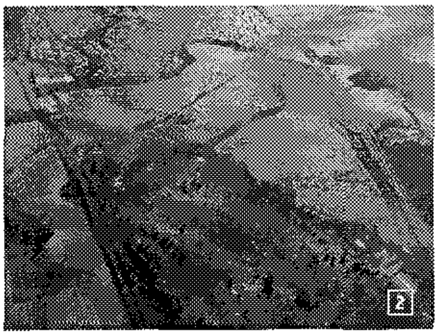
We have purchased regulated tenancies in these properties:-

1 2 houses in Battersea Bridge Road, London SW11

2 4 houses in Langborough Road, Wokingham

3 2 laterally converted flats in Hobury Street, London SW10





Photographs above:

1 Imperial Square, Cheltenham, part of the Park Estates acquisition

2 Kennel Farm, Basingstoke

Land Development

The operating contribution for the year was £0.9m as opposed to a deficit of £0.3m last year. The increase in NAV arising from the year end valuations, is £15.6m, or 62p per share.

We are very pleased, at last, to have Outline Planning consent for 67 acres of residential, and 5 acres of B1 at Kennel Farm. We sold the first site to a national house builder in the 1999 year. Since the year end we have completed one sale and made arrangements for a second, and this will probably complete our programme for the 2000 year. The programme of major site infrastructure works is well advanced. We intend to develop the B1 site ourselves, and have transferred it to the commercial portfolio.

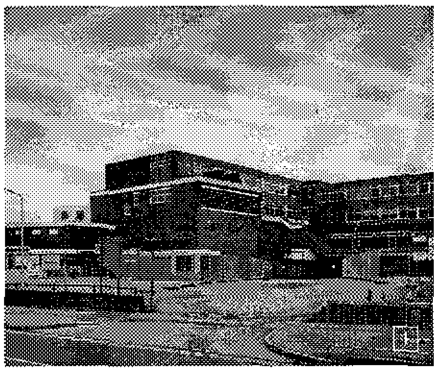
We have seen useful progress with the 640 acre West Waterlooville site, on which we have an option. It has been confirmed as one of the four Major Development Areas (MDA's) in the Modifications to the Hampshire County Structure plan, for 2,000 houses. In addition, 1,000 houses of the County's 14,000 site specific reserve have been allocated to this site, which if taken together total the original 3,000 foreseen. The site is also planned to accommodate some 70 acres of industrial and office space which will provide immediately adjacent employment opportunities. During the year we purchased the 5 acre site allocated for leisure use in the Havant Town Plan, which is situated at what is likely to be the main entrance to the proposed MDA. Meetings of the West Waterlooville Working Party, set up by the local Councils to discuss all matters relevant to the MDA, have started.

Commercial

The operating contribution fell by 6% to £7.8m (1998: £8.3m). The increase in NAV arising from the year end valuation is £6.0m, or 24p per share.

The decline in the operating contribution was caused mainly by timing, as the bulk of disposals of £13m occurred in the first part of the year, with the great majority of purchases of £9m occurring in the second half. This portfolio has for a period, particularly since the purchase of Frincon in October 1994 and before the grant of the Kennel Farm Planning Permission, served as a high yield prop, balancing the major part of the Group's interest payable. Greater cashflows within the Group now create more flexibility. We are accelerating our twin policies of purchasing both core properties with secure income, where we expect long term rental and capital performance, and more speculative opportunities with potential to produce significant margins in the short to medium term. To this end we expect to sell some 40% of our current portfolio over the next two to three years. As part of this policy we are also becoming more involved in development, either directly or with joint venture partners.

Many development schemes now require a mix of commercial and both public and private sector housing, as Councils seek to regenerate and bring back life into our urban areas. The Group, with its expertise across various sectors of property, particularly residential, is well placed to participate in such schemes.



Photographs above: Tonbridge

We have redeveloped the supermarket element of our Tonbridge property, increasing it in size from 11,000 to 16,000 sq. ft.. This has been let to Lidl.

1 Before

2 After

	Retail	Office	Industrial	Total
Valuation 30 September 1999 (£m)	64.6	21.9	19.8	106.3
Valuation movement in year (£m)	2.6	2.6	0.8	6.0
Valuation movement in year (%)	4.1	14.3	4.2	6.0
Passing rental 30 September 1999 (£m)	5.7	1.7	2.0	9.4
Yield Closing Valuation (%)	8.8	7.7	10.1	8.8
Rentroll remaining after expiry of lease				
2004 (£m)	4.5	1.1	1.1	6.7
2009 (£m)	3.4	0.5	0.7	4.6
2014 (£m)	1.3	0.2	0.5	2.0

Photographs above:

Commercial acquisitions

1 Notting Hill Gate, London W11

2 Townsend House, Victoria

During the year purchases included a modern office in Slough, a parade of shops in Winsford and a retail unit in Worcester, all of which adjoin existing holdings. The major purchase was a 20,000 sq.ft. office building in Victoria, let to London Region Transport until 2003, at which time it could be suitable for major redevelopment subject to planning. We have also completed, on time for the Christmas trade, the redevelopment of the former Safeway supermarket in our holding in Tonbridge, increasing its size from 11,000 to 16,000 sq.ft. This property had been let to Lidl on a 25 year lease.

In line with our twin policies set out above, we have, since the year end, purchased the following properties:-

- 163/165 Westbourne Grove, Notting Hill, for £2.5m, let on a 35 year lease to a niche hotel operator, at an initial yield of 9.4%, after a rent free period of nine months.
- 1 Uxbridge Street, Kensington, for £4.1m, let till 2012 to the Voyager Group (a Branson Company), at an initial yield of 7.2%.
- A retail park with an open A1 consent in the centre of Accrington, for £3.6m, let to Halfords, Netto, Poundstretcher and GUS, at an initial yield of 8.3%.

We are engaged in detailed negotiations which we hope will lead to new build warehousing, adjacent to major road junctions in the Home Counties.

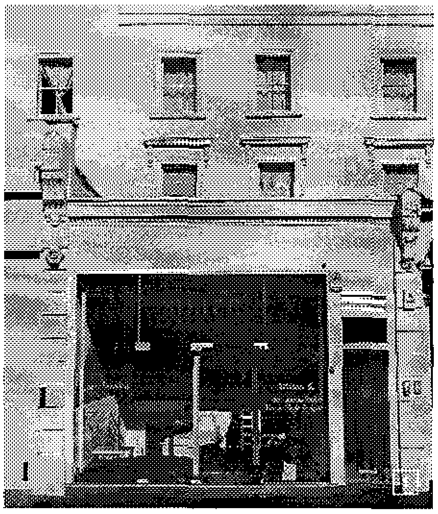
Personnel

The Group would be unable to perform its many tasks without an enthusiastic, committed and dedicated personnel. We continue to recruit qualified personnel to improve the quality of our skill base. We are pleased to have recruited James Fielder who has had extensive development experience with Pillar Property plc. The first 3 year Long Term Incentive Plan (LTIP) has been fully awarded, the performance hurdles having been materially exceeded. You will be asked to vote at the EGM to authorise a new LTIP, which has more demanding hurdles for the maximum award - performance to be 10% compound above comparators, rather than 7% in the first scheme. Given the results for the last three year period, with a near doubling of NAV (£7.08 : £3.60), we believe shareholders will be satisfied that incentives have been well earned.

All our staff have worked extremely hard during the year to achieve these excellent results.

Most regrettably, Peter Milburn decided to resign from the Board at the year end, because of illness. Peter made a fundamental contribution to the growth of the Group, managing our first major land development at Hatch Warren, and the long battle to obtain planning permission at Kennel Farm, which was to all intents and purposes won prior to his ceasing work. We extend to him every good wish in his retirement.

We are grateful to Andy James of DTA Management Services, who has taken on Peter's role, to our London staff, ably led by Rupert Dickinson, for their entrepreneurial approach and to Brian Crumbley and his team for their continuous hard work in developing and controlling the portfolios overseen by our Newcastle office.



Photographs above:

Commercial acquisitions

1 Westbourne Grove, London W11
Part of the Real Estate Securities acquisition

2 Accrington Retail Park

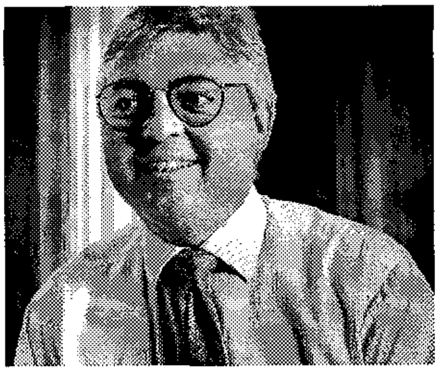
Prospects

Property companies have a vital and fundamental part to play in any economy. Structures built on land, not only require to be managed efficiently during their economic lives, but also require replacement and/or major refurbishment as early as possible if they start to decline into obsolescence. Many areas of the United Kingdom feature non functional properties in various stages of decay. Both the state, nationally and locally, through the Councils, and the private sector, are very involved in the process of rebuilding our real estate to make it relevant to today's needs. Property companies, with their concentration of entrepreneurial skills, are very often the catalyst in initiating, and the agent who carries through development activity to completion.

