Development and Trading

We have purchased a mixed residential and warehouse property in Macaulay Road, Clapham, with an option to buy an adjoining site. We intend to develop this site in 2003/2005. We have recently received detailed planning permission for our 10,000 sq.ft. five unit residential development in Ladbroke Grove, Notting Hill. Construction should start during this financial year.

During the year we sold 21 flats at Redcliffe Backs, Bristol, bought wholesale from the builder, and properties in Eaton Square and Notting Hill prior to development. These transactions involved gross proceeds of £14m and a profit of £1.8m. We have agreed to purchase 31 flats from builders in Altrincham and Newcastle upon Tyne for a total consideration of £4.2m. We intend to sell these individually on completion over the next two years. Further similar acquisitions are under consideration.

INVESTMENT PROPERTIES

We have continued our programme of disposal, selling £40m at a profit of £2m over valuation at the last year end. Of the balance of £27m at the start of the current financial year, £8m are already in the process of sale. The criteria for retaining any of these properties has been sharply increased, and there must be a real prospect of increased value occurring within an early timescale. Holding investment properties in the long term is not in our view the best use of resources for our type of quoted property company, where higher returns are required. The risks in holding commercial property over long periods can be illustrated by the migration in recent years of some one third of retail sales, and provincial office tenants, to out of town retail and business parks.

RESIDENTIAL LAND

We have been engaged in this activity since the late 1980's, when we started to develop Hatch Warren at Basingstoke. It combines well with our Development and Trading activities, as similar development disciplines are required. During the year we sold fourteen acres at Kennel Farm to a major housebuilder, and subject to the completion of the spine road to base course level will complete the sale of two further sites within the next few months. That will leave a further fifteen acres contracted for sale in 2003 and 2004, and an additional eleven acres where planning matters need to be finalised.

Consultation and planning works have continued on the 640 acre option site at West Waterlooville. The allocation for 2,000 units is included in the recently published Havant and Winchester Draft Local Plans, which have been released for public consultation purposes. Public enquiries are expected in 2003, with Inspectors' reports being available in 2004.

We are about to start construction of 27 houses on our first East Northumberland Coastal Plain site. We have an existing permission to build 60 houses. An application to build a further 78 houses on the same site was the subject of a public inquiry in December, the Inspector's report is expected by the end of March.

Development and Trading Portfolio

The Westbourne Hotel, Notting Hill, London

Sean Slade receiving IAS award for Dolphin Park, Thurrock

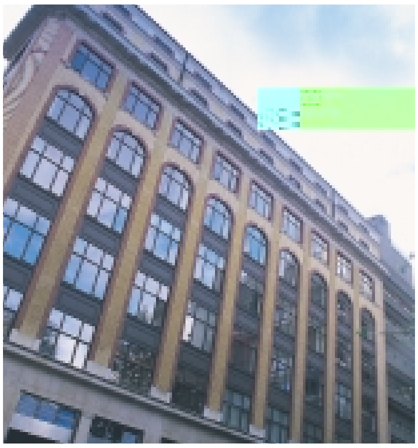
Macaulay Road, Clapham

Macaulay Road, Clapham, London

Business Unit, Gensurco House, London

Dolphin Park, Thurrock

Bradford Property Trust Portfolio


Bridgewater House, London

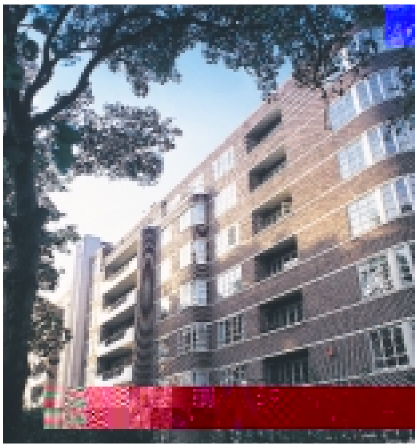

Shipley Drive, Swindon, Wiltshire


Warren Court, Leamington Spa, Warwickshire


Imperial Court, Market Street, Newbury


San Remo Towers, Boscombe, Dorset


Bolton Road, Port Sunlight, Wirral


Moor Court, Gosforth, Newcastle upon Tyne


Dunmaston Avenue,Timperley, Cheshire


Hipperholme, Halifax, Yorkshire

Personnel and Prospects

PERSONNEL

I would like to thank both Rupert Dickinson and Andrew Cunningham for their excellent work and commitment in the completion of the joint venture acquisition of BPT. Our staff have worked very hard to achieve this year's excellent results and the Board is particularly grateful to them. During the year we moved to new premises in Times Square in Newcastle, and the improvements in working conditions and general efficiency are noticeable.