Grainger, with its diversity of in-house skills, is well placed to meet the challenges currently facing the property industry. Cash flows from our trading activities, with Kennel Farm on stream, have increased materially. This will enable the Group, whilst maintaining investment in its established businesses, to adopt a more entrepreneurial approach within its areas of expertise.

We consider that these excellent results indicate that the Group has the capacity to continue to deliver further meaningful increases in both NAV and dividends per share. In this context, the fall in gearing from a peak of 238% in October 1994, immediately post the Frincon acquisition, to 77% at the current year end is worthy of note. This creates opportunities for the future. Your Board consider that the Group has the correct strategies, the management team and the asset base to continue to record strong growth.

Stephen Dickinson
Managing Director
28 January 2000



Andrew Cunningham
Finance Director

"Improved cashflow and reduced gearing gives the Group opportunities to use its broad range of property expertise to produce further controlled growth"

Performance

Income

Turnover has increased to £60.1m from £44.8m principally because of increases in sales of tenanted residential properties and the commencement of land sales at our Kennel Farm development site. Trading profits show an increase to £12.6m from £8.8m. This has arisen from improvements in both sales volume and margins of residential sales, particularly in the London region, and from land sales.

Property and administration expenses

The increase in property expenses reflects both the growth in the size of our property portfolio and the increases to secure *improvements in vacant* possession value and rental yield as referred to in the operating review. The major increase in administration expenses relates to the one-off payments made to Peter Milburn on his resignation from the Board in September 1999. Full details of these payments are provided in the Remuneration Committee Report on pages 21 and 24.

Exceptional Items

The receipt of outline planning permission for Kennel Farm enabled us to release provisions of £16.5m previously made against the carrying value of the site. During the year we also restructured some £40m of fixed rate loans at a cost of £4.6m. Both of these items are separately disclosed as exceptional because of their size and to enable a more meaningful comparison between the two years results to be made.

Net interest payable

Net interest payable has fallen to £13.9m from £14.3m and is now covered 1.14 times by net rental income (1998: 1.10 times). Although the Group maintains a high proportion of fixed rate debt, the decrease in average base rates over the year of some 1.5% has helped to reduce the interest burden. Savings have also been made as a result of the loan restructuring referred to above. Our average interest rate payable in the year has been 8.9% (1998: 10.0%).

Taxation

The effective rate of taxation for the year is 30.5% (1998: 31%).

Earnings per share and dividends

Earnings per share, prior to exceptional items, have improved to 33.9p from 23.1p, reflecting improved profitability. Total dividends proposed amount to 9.32p per share, an increase of 15% over last year. Dividends are covered 3.6 times by profit after taxation (1998: 2.8 times).

Position

Fixed assets

Our commercial property portfolio was valued at 30 September 1999 by Jones Lang LaSalle at £106.3m. As acquisitions and the carrying value of disposals were almost equal, virtually all of this increase resulted from the £6.0m valuation increase. Also included within fixed assets is £9.2m (1998: £6.6 m) of tenanted residential properties, classified for accounts purposes as investment properties.

Trading properties

The market value of our tenanted residential stock has increased to £188.8m from £159.3m and that of our development land to £30.3m from £3.8m.

This reflects an increase in our portfolio to 5,016 units from 4,881units as well as valuation increases, particularly in London and the South East. The balance sheet carrying value of all our trading properties, shown at the lower of cost and net realisable value, has increased to £134.5m from £118.3m, the major factor being the reinstatement of Kennel Farm.

Other current assets and liabilities

Other current net liabilities have increased by £1.6m, principally as a result of year end commitments arising from our land development activities.

Net assets

Net assets, including trading stock at market value without adjusting for contingent tax, have increased to £178.8m from £118.0m.
The major movements were:-

	Reflected in the accounts £m	Not reflected in the accounts £m	Total £m
Net assets at 1 October 1998	73.2	44.8	118.0
Retained profits	6.2	-	6.2
Kennel farm write back after tax	11.4	-	11.4
Loan restructuring cost after tax	(3.2)	-	(3.2)
Revaluation Surplus			
Tenanted residential stock	0.3	24.2	24.5
Commercial	6.3	-	6.3
Land development	-	15.6	15.6
Net assets at 30 September 1999	94.2	84.6	178.8
Net assets per share (£)	3.73	3.35	7.08

Cash and debt

Cash balances at the year end amounted to £18.4m reflecting both receipts from land sales and a loan drawdown just before the year end to finance the acquisition of Real Estate Securities Limited which completed on 4 October 1999.

Group borrowings have increased from £144.5m to 154.6m, representing the net effect of loan repayments of £7.4m and new borrowings of £17.5m.

These additional monies were used primarily to finance the acquisitions of Park Estates (Liverpool) PLC and Real Estate Securities Limited and the interest penalty on the loan restructuring.

The significant increase in net assets in the year has led to a reduction in gearing on a revalued balance sheet basis to 77% from 115%

Cashflow

The significant elements of the Group's cashflow are displayed in the chart to the right.

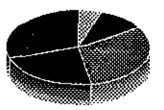
Receipts	£m
Operating profit	26
Cost of trading properties sold	18
Commercial property sold	14
Net loans raised (including loan notes)	10
Movement in debtors and creditors	3
	71

Payments	£m
Net interest	21
Tax and dividends	6
Properties acquired	34
Increase in cash	10
	71

Group Borrowings at 30 September 1999

Borrowings	Principal £m	Interest Payable %	Annualised Interest £m	Repayable
Permanently fixed				
Quoted debenture	18	10.7	1.9	2024
Institutional debt	33	11.8	3.9	1999/2009
	51	11.4	5.8	
Subject to swap over 1 year				
Bank loans	22	6.4	1.4	1999/2012
Subject to caps/collars				
Bank loans	39	6.3	2.5	1999/2012
Variable				
Bank loans	24	6.3	1.5	1999/2012
Building Societies	19	8.0	1.5	1999/2021
	43	7.1	3.0	
Total	155	8.2	12.7	
Less: cash	(18)			
Net borrowings	137			

Debt maturity at 30 September 1999



- *Less than one year* 5%
- *Between one and two years* 11%
- *Between two and five years* 31%
- *Between five and ten years* 23%
- *> ten years* 30%

Fixed rate profile at 30 September 1999

- *Less than one year* 30%
- *Between one and two years* 6%
- *Between two and five years* 29%
- *Between five and ten years* 23%
- *> ten years* 12%

Treasury management

The Group finances its operations through a combination of shareholders funds and borrowings. The main borrowing sources are banks and building societies but the Group also has a quoted debenture and mortgages from institutional lenders.

The Group protects its underlying profitability from treasury risk by managing both its level of debt and the interest rate at which this debt is carried.

The Group does not take trading positions in financial instruments but to minimise the risk of exposure to fluctuating interest rates most debt is maintained at fixed rates of interest or is subject to protective caps or collars. At 30 September 1999, 72% of group debt was either fixed for over one year or protected by financial instruments (1998: 85%). The financial instruments used include interest rate swaps, caps and collars.

The notional effect of the fair value adjustment of marking the groups fixed rate debt and derivatives to current market rates would be to produce an additional "liability" after tax of £5.3m or 21p per share. This represents approximately 3% of Group gross borrowings at 30 September 1999 and is not recognised in the accounts until the position matures or is terminated.

The Group also maintains a range of borrowing maturities to enable it to balance continuity of funding with flexibility. At 30 September 1999 the average duration of the Group's debt was 8.7 years (1998: 9.1 years). Full details of the groups borrowing and financial instruments are given in note 16 to the financial statements on pages 41 to 43.

Andrew Cunningham
Financial Director
28 January 2000

OFFICERS AND ADVISERS

Directors

* *Robert Dickinson, C.B.E., D.L., Chairman, member of Remuneration Committee, chairman of Nomination Committee*
Solicitor. Appointed a director of the Company in 1961, and Chairman in 1992.
Chairman of Northern Investors Company PLC. Director of Reg Vardy plc and Northern Rock plc.

Stephen Dickinson, F.C.A., Managing Director, member of Nomination Committee
Chartered Accountant. Appointed Managing Director of the Company in 1974.

* *The Rt. Hon. The Earl of Portsmouth, member of Nomination Committee*
Appointed a director of the Company in 1987.

Rupert Dickinson, A.R.I.C.S.
Chartered Surveyor. Appointed a director of the Company in 1994. Director in charge of the Group's London office.

* *Robin Herbert, C.B.E., chairman of Audit Committee and member of Remuneration Committee*
Appointed a director of the Company in 1994. Chairman of Leopold Joseph Holdings PLC and Foreign and Colonial Income Growth Investment Trust plc.

* *Robin Oldfield, F.C.A., member of Audit and Remuneration Committees*
Chartered Accountant. Appointed a director of the Company in 1994. Partner in Dixon Wilson, Chartered Accountants. Director of Middlesex Group Limited.

* *John Ward, O.B.E., D.L., member of Audit Committee and chairman of Remuneration Committee*
Appointed a director of the Company in 1994. Director of Arriva plc, Northern Investors Company PLC and Northern Rock plc.

Andrew Cunningham, F.C.A., Finance Director
Chartered Accountant. Appointed a director of the Company in December 1996.

* *Emanuel Davidson, member of Remuneration Committee*
Appointed a director of the Company in December 1996. Executive Chairman of Asda Property Holdings PLC and non-executive director of Leopold Joseph Holdings PLC.

* *Non-executive director*

Secretary and registered office
Geoffrey Davis F.C.A., Chaucer Buildings, 57 Grainger Street, Newcastle upon Tyne.

Advisers

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

Bankers
Barclays Bank PLC, Regent Centre, Gosforth, Newcastle upon Tyne.
Bank of Scotland, 41/51 Grey Street, Newcastle upon Tyne.

Auditors
PricewaterhouseCoopers, 89 Sandyford Road, Newcastle upon Tyne.

Stockbrokers
Cazenove & Company, 12 Tokenhouse Yard, London.
Wise Speke Limited, Commercial Union House, 39 Pilgrim Street, Newcastle upon Tyne.

Registrars and Transfer Office
IRG plc, Balfour House, 390-398 High Road, Ilford, Essex.

DIRECTORS' REPORT

For the year ended 30 September 1999

The directors present their report and the audited financial statements for the year ended 30 September 1999.

Principal activities

During the year the Group has continued its activities of property investment and trading.

Review of business development and prospects

Development of the Group's activities and its prospects are reviewed in the Chairman's Statement on page 3 and the Managing Director's Review of Operations on pages 4 to 12.

Results for the year

The results of the Group are set out in the consolidated profit and loss account on page 31 which shows a profit on ordinary activities after taxation for the financial year of £16,826,000 (1998: £5,799,000).

An interim dividend of 2.0p per share was paid on 23 July 1999 amounting to £505,000 and the directors recommend the payment of a final dividend of 7.32p per share, to be paid on 29 February 2000, amounting to £1,848,000. The profit, after dividend, of £14,473,000 will be transferred to reserves.

Directors

The directors of the Company at 30 September 1999 are listed on page 17. As noted in the Managing Director's Review of Operations on page 12, Peter Milburn resigned on 29 September 1999.

Directors' and other interests

The interests of the directors in the shares of the Company at 30 September 1999 and 4 January 2000, with comparative figures as at 1 October 1998, are as follows:

	Ordinary shares of 25p each (Thousands)					
	Beneficial			Non-Beneficial		
	1 Oct 1998	30 Sept 1999	4 January 2000	1 Oct 1998	30 Sept 1999	4 January 2000
Robert Dickinson	508	509	509	360	357	365
Stephen Dickinson	1,387	1,390	1,392	12	6	-
The Rt. Hon.						
The Earl of Portsmouth	4,178	4,178	4,178	-	-	-
Rupert Dickinson	90	93	114	51	51	51
Robin Herbert	10	30	30	-	-	-
Andrew Cunningham	5	5	34	-	-	-
Emanuel Davidson	5	5	5	-	-	-
Robin Oldfield	1	1	1	-	-	-
John Ward	-	-	-	-	-	-
	6,184	6,211	6,263	423	414	416

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

Stephen Dickinson	5	5	7	-	-	-
Rupert Dickinson	6	7	9	-	-	-

DIRECTORS' REPORT (continued)

For the year ended 30 September 1999

Save as disclosed above, as at 4 January 2000, the Company is aware of the following interests amounting to 3% or more in the Company's shares.

	Holding 000's	% Holding
Schroder Investment Management Limited* (non beneficial holding)	2,015	7.97
Aberforth Partners* (non beneficial holding)	1,475	5.83

*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.

Directors' interests in significant contracts

No directors were materially interested in any contract of significance.

Insurance of directors

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

Directors' responsibilities

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

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 30 September 1999. 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, 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.

Special business

The Company's power under section 80 of the Companies Act 1985 to issue new shares has now expired. Resolution 7 will, if passed, renew this authority in respect of the amount of the unissued share capital at the date of the notice convening the meeting.

The Directors have no present intention of exercising the allotment authority proposed by this resolution other than when options are exercised. The authority will lapse in 2005 except in so far as commitments to allot shares have been entered into before that date.

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

1. in connection with a rights (or similar) issue; and
2. allotments of shares for cash up to a total nominal value of £317,217 (representing 5% of the Company's issued ordinary share capital at the date of the notice).

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

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

Resolution 9, which will be proposed as a special resolution, seeks to give authority for the Company to purchase its own shares in the market. This authority gives the Company greater flexibility in managing its capital resources. The directors have no specific intention of using this authority and would do so only when, in the light of market conditions, they believe that the effect of such purchases would be to increase earnings per share and that the purchases were in the best interests of the shareholders generally. Any shares purchased under this authority will be cancelled and the number of shares in issue will be reduced accordingly.

Year 2000

The group exercised a planned programme of work to ensure that its operations would not experience any undue disruption as a result of year 2000 issues. As at the date of this report no disruption has been experienced. The cost of the work involved was not material and was charged against profits as incurred.

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 1999 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 35 days (1998: 44 days).

Charitable donations

During the year the Group made charitable donations amounting to £5,960.

Auditors

PricewaterhouseCoopers have expressed their willingness to continue in office as auditors to the company. A resolution will be proposed at the Annual General Meeting to re-appoint them as auditors until the conclusion of the next Annual General Meeting.

By order of the Board

Geoff Davis

Geoffrey Davis
Company Secretary
28 January 2000

REMUNERATION COMMITTEE REPORT

The Remuneration Committee

The Remuneration Committee is responsible for detailed consideration of directors' remuneration packages and, in accordance with the Final Guidance issued by the Turnbull Working Party on Internal Control, makes its recommendations to the whole Board.

The committee comprises John Ward (Chairman), Robert Dickinson, Robin Herbert, Robin Oldfield and Emanuel Davidson, all of whom are non-executive directors. The committee normally meets twice a year to consider all aspects of remuneration for the executive directors. The remuneration of the non-executives directors is determined by the Board as a whole. No director participates in setting his own remuneration.

The committee is directly accountable to shareholders. As chairman of the committee, John Ward will be available at the Annual General Meeting to answer questions about the remuneration of executive directors.

Remuneration Policy

In framing its remuneration policy the committee has followed the provisions of the Combined Code on Corporate Governance. The overall objective of the policy is to attract, retain and motivate high calibre individuals, whilst ensuring that the Group does not pay more than is necessary for this purpose. In meeting this objective, the committee takes account of the Group's position relative to other comparative organisations.

Salaries and benefits

Salaries are reviewed annually by the committee who take account of the experience, responsibilities and performance of individual directors as well as competitive market practice. Executive directors receive a fully expensed company car and life and health insurance.

Service Contracts

Stephen Dickinson has a service contract which is terminable by the Company on 12 months' notice. The other executive directors have contracts with a 24 months' notice period. The Board feels that this is an important element of the overall remuneration package of these executives and provides both the Group and the individual with the security to commit to the Group's long term objectives.

Pensions

Stephen Dickinson has a targeted money purchase arrangement designed to provide 2/3 of final pensionable salary. The other executive directors receive defined contributions to money purchase schemes. These contributions are based solely on a percentage of basic salary. Pension contributions paid in the year were as follows:-

	Pension Contributions	
	1999 £'000	1998 £'000
Stephen Dickinson	224	224
Peter Milburn	281	43
Rupert Dickinson	11	9
Andrew Cunningham	18	17
	534	293

As referred to in the Managing Director's Review of Operations on page 11, Peter Milburn unfortunately felt it necessary to resign from the Board because of ill health on 29 September 1999. In these circumstances, the Board considered it appropriate that he should receive an additional one off contribution to his pension fund of £200,000. This figure is included in the amounts shown above.

Benefits in kind and bonus awards are not pensionable.

REMUNERATION COMMITTEE REPORT (continued)

Performance incentives

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

Annual discretionary bonus

Individual participants are awarded a cash bonus based upon both individual and corporate performance. Corporate performance is measured by comparing the actual result for the year with previous years, with comparative industry performance and with annual budgets which are reviewed and approved by the whole Board. The committee has recommended annual cash bonuses of 40% of salary for each of the three executive directors in office at 30 September 1999, and these amounts are included within emoluments.

The committee has also recommended that the share award element of the annual discretionary bonus which had been made in previous years will be discontinued. The only share awards made as part of the annual scheme were in respect of the year ended 30 September 1997. If these shares are held for three years a matching award of the same number of shares will be made. The number of shares awarded to executive directors were:-

Rupert Dickinson	951
Andrew Cunningham	1,007

Long term incentive scheme

The long term incentive scheme was approved by shareholders at an Extraordinary General Meeting held in February 1997 and is designed to reward executives for performance over a sustained period of time. The first performance period commenced on 1 October 1996 and ended on 30 September 1999. The awards made, therefore, constitute remuneration over a three year period. The scheme made awards of two types, share options and share awards.

a) Options

Options with an aggregate award price of 40% of an individual participant's salary were to be exercisable if earnings per share ('EPS') growth exceeded the growth in the retail price index ('RPI') by 3% per annum compounded over the performance period. The annual compound growth in EPS over the period was 22.8 % and the equivalent for RPI was 2.6%. The share options awarded therefore become exercisable in accordance with the dates shown in the share option table on page 24.

b) Share awards

Share awards with a market value of up to 60% of an individual's salary were also made. These awards were conditional upon the achievement of rigorous performance criteria. The combined growth in EPS and net asset value ('NAV') was compared with an index consisting of RPI and appropriate commercial and residential property price indicators. For the full award to become unconditional then growth had to exceed the comparator by 7% per annum compounded. The actual annual growth over the period was 24.1% and the comparator increased by 10.4% per annum. The awards have therefore been made in full.

If these shares are held for a further three years then they will be matched on a 1 for 4 basis.

REMUNERATION COMMITTEE REPORT (continued)

The options and awards made to Group directors under the scheme are therefore as follows:-

	Share options Ordinary shares of 25p each	Exercise price	Share Awards Ordinary shares of 25p each	Market value of shares at date of award £	Market value of shares when award made unconditional £
Rupert Dickinson	12,729	267.1p	19,094	51,000	83,536
Andrew Cunningham	7,415	267.1p	24,261	64,800	106,142

On an annualised basis the market value of the shares when the award was made unconditional represents 23% and 29% of final salary for Rupert Dickinson and Andrew Cunningham respectively.

Future schemes

The committee feels that the long term incentive scheme should be retained with certain amendments. These amendments are designed to further motivate executive performance by increasing the value of shares which an employee may be awarded but at the same time increasing the Group performance levels which have to be satisfied before the full awards become unconditional. The committee also wishes to introduce a greater degree of flexibility in the way in which awards may be made.

These proposed amendments are to be put forward for shareholder approval at an Extraordinary General Meeting to be held after the Annual General Meeting on 29 February 2000. Full details of the proposals are set out in the circular which accompanies these financial statements.

Other schemes

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

Profit related pay scheme. The year ended 30 September 1999 is the final year in which this scheme will operate.

Save As You Earn ('SAYE') scheme. Under this scheme participants enter into a save as you earn contract with the Group's clearing bankers to provide them with the finance to exercise SAYE options. The option price is calculated at 80% of the market value of the shares at the date of issue of invitations to participate. The scheme rules have received Inland Revenue clearance. SAYE options held by executive directors are shown in the share option table on page 24.

Profit Sharing Scheme. All employees with three years service at the end of the financial year are entitled to participate in this scheme. A profit share of up to 10% of base salaries (subject to a maximum award of £8,000) may be awarded to each participant. The awards are used to acquire ordinary shares in the Company and these are held by a UK based trust for at least two years. After three years, the shares may vest in the employee tax free. The value of profit share awards made to executive directors in the year are included within annual incentives in the remuneration table on page 24.

Non-executive directors

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

Rotation of directors

In accordance with the Articles of Association one third of all directors retire by rotation each year.

Rupert Dickinson, Andrew Cunningham and Manny Davidson retire and being eligible, offer themselves for re-election at the Annual General Meeting to be held on 29 February 2000.

REMUNERATION COMMITTEE REPORT (continued)

Directors' emoluments

The remuneration of the directors of Grainger Trust plc was:-

	Salary and Fees £'000	Annual Incentives (see page 22) £'000	Long Term Incentives £'000	Taxable Benefits £'000	Total Emoluments 1999 £'000	Total Emoluments 1998 £'000
Chairman and executive directors						
Robert Dickinson (Chairman)	38	-	-	-	38	38
Stephen Dickinson	198	90	-	11	299	274
Peter Milburn	117	2	-	9	128	212
Rupert Dickinson	118	58	84	9	269	140
Andrew Cunningham	121	51	106	7	285	148
	592	201	190	36	1,019	812
Non-executive directors						
The Rt. Hon. The Earl of Portsmouth	11	-	-	-	11	11
Robin Herbert	13	-	-	-	13	13
Robin Oldfield	11	-	-	-	11	11
John Ward	13	-	-	-	13	11
Emanuel Davidson	11	-	-	-	11	11
	59	-	-	-	59	57
Total - all directors	651	201	190	36	1,078	869

The above totals exclude pension contributions, which are disclosed on page 21.

As explained on pages 22 and 23, the long term incentives represent remuneration over a three year period.

In addition to the above, Peter Milburn also received a one-off payment of £100,000 on the cessation of his employment with the Company.

Directors' share options

		Ordinary Shares of 25p Each (Thousands)									
		Stephen Dickinson		Peter Milburn		Rupert Dickinson		Andrew Cunningham		Total	
Option Price	Date Exercisable	30 Sept 1999	1 Oct 1998	30 Sept 1999	1 Oct 1998	30 Sept 1999	1 Oct 1998	30 Sept 1999	1 Oct 1998	30 Sept 1999	1 Oct 1998
Inland Revenue Approved Schemes											
448.0p	3 Jan 92 to 3 Jan 99	-	60	-	40	-	-	-	-	-	100
128.4p	19 Jul 94 to 18 Jul 01	-	-	-	40	-	-	-	-	-	40
231.2p	6 Jan 97 to 6 Jan 04	-	-	-	-	40	40	-	-	40	40
342.5p	23 Dec 99 to 23 Dec 06	-	-	-	-	-	-	9	9	9	9
SAYE Scheme											
214.0p	5 Aug 02 to 5 Feb 03	8	8	-	8	8	8	8	8	24	32
LTIP Scheme											
267.1p	9 Jul 00 to 9 Jul 07	-	-	-	-	13	13	7	7	20	20
Total number of share options		8	68	-	88	61	61	24	24	93	241

REMUNERATION COMMITTEE REPORT (continued)

Under the rules of the relevant schemes, at 30 September 1999 Peter Milburn held options over 40,000 shares under an Inland Revenue Approved Scheme, at an option price of 128.4p, which were exercised on 10 January 2000, and options over 3,403 shares under the company's SAYE Scheme, at an option price of 214.0p, exercisable until 29 March 2000.

Share options of 60,000 for Stephen Dickinson and 40,000 for Peter Milburn at an option price of 448.0p lapsed on 3 January 1999.

The market price of the company's shares at the end of the financial year was 397.5p and the range during the year was 259.0p to 405.0p.

John Ward
Chairman of the Remuneration Committee
28 January 2000

CORPORATE GOVERNANCE REPORT

Grainger Trust plc is fully committed to the principles of good corporate governance. This report sets out how the Group has applied the principles set out in the Combined Code.

The Board

At the year end the Board comprised three executive directors and six non-executive directors, including the Chairman. The non-executive directors bring to bear a wide variety of experience and skills.

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

Procedures are in place to enable the directors to take independent advice when necessary and to have direct access to the company secretary if required. No new Board appointments have been made since 1996 but consideration will be given to providing any future appointees with appropriate training. All directors are subject to formal re-election every three years at the Annual General Meeting and are appointed for one or two years under specific contracts.

Board Committees

The Board has established three committees: Audit, nomination and remuneration. Membership of these committees is shown on the list of directors on page 17 and the Remuneration Committee Report is set out on pages 21 to 25.

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

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

Shareholder relations

The company meets regularly with institutional shareholders and analysts and uses the Annual General Meeting to encourage communication with private investors. The chairmen of the three Board committees attend the general meeting and are available to answer any questions. The notice of the meeting and related papers will be sent to shareholders at least twenty working days before the meeting. Shareholders vote separately on each proposal and a proxy count is available after each resolution.

Internal Financial Control

The Group's systems of internal financial control are the ultimate responsibility of the Board of directors. Such systems can however, provide only reasonable and not absolute assurance against material misstatement or loss. On behalf of the Board, the audit committee has reviewed the effectiveness of these systems. This was achieved primarily by consideration of the risks appertaining to the Group and the monitoring of these risks together with a review of the half year and annual financial statements and by discussion with the external auditors. In addition, the Group has an internal audit programme, under which specific areas of its activities are reviewed and reported upon on a regular basis. The committee considers any issues or risks arising thereon in order that appropriate action can be undertaken for their satisfactory resolution.

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

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

CORPORATE GOVERNANCE REPORT (continued)

Going concern

After making enquiries, including the review of future anticipated cashflows 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

The Stock Exchange Listing Rules require the Board to report on compliance with the provisions of the Combined Code of Practice. As permitted by the Stock Exchange, the Company has complied with the code provision D.2.1 on internal control by reporting on internal financial control in accordance with the guidance for directors issued in December 1994. Steps are being undertaken to ensure that the Board can report in full on all internal controls in its annual financial statements for the year ending 30 September 2001.

With the exception of the provisions listed below, the Company has, throughout the year ended 30 September 1999, been in compliance with the Code.

Code Provision

A2.1 The Board have not appointed a senior independent director as it feels that the variety of experience and background of the non-executive directors makes such an appointment unnecessary.

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

Given this statement, the Board believes that all non-executive directors with the exception of Robert Dickinson and The Rt. Hon The Earl of Portsmouth, are independent. Under the terms of the Code, however, only Robin Oldfield is considered independent.

B1.7 to B1.10 Two of the executive directors have two year contracts 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.

By order of the Board

Geoff Davis

Geoffrey Davis
Company Secretary
28 January 2000

REPORT OF THE AUDITORS

Report of the Auditors to the members of Grainger Trust plc

We have audited the financial statements on pages 29 to 46 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 29 to 30.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 19, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom's Companies Act. 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 or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read 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.

We review whether the statement on pages 26 and 27 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its internal controls.

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. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 30 September 1999 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
28 January 2000

STATEMENT OF ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. However, compliance with SSAP 19, 'Accounting for Investment Properties', requires departure from the requirements of the Companies Act 1985 relating to depreciation and an explanation of the result of the departure is given in the note relating to tangible fixed assets below. A summary of the more important Group accounting policies, which have been applied consistently, is set out below.

Accounting convention
The Group prepares its annual financial statements on the historical cost basis of accounting, as modified by the revaluation of investment properties.

Basis of consolidation
The Group financial statements comprise the consolidated financial statements of the Company and its subsidiaries. The financial statements of subsidiary companies are made up to 30 September.

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

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

Turnover
Turnover comprises gross rentals, gross sale proceeds of trading properties and land, and sundry other income. Sales of land and properties are only accounted for when the cash proceeds are received in full or the Group has entered into a legally binding undertaking.

Joint arrangements
The Group's share of profits and losses from its investments in joint arrangements is accounted for on a direct basis and is included in the consolidated profit and loss account. The Group's share of its investments' assets and liabilities is accounted for on a direct basis in the consolidated balance sheet.

Foreign currencies
The financial statements of overseas subsidiaries are translated into sterling at the exchange rate ruling at the year end. Any difference arising on translation is dealt with in capital reserves.

Repairs and improvements
All repairs are charged in the year they are incurred except that provision is made to cover work arising from legislative requirements notified prior to the year end and the cost to complete major repair projects in progress at the year end. Improvement costs are capitalised. Provision is made to cover the costs of improvement work in progress at the year end.

Tangible fixed assets
The cost of fixed assets is their purchase cost, together with any incidental costs of acquisition.
In accordance with SSAP 19, (i) investment properties are revalued annually and the aggregate surplus or 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. 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, but 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 profits would have been reduced for this and earlier years.

STATEMENT OF ACCOUNTING POLICIES (continued)

Tangible fixed assets continued

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
Motor vehicles	20	straight line
Office equipment	20	straight line

Investments

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

Stocks

Trading 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 land is 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 infrastructure costs, net of amounts transferred to cost of sales. Net realisable value is the current market value of the land as advised by the Group's professional valuers.

Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Financial Instruments

Payments made under financial instruments are charged to the profit and loss account in the period in which payments are made. Mark to market adjustments on fixed rate debt and derivatives are not recognised until the position matures or is terminated.

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 30 September 1999

	Notes	Year ended 30 September 1999 Excluding Exceptional Items £'000	Exceptional Items £'000	Total £'000	Year Ended 30 September 1998 £'000
Turnover	1	60,118	-	60,118	44,812
Gross rentals		22,752	-	22,752	21,915
Trading profit		12,601	-	12,601	8,843
Exceptional item: movement on provision against development land	4	-	16,457	16,457	-
Other income		361	-	361	283
		35,714	16,457	52,171	31,041
Property expenses		(6,970)	-	(6,970)	(6,220)
Administration expenses		(3,164)	-	(3,164)	(2,536)
Operating profit		25,580	16,457	42,037	22,285
Net profit on disposal of fixed assets	2	641	-	641	442
Profit on ordinary activities before interest		26,221	16,457	42,678	22,727
Net interest payable and similar charges	3,4	(13,891)	(4,569)	(18,460)	(14,323)
Profit on ordinary activities before taxation	1,5	12,330	11,888	24,218	8,404
Taxation	7	(3,766)	(3,626)	(7,392)	(2,605)
Profit on ordinary activities after tax		8,564	8,262	16,826	5,799
Dividends	8	(2,353)	-	(2,353)	(2,045)
Retained profit for the year	19	6,211	8,262	14,473	3,754
Earnings per share	9	33.9p	32.7p	66.6p	23.1p
Diluted earnings per share	9	33.8p	32.6p	66.4p	23.0p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 30 September 1999

	Notes	1999 £'000	1998 £'000
Profit for the financial year		16,826	5,799
Taxation on realisation of property revaluation gains of previous years	7	(380)	(537)
Unrealised surplus on revaluation of properties		6,885	4,854
Total gains and losses recognised since the last annual report		23,331	10,116

Note of historical cost profit and losses	1999 £'000	1998 £'000
Reported profit on ordinary activities before taxation	24,218	8,404
Realisation of property revaluation profits/(losses) of previous years	481	(44)
Historical cost profit on ordinary activities before taxation	24,699	8,360
Taxation	(7,772)	(3,142)
Dividends	(2,353)	(2,045)
Retained historical profit for the year	14,574	3,173

BALANCE SHEETS

At 30 September 1999

		Group		Company	
		1999	1998	1999	1998
	Notes	£'000	£'000	£'000	£'000
Fixed assets					
Tangible fixed assets	10	115,879	107,248	404	1,542
Investments	11	302	302	57,561	34,842
Intangible assets - negative goodwill	23	(205)	-	-	-
		115,976	107,550	57,965	36,384
Current assets					
Stocks	13	134,475	118,343	-	-
Debtors	14	4,023	4,989	29,165	29,853
Cash at bank and in hand		18,432	8,074	6,242	667
		156,930	131,406	35,407	30,520
Creditors: amounts falling due within one year	15	29,021	25,002	23,327	5,085
Net current assets		127,909	106,404	12,080	25,435
Total assets less current liabilities		243,885	213,954	70,045	61,819
Creditors: amounts falling due after more than one year	15	144,665	137,930	25,737	17,726
Provision for liabilities and charges					
Deferred taxation	17	5,019	2,801	-	-
Net assets		94,201	73,223	44,308	44,093
Capital and reserves					
Called up share capital	18	6,312	6,312	6,312	6,312
Share premium account	19	20,435	20,435	20,435	20,435
Revaluation reserve	19	22,369	15,965	51	420
Capital reserves	19	14,093	14,473	10,405	10,405
Profit and loss account	19	30,988	16,034	7,105	6,521
Equity shareholders' funds	20	94,197	73,219	44,308	44,093
Minority interests		4	4	-	-
Total capital employed		94,201	73,223	44,308	44,093

The financial statements on pages 29 to 46 were approved by the Board of directors on 28 January 2000 and were signed on their behalf by:

Stephen Dickinson
Director

Andrew Cunningham
Director

CONSOLIDATED CASHFLOW STATEMENT

For the year ended 30 September 1999

	Notes	1999 £'000	1998 £'000
Net cash inflow from operating activities		30,787	7,576
Returns on investments and servicing of finance			
Interest received		227	585
Interest paid		(20,781)	(15,066)
Dividends received		3	3
		(20,551)	(14,478)
Taxation			
UK Corporation tax paid		(3,846)	(938)
Capital expenditure and financial investment			
Sale of fixed asset investments		-	16
Purchase of tangible fixed assets		(10,673)	(4,612)
Sale of tangible fixed assets		13,455	8,091
		2,782	3,495
Acquisitions and disposals			
Purchase of subsidiaries	23	(5,341)	(1,343)
Costs on purchase of subsidiaries	23	(284)	(127)
Net cash acquired with subsidiaries	23	1,437	110
		(4,188)	(1,360)
Equity dividends paid		(2,108)	(1,861)
Cash inflow/(outflow) before financing		2,876	(7,566)
Financing			
New loans raised	22	14,874	10,865
Repayment of loans	22	(7,392)	(11,928)
Repayment of principal under finance leases		-	(5)
Net cash inflow/(outflow) from financing		7,482	(1,068)
Increase/(decrease) in cash in the period	21	10,358	(8,634)

Reconciliation of operating profit to net cash inflow from operating activities

	1999 £'000	1998 £'000
Operating profit	42,037	22,285
Depreciation and profit on disposal of fixed assets	247	222
Movement in provision against development land	(16,457)	-
Decrease/(increase) in debtors	1,244	(973)
Increase/(decrease) in creditors	1,925	(334)
Decrease/(increase) in stocks	1,791	(13,624)
Net cash inflow from operating activities	30,787	7,576

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 1999

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

	1999 Turnover £m	1999 Profit before taxation £m	1998 Turnover £m	1998 Profit before taxation £m
Class of business				
Tenanted residential property	40.8	17.5	34.5	14.7
Commercial investment property	9.9	7.8	10.1	8.3
Development land: normal operations	9.4	0.9	0.2	(0.3)
Exceptional item	-	16.5	-	-
	60.1	42.7	44.8	22.7
Net interest payable	-	(18.5)	-	(14.3)
	60.1	24.2	44.8	8.4

Net assets

	1999	1998	1999	1998
	Net assets		Net assets as adjusted for market value of stocks	
	£m	£m	£m	£m
Class of business				
Tenanted residential property	35.8	37.2	103.4	80.5
Commercial investment property	51.4	43.8	51.4	43.8
Development land	7.0	(7.8)	24.0	(6.3)
	94.2	73.2	178.8	118.0

Net assets as adjusted for the market value of stocks exclude any provision for contingent taxation.

Analysis by geographical area

An analysis by geographical area of the Group's turnover, profit before taxation and net assets has not been given on the grounds that the amounts relating to activity outside the United Kingdom are immaterial.

Acquisitions

The effects of the acquisitions referred to in note 23 are not considered material.

2. *Net profit on disposal of fixed assets*

	1999 £'000	1998 £'000
Profit on disposal of investment properties	884	427
Impairment of revalued investment properties	(250)	-
Profit on disposal of investments	-	9
Profit on disposal of fixtures, fittings and equipment	7	6
	641	442

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Net interest payable and similar charges

	1999 £'000	1998 £'000
Bank loans and overdrafts	5,905	6,640
Debentures and other loans	7,417	7,570
Other interest costs	819	701
	14,141	14,911
Less:		
Income from listed fixed asset investments	(13)	(3)
Interest receivable	(237)	(585)
	13,891	14,323

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

4. Exceptional items

	1999 £'000	1998 £'000
Movement in provision against development land	16,457	-
Cost of debt restructuring	(4,569)	-
	11,888	-

5. Profit on ordinary activities before taxation

	1999 £'000	1998 £'000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation of tangible owned fixed assets	254	228
Auditors' remuneration (including expenses) (Company £6,000 (1998: £6,000))	65	63

Remuneration of the Company's auditors for provision of non-audit services to the Company and its UK subsidiary undertakings was £142,000 (1998: £103,000). Of this, £137,000 (1998: £98,000) related to tax compliance and advisory services.

6. Directors and employees

	1999 £'000	1998 £'000
Staff costs (including executive directors) during the year:		
Wages and salaries	2,733	2,216
Social security costs	269	209
Other pension costs (see note 24)	415	361
	3,417	2,786
One off payments to an executive director	300	-
	3,717	2,786

The average weekly number of persons employed by the Group during the year (including executive directors) was 74 (1998: 68). All employees were involved in the management and/or administration of the Group. Further details of directors' emoluments (including pensions), directors' share options and interests in the long term incentive plan are provided in the Remuneration Committee Report on pages 21 to 25, including one off payments to an executive director.

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. *Taxation*

	1999 £'000	1998 £'000
Tax on profit on ordinary activities		
UK corporation tax at 30.5% (1998: 31%):		
Current	6,146	2,706
Transferred to appropriate reserve (see below and note 19)	(380)	(537)
Deferred	2,151	385
(Over)/under provision in respect of prior years:		
Current	(94)	41
Deferred	(431)	10
	7,392	2,605

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.

8. *Dividends*

	1999 £'000	1998 £'000
Dividends on equity shares:		
Ordinary - Interim paid of 2.00p per share (1998:1.75p per share)	505	442
Ordinary - Final proposed of 7.32p per share (1998: 6.35p per share)	1,848	1,603
	2,353	2,045

	1999 '000	1998 '000
The number of equity shares on which dividends were paid and proposed	25,247	25,247

9. Earnings per share

The calculation of earnings per ordinary share is based on the profit after taxation of £16,826,000 (1998: £5,799,000) and on 25,247,387 (1998: 25,103,168) ordinary shares, being the weighted average of the number of ordinary shares in issue and ranking for dividend during the year.

	1999 pence	1998 pence
Earnings per share before exceptional items	33.9	23.1
Movement on provision against development land, net of tax	45.3	-
Cost of debt restructuring, net of tax	(12.6)	-
Earnings per share	66.6	23.1

The alternative figure for earnings per share is intended to demonstrate recurring elements of the results of the Group after eliminating exceptional items which are not expected to recur regularly.

Diluted earnings per share is based on 25,353,410 (1998: 25,167,099) ordinary shares. These are the weighted average number of ordinary shares in issue as adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's shares during the year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. Tangible fixed assets

	Group			Company		
	Investment properties £'000	Fixtures, fittings and equipment £'000	Total £'000	Investment properties £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost or valuation						
At 1 October 1998	106,707	1,167	107,874	1,140	817	1,957
Surplus on revaluation	6,635	-	6,635	15	-	15
Additions	9,670	296	9,966	-	110	110
Acquisition of subsidiaries	4,842	-	4,842	-	-	-
Disposals	(12,392)	(308)	(12,700)	(1,000)	(152)	(1,152)
At 30 September 1999	115,462	1,155	116,617	155	775	930
Depreciation						
At 1 October 1998	-	626	626	-	415	415
Charge for year	-	254	254	-	166	166
Eliminated in respect of disposals	-	(142)	(142)	-	(55)	(55)
At 30 September 1999	-	738	738	-	526	526
Net book value						
At 30 September 1999	115,462	417	115,879	155	249	404
At 30 September 1998	106,707	541	107,248	1,140	402	1,542

	Group		Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Investment properties at net book value comprise:				
Freeholds	96,637	90,077	155	1,140
Long leaseholds	18,825	16,630	-	-
	115,462	106,707	155	1,140

Group investment properties were revalued at their open market value at 30 September 1999 by Jones Lang LaSalle and other appropriately qualified professional advisers.

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

	Group	
	1999 £'000	1998 £'000
Net book value	95,374	93,323

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Fixed asset investments

	Group Other investments £'000	Company Investment in subsidiaries £'000
Cost or valuation		
At 1 October 1998	302	34,842
Additions	-	22,719
At 30 September 1999	302	57,561

The cost or valuation of the Company's investment in subsidiaries is shown net of a provision of £2,774,000 (1998: £2,774,000).

	Group Other investments 1999 £'000	Group Other investments 1998 £'000
Investments at net book value include:		
Investments listed on a recognised stock exchange	302	302
Aggregate market value of listed investments	503	349

Listed investments include 125,172 (1998: 125,172) 25p ordinary shares in Grainger Trust plc held by subsidiary companies which had a market value at 30 September 1999 of £498,000 (1998: £343,000).

The directors consider that providing details of all subsidiaries as at 30 September 1999 would result in disclosure of excessive length. The following information relates to those subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the figures of the Group:

Name of undertaking	Proportion of nominal value of ordinary issued shares held by: *Group* %	*Company* %	*Activity*
Northumberland & Durham Property Trust Limited	100	-	Property trading
Mayaba Ridge Syndicate Limited	*65*	-	*Property development*
Hatch Warren 1992 Limited	100	-	Land development
Grainger Investment Properties Limited	100	-	Property investment
N & D (London) Limited	100	-	Property management
Atlantic Metropolitan (UK) p.l.c.	100	100	Property trading
Ekacroft Limited	100	-	Property investment
Derwent Developments Limited	100	-	Land development
Frincon Holdings Limited	100	-	Property investment
Grainger Trust Commercial Limited	100	100	Property investment
Grainger Trust Properties Limited	100	100	Property investment
West Waterlooville Developments Limited	100	-	Land development
Victoria Court (Southport) Limited	*100*	-	Property trading
Warren Court Limited	100	-	Property investment
Southvale Investments Limited	100	100	Property trading
Chrisdell Limited	100	100	Property trading
Etral Properties Limited	100	-	Property trading
Park Estates (Liverpool) PLC	100	100	Property investment
Grainger Finance Company Limited	100	100	Finance company

NOTES TO THE FINANCIAL STATEMENTS (continued)

All of the above companies are registered in England and Wales and operate within the United Kingdom, with the exception of Mayaba Ridge Syndicate which is incorporated in the British Virgin Islands and operates within that Territory.

All subsidiaries have been consolidated.

12. Capital commitments

The Group had capital commitments contracted but not provided for of £NIL at 30 September 1999 (1998: £160,000).

13. Stocks

	Group	
	1999 £'000	1998 £'000
Trading properties and development land	134,475	118,343

The current replacement cost of the Group's trading properties has been estimated at £219.1m (1998: £163.1m) by appropriately qualified professional advisers.

14. Debtors

	Group		Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Trade debtors	3,031	4,329	23	41
Amounts owed by subsidiary undertakings	-	-	29,117	29,406
ACT recoverable	-	-	-	401
Other debtors	605	388	-	-
Prepayments and accrued income	387	272	25	5
	4,023	4,989	29,165	29,853

15. Creditors

	Group		Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Amounts falling due within one year:				
Mortgages and other loans	464	352	-	-
Loan notes	2,318	-	2,318	-
Bank loans	7,185	6,200	2,000	-
Deposits received	445	513	-	-
Trade creditors	2,543	3,915	72	63
Amounts owed to subsidiary undertakings	-	-	15,515	1,257
Corporation tax payable	4,319	2,388	280	1,062
Other taxation and social security	1,701	426	21	12
Accruals and deferred income	8,198	9,605	1,273	1,088
Dividends payable	1,848	1,603	1,848	1,603
	29,021	25,002	23,327	5,085

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. Creditors continued

Amounts falling due after more than one year.

	Group		Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Debentures and loan stocks:				
10½% debenture stock	14,737	14,726	14,737	14,726
11¾% debenture stock	3,000	3,000	3,000	3,000
Mortgages and other loans	51,282	52,272	-	-
Bank loans	75,646	67,932	8,000	-
	144,665	137,930	25,737	17,726
Maturity of finance debt (net of issue costs) is as follows				
In one year or less	9,967	6,552	4,318	-
Between one and two years	17,115	19,980	2,000	-
Between two and five years	47,439	32,896	6,000	-
Between five and ten years	33,857	41,417	-	-
Over ten years	46,254	43,637	17,737	17,726
	154,632	144,482	30,055	17,726

The 10½% and 11¾% First Mortgage Debenture stock is repayable on 31 March 2024 if not previously re-purchased and is secured by way of fixed and floating charges over the Group's properties. The carrying value of the 10½% First Mortgage Debenture stock is stated net of issue costs of £263,000 (1998: £274,000).

Mortgages and other loans bear interest rates of between 7% and 13% and are secured by fixed charges over certain of the Group's properties. Repayments are over terms of 2 to 22 years. Bank loans bear interest rates between 0.75% and 2.00% above LIBOR and are secured by fixed and floating charges over the assets of the Group. Repayments are over terms of 2 to 13 years.

Loan notes were issued in respect of the acquisition of Park Estates (Liverpool) PLC, carrying interest at 1% below LIBOR and are payable quarterly on demand from 31 March 2000. Final redemption is at par on 30 September 2009.

16. *Financial Instruments*

The Group's policies relative to financial instruments are set out in the Financial Review on page 16.

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. In addition, certain comparatives have not been shown on the grounds of practicality.

Interest rate risk

	Fixed rate liabilities £'000	Capped rate liabilities £'000	Floating rate liabilities £'000	Total £'000
Quoted debentures	18,000	-	-	18,000
Institutional debt	33,094	-	-	33,094
Loan notes	-	-	2,318	2,318
Bank debt	-	61,000	40,483	101,483
Total	51,094	61,000	42,801	154,895

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Financial Instruments continued

Interest rate risk continued

Borrowings subject to caps, collars and swaps are included in capped rate liabilities except for an additional cap at 11% on £40million of borrowings. As the current market rate is significantly lower than this, the capped amount is included in floating rate liabilities.

Hedge profile	Fixed rate		Capped rate	
	Weighted average rate %	Weighted average period years	Weighted average rate %	Weighted average period years
Quoted debentures	10.7	25	-	-
Institutional debt	11.8	6	-	-
Bank debt	-	-	6.8	2
Total	11.4	13	6.8	2

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.

Borrowing facilities

The Group had various unutilised borrowing facilities at the year end. The undrawn facilities, which were to expire within one year or less, amounted to £8,368,000.

Fair values of financial liabilities

	Book value (before issue costs) £'000	Notional principal £'000	Fair value £'000	Fair value adjustment £'000
Financial instruments:				
Quoted debentures	18,000	-	24,330	(6,330)
Institutional debt	33,094	-	37,463	(4,369)
Short term fixed rate bank debt	11,620	-	11,810	(190)
Total fixed rate debt	62,714	-	73,603	(10,889)
Debt fixed under 1 year	92,181	-	92,181	-
Derivative financial instruments:				
Interest rate swaps	-	22,500	(1,870)	1,870
Interest rate collar	-	16,000	(23)	23
Interest rate caps	-	62,500	(1,277)	1,277
Total derivatives	-	101,000	(3,170)	3,170
	154,895		162,614	(7,719)
Financial assets:				
Cash	(18,432)		(18,432)	-
	136,463		144,182	(7,719)

The fair values were calculated at 30 September 1999 using interest rates and market prices prevailing at that date and reflect the replacement values of the respective financial instruments.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Financial Instruments continued

Expiry profile of fair value adjustment

At 30 September 1999 the expiry profile of the fair value adjustment, split between financial instruments and unrecognised gains or losses on hedging instruments, of the Group's financial liabilities is:

	Financial instruments £'000	Hedging instruments £'000	Total £'000
In one year or less	-	-	-
In more than one year but not more than two years	(129)	23	(106)
In more than two years but not more than five years	(2,626)	1,277	(1,349)
In more than five years	(8,134)	1,870	(6,264)
	(10,889)	3,170	(7,719)

17. Deferred taxation

	Amount provided		Amount unprovided	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Group				
Tax effect of timing differences due to:				
Accelerated capital allowances	516	126	-	515
Net short term timing differences	(1,482)	1,331	-	-
Revaluation of trading properties to cost to Group on consolidation	5,985	1,745	1,324	1,499
Revalued *investment properties*	-	-	7,719	7,591
	5,019	3,202	9,043	9,605
Less: ACT recoverable and deferred taxation assets	-	(401)	-	-
	5,019	2,801	9,043	9,605

Group

	£'000
The movements on the provisions for deferred taxation are as follows:	
Provision at 1 October 1998	2,801
Acquired on purchase of subsidiary	97
Movement on ACT recoverable	401
Transferred to profit and loss account	1,720
Provision at 30 September 1999	5,019

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

18. Called-up share capital

	1999 £'000	1998 £'000
Authorised:		
32,000,000 (1998: 32,000,000) ordinary shares of 25p each	8,000	8,000
Allotted, called-up and fully paid:		
25,247,387 (1998: 25,247,387) ordinary shares of 25p each	6,312	6,312

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. Reserves

	Share premium account £'000	Revaluation reserve £'000	Capital reserve £'000	Profit and loss account £'000
Group				
At 1 October 1998	20,435	15,965	14,473	16,034
Investment properties:				
Surplus on revaluation	-	6,885	-	-
Realisation on disposals	-	69	-	(69)
Diminutions transferred to revenue reserves	-	*(550)*	-	*550*
Tax on realisation of revaluation surpluses	-	-	(380)	-
Retained profit for the year	-	-	-	14,473
At 30 September 1999	20,435	22,369	14,093	30,988

	Share premium account £'000	Revaluation reserve £'000	Capital reserve £'000	Profit and loss account £'000
Company				
At 1 October 1998	20,435	420	10,405	6,521
Investment properties:				
Surplus on revaluation	-	15	-	-
Realisation on disposals	-	(384)	-	384
Retained profit for the year	-	-	-	200
At 30 September 1999	20,435	51	10,405	7,105

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 £2,553,000 (1998: £2,122,000).

The cumulative amounts of goodwill resulting from acquisitions, which have been credited to reserves, is £8,465,000 (1998: £8,465,000).

20. Reconciliation of movements in equity shareholders' funds

	1999 £'000	1998 £'000
Profit for the financial year	16,826	5,799
Dividends	(2,353)	(2,045)
	14,473	3,754
Other recognised gains and losses for the year	6,885	4,854
New share capital issued	-	3,808
Tax on realisation of revaluation surpluses	(380)	(537)
Goodwill and expenses on acquisition	-	(200)
Net additions to equity shareholders' funds	20,978	11,679
Opening equity shareholders' funds	73,219	61,540
Closing equity shareholders' funds	94,197	73,219

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. Reconciliation of net cashflow to movement in net debt

	1999 £'000	1998 £'000
Increase/(decrease) in cash over period	10,358	(8,634)
Cash (inflow)/outflow from (increase)/reduction in debt	(7,482)	1,068
Change in net debt resulting from cashflows	2,876	(7,566)
Other non-cash items		
Loan notes issued	(2,318)	-
Loans acquired with subsidiary	(350)	-
Movement in net debt for the period	208	(7,566)
Net debt at 1 October 1998	(136,408)	(128,842)
Net debt at 30 September 1999	(136,200)	(136,408)

22 Analysis of net debt

	At 1 Oct 1998 £'000	Cashflow £'000	Acquisitions (excluding cash) £'000	Other non cash changes £'000	At 30 Sept 1999 £'000
Cash at bank and in hand	8,074	10,358	-	-	18,432
Debt due after one year	(137,930)	(14,874)	-	8,139	(144,665)
Debt due within one year	(6,552)	7,392	(350)	(10,457)	(9,967)
Total	(136,408)	2,876	(350)	(2,318)	(136,200)

23. Acquisitions

The following acquisitions were made during the year:

Company	Date of acquisition	Loan stock £'000	Satisfied by cash £'000	Acquisition expenses £'000	Total consideration £'000
Park Estates (Liverpool) PLC.	3 June 1999	2,318	5,118	252	7,688
Taylowe's Housing Limited	23 February 1999	-	223	32	255
		2,318	5,341	284	7,943

NOTES TO THE FINANCIAL STATEMENTS (continued)

23. Acquisitions continued

All purchases have been accounted for using acquisition accounting.

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

	Book value £'000	Revaluation £'000	Provisional fair value £'000
Tangible fixed assets	4,456	386	4,842
Current assets			
Stock	2,299	124	2,423
Debtors	338	-	338
Cash at bank and in hand	1,437	-	1,437
Total assets	8,530	510	9,040
Liabilities			
Creditors	445	-	445
Loans	350	-	350
Deferred taxation	97	-	97
Net assets acquired	7,638	510	8,148
Goodwill			(205)
			7,943
Satisfied by:			
Loan stock			2,318
Cash			5,341
Acquisition expenses			284
			7,943

The fair valuation of the trading and investment properties at the date of acquisition was 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.

24. Pensions

The Group 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.

25. 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 1999 to £92,748,000 (1998: £94,591,000).

26. Post balance sheet events

On 5 October 1999 the Company purchased the entire issued share capital of Real Estate Securities Limited for £6,044,000. The consideration consisted of £5,845,000 in cash and 50,000 ordinary shares in Grainger Trust plc at an aggregate value of £199,000.

27. Related party transactions

In accordance with the provisions of Financial Reporting Standard 8 "Related Party Disclosures", details of transactions with subsidiary undertakings are not disclosed. There are no other related party transactions.

NOTICE OF ANNUAL GENERAL MEETING

For the year ended 30 September 1999

Notice is hereby given that the eighty-seventh Annual General Meeting of the Company will be held at Chaucer Buildings, 57 Grainger Street, Newcastle upon Tyne on 29 February 2000 at 12.15pm 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 report of the directors and the audited financial statements for the year ended 30 September 1999 be approved and adopted.
2. That a dividend of 7.32p per share be paid on 29 February 2000 to all holders of Ordinary Shares on the Register of Members of the Company at the close of business on 4 February 2000, in respect of all Ordinary Shares then registered in their names.
3. That Mr R. J. Dickinson be re-elected as a director.
4. That Mr A. R. Cunningham be re-elected as a director.
5. That Mr E. W. Davidson be re-elected as a director.
6. That PricewaterhouseCoopers be re-appointed auditors of the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration be fixed by the directors.

   As special business, to consider and, if thought fit, pass the following resolutions, which will be proposed in the case of resolution 7 as an ordinary resolution and in the case of resolutions 8 and 9 as special resolutions of the Company.

7. That the directors be generally and unconditionally authorised for the purpose of section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) up to an aggregate nominal amount of £1,655,653 provided that:-
   (a) (except as provided in paragraph (b) below) this authority shall expire five years after the date of this resolution, but may be previously revoked or varied by an ordinary resolution of the Company; and
   (b) the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

   All authorities previously conferred under section 80 of the Act are revoked, but such revocation shall not have retrospective effect.

8. That, subject to the passing of and pursuant to the general authority conferred by the resolution numbered 7 in the notice convening this meeting, the directors be empowered pursuant to section 95 of the Companies Act 1985 (the "Act") to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority so conferred as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:-
   (a) the allotment of equity securities in connection with any rights issue, open offer or other pre-emptive offer to holders of equity securities in proportion (as nearly as may be practicable) to their respective holdings of such equity securities, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange in any territory or any other matter whatsoever; and

NOTICE OF ANNUAL GENERAL MEETING (continued)

For the year ended 30 September 1999

(b) otherwise than pursuant to paragraph (a) above, the allotment of equity securities up to an aggregate nominal amount of £317,217.

and shall expire on the conclusion of the next annual general meeting of the Company after the passing of this resolution or 15 months from the date of this resolution (whichever is earlier) except that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

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

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

(a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 1,268,869.

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

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

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

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

By order of the Board

Geoff Davis

Geoffrey Davis
Company Secretary
28 January 2000

Chaucer Buildings, 57 Grainger Street, Newcastle upon Tyne

NOTICE OF ANNUAL GENERAL MEETING (continued)

For the year ended 30 September 1999

Note:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company.

2. A form of proxy is enclosed. To be effective, it must be deposited at the office of the Company's registrars so as to be received not later than 48 hours before the time appointed for holding the meeting. Completion of the proxy does not preclude a member from subsequently attending and voting at the meeting in person if he or she so wishes.

3. The register of interests of the directors and their families in the share capital of the Company and copies of contracts of service of directors with the Company or with any of its subsidiary undertakings (being service contracts with a notice or contract period of one year or more or with provisions for predetermining compensation on termination of an amount which equals or exceeds one year's salary and benefits in kind) will be available for inspection at the registered office of the Company during normal business hours (Saturdays and public holidays excepted) from the date of this notice until the conclusion of the meeting and will also be available for inspection at the venue of the meeting for at least 15 minutes before the meeting and also during the meeting.

4. To be entitled to attend and vote at the meeting (and for the purpose of determining the number of votes cast), pursuant to regulation 34 of the Uncertificated Securities Regulations 1995 the Company specifies that members must be entered on the Company's register of members not less than 48 hours before the time set for the meeting. Changes to entries on the register after 12.15 pm on 27 February 2000 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

FIVE YEAR RECORD

For the year ended 30 September 1999

Consolidated Profit and Loss Account

	1995 £'000	1996 £'000	1997 £'000	1998 £'000	1999 £'000
Turnover	45,183	44,600	42,448	44,812	60,118
Gross rentals	22,626	21,194	21,428	21,915	22,752
Sales of investment properties	35,701	10,703	18,889	8,047	13,275
Trading profits	6,216	7,211	7,883	8,843	12,601
Profit/(loss) before taxation	6,119	6,488	(7,023)	8,404	24,218
Profit/(loss) after taxation and minority interests	4,100	4,347	(4,776)	5,799	16,826
Dividends paid	1,562	1,682	1,808	2,045	2,353
			pence per share		
Earnings	17.25	18.09	(19.88)	23.10	66.6
Dividends	6.50	7.00	7.50	8.10	9.32
Group Balance Sheet					
			£m		
Fixed assets at valuation and stocks at cost	232.6	223.7	203.4	225.9	250.4
Fixed assets at valuation and stocks *at replacement value*	250.3	246.8	238.2	270.7	335.0
Share capital and reserves	62.3	63.5	61.5	73.2	94.2
			£ per share		
Net assets on financial statements basis	2.59	2.64	2.55	2.90	3.73
Net assets including fixed assets and stocks *at replacement value**	3.33	3.60	3.99	4.67	7.08
Dividend cover**	2.4x	2.6x	2.9x	2.8x	3.6x
Net rental income as percentage of net interest payable	101%	103%	107%	110%	114%
Gearing	188%	165%	134%	115%	77%
Share price at 30 September	259p	289.5p	307.5p	273.5p	397.5p

*Corporation tax has not been provided on valuation surpluses relating to stocks.

**Excluding exceptional items

SHAREHOLDERS' INFORMATION

Financial Calender

Annual General Meeting	29 February 2000
Payment of 1999 final dividend	29 February 2000
Payment of half yearly interest on debenture stock 2024	31 March 2000
Announcement of 2000 interim results	*June 2000*
Payment of 2000 interim dividend	July 2000
Payment of half yearly interest on debenture stock 2024	30 September 2000
Announcement of 2000 final results	December 2000

Share Price

During the year ended 30 September 1999, the range of mid market prices of the Company's ordinary shares were:

Price at 30 September 1999	397.5p
Lowest price during the year	259p
Highest price during the year	405p

Daily information on the Company's share price can be obtained by telephoning:
The Financial Times Cityline Service on 0336 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.

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:

IRG plc,
Balfour House,
390-398
High Road,
Ilford, Essex.

Grainger Trust plc

GRAINGER GROUP COMMERCIAL PORTFOLIO

Valuation equal to or in excess of £1m	Use	Area square feet	Tenure
London Districts			
Ferry House, Putney	Office	14,000	Freehold
Totara Park House, 34/36 Grays Inn Road, WCl	Office	8,000	Freehold
Kelvin Court, W11	Office/residential	10,000	Freehold
St Margaret's Business Centre, Twickenham	Industrial	29,000	Leasehold - 999 years term
15 - 25 High Street, Cheam	Retail/Residential	24,000	Freehold
Townsend House, W1	Office	20,000	Freehold
South East regions			
Essex:			
Central Shopping, Colchester	Retail	25,000	Freehold
Wyncolls Road (3 Units), Severalls Lane Ind. Est, Colchester	Industrial	114,000	Freehold
The Cowdray Centre, Colchester	Industrial	168,000	Freehold
Hertfordshire:			
Central Block, High Street, Harpenden	Retail	35,000	Freehold
Berkshire:			
Herschel Industrial Estate, Church Street, Slough	Industrial	17,000	Freehold
Berkshire House, Herschel St, Slough	Office	7,000	Freehold
Hampshire:			
Kennel Farm, Proposed office development site	Office	6.1 Acres	Freehold
Kent:			
Douglas & Olwen House, Quarry Hill Road, Tonbridge	Office/retail	43,000	Freehold
Middlesex:			
77-89 Church Road, Ashford	Retail/residential	49,000	Freehold
Norfolk:			
1-16 Millers Walk, Fakenham	Retail	41,000	Freehold
Midland regions			
Worcestershire:			
Marmion House, 91-94 High Street, Worcester	Retail/office	16,000	Freehold
Courts PLC, Lowesmoor Place, Pheasant Street, Worcester	Retail warehouse	26,000	Freehold
Staffordshire:			
2-18 Princes Street & 1-3 Mount Street, Stafford	Office/retail	37,000	Freehold
Lincolnshire:			
Lancaster House, 36 Orchard Street, Lincoln	Office	25,000	Freehold
179 High Street, Lincoln	Retail	21,000	Freehold
Warwickshire:			
Hinckley Road, Walsgrave, Coventry	Retail warehouse	21,000	Freehold
North & North East regions			
Cheshire:			
Winsford Shopping Centre	Retail	225,000	Leasehold - 150 years' term
Merseyside:			
55-85 Derby Road & 1-10 Lansdowne Way, Huyton	Retail	54,000	Freehold
Lancashire:			
Telegraph House, Baillie Street, Rochdale	Office	43,000	Freehold
Tyne & Wear:			
1-3 Blackett Street, Newcastle upon Tyne	Retail	9,000	Freehold
Chaucer Buildings, 57 Grainger Street, Newcastle upon Tyne	Retail/office	8,000	Freehold
Shopping Centre, North Station Road, Forest Hall	Retail/office	29,000	Freehold
North Tyne Industrial Estate, 1A - 3A	Industrial	29,000	Freehold