PROSPECTS

The BPT investment with its exposure to 11,000 Tenanted Residential units, opens new perspectives and horizons for the Group. BPT was the largest quoted company in the Tenanted Residential sector. Residential property totalling some 24 million individual units exceeds the value of commercial property in the United Kingdom by a factor of some three to one. Institutions which used to be large landlords have virtually withdrawn from the sector, because of anti landlord legislation and the difficulty of managing multi-tenant estates. There is now a general realisation that the severe economic inefficiencies involved in daily commuting and traffic congestion, particularly in London and the South East, are becoming serious negatives to our national interest. These problems can only be satisfactorily dealt with by wholesale commitment of resources, not only to transport infrastructure, but also urban regeneration and the provision of close to work residential accommodation in city centre locations. This means that mixed use schemes with high residential content are vital, as is the reattraction of institutional funding to the sector. This in turn requires that the institutions can be comfortable that competent management is available nationally.

Grainger has positioned itself so that it is one of the very few companies that has the capability of delivering solutions across this range of property needs. We have concentrated on recruiting staff who are capable of managing Tenanted Residential property to the highest standards. We have also assembled development teams who have the specialist knowledge to carry through the creation of new housing stock, both as to site preparation, new build, and the proper design and delivery of mixed use schemes in city centres. This involves continual positive contact with Councils, their planning departments and Housing Associations. We are working to produce the space that society needs.

Our traditional businesses have performed well this year. Tenanted Residential is both a mature cashflow and a profitable activity. We continue to invest in it so that the contribution and fundamental strength it brings to the Group are not only maintained but increased. This allows us to increase the scope of our Development and Trading activities. Successful property development is a challenging task carrying with it high degrees of risk. These firstly test the professional capabilities of the development teams involved, and secondly can be balanced against the strength of our Tenanted Residential division. The potential rewards are material and appropriate to the returns that we are seeking to achieve.

Current economic circumstances require a considerable degree of caution. We are confident that the quality of the management team we have in place gives us the ability to meet future challenges, and will enable us to continue the successful delivery of value to our shareholders.

Stephen Dickinson
Managing Director
25 January 2002

Finance Director's Review
Performance

"During a year of significant investment the Group's strong cashflow generation has enabled gearing to be reduced."

INCOME

Turnover, excluding our share of the turnover of our joint venture company, has increased to £99.3m from £68.2m. This increase comes largely from the sale of several development properties. Gross rentals have declined slightly, the increase in Tenanted Residential rents being more than offset by the effect of the sale of a large proportion of the commercial investment portfolio. Trading profits have increased to £26.1m from £19.4m. The contributing factors to this increase were the Development and Trading division (£3.8m) and Tenanted Residential trading (£2.9m). We have continued to rationalise our commercial investment portfolio and this programme has generated net profits on the disposal of and provisions against fixed assets of £1.7m (2000: loss £0.7m).

PROPERTY AND ADMINISTRATIVE EXPENSES

Our property expenses have increased from £9.1m to £10.0m, the increase coming from our Tenanted Residential division where we have incurred expenditure on a significant repair programme. The increased size and complexity of the group has resulted in a higher level of administrative cost but as a percentage of turnover this cost has decreased from 5% to 4%.

NET INTEREST PAYABLE

Net interest payable excluding the exceptional costs attached to the early redemption of part of our Quoted Debenture and our share of our joint venture's interest cost, has fallen to £15.1m from £15.3m and is covered 2.4 times by operating profit (2000: 2.1 times). The average interest rate payable in the year has been 8.0% (2000: 8.6%).

TAXATION

The effective rate of taxation for the year is 30.5% (2000: 32.0%). We anticipate that this rate will increase significantly in future years because of the introduction of Financial Reporting Standard No. 19 ("FRS 19"). This standard prohibits the provision of deferred tax balances on asset revaluation surpluses when companies are acquired. In line with industry practice we have historically made a partial provision for such tax balances and then released it as properties are sold. The new standard will prevent this and so our effective tax rate will rise. This will not impact on post tax profits or earnings per share but there will be distortions to both profit before tax and the tax charge.

EARNINGS PER SHARE AND DIVIDENDS

Basic earnings per share are constant at 43p but, after adjusting for the exceptional interest payment and our share of our joint venture losses, have increased to 61p. Total dividends paid and proposed amount to 12.33p per share, an increase of 15% over last year. This is the third year in succession that dividends have been increased by 15%. Excluding exceptional item, dividends are covered 4.3 times by profit after taxation (2000: 4.1 times).

JOINT VENTURE

In the period since acquisition our share of the pre tax losses of our joint venture company amounted to £3.3m. Net rentals and trading profits contributed £5.3m and £1.3m respectively. Interest payable and similar costs in the period amounted to £9.7m. These results were in line with expectations; many of the trading sales in the period were achieved at close to acquisition cost and therefore produced little margin. The joint venture also absorbed costs relating to the acquisition process.

Position

FIXED ASSETS

Our investment property portfolio was valued at 30 September 2001 by Jones Lang LaSalle at £27.0m. The decrease from last years figure of £64.5m represents the successful continuation of our strategy to rationalise this portfolio. The major increase in fixed assets comes from our £55m investment in 50% of Bromley Property Holdings Limited, the joint venture company set up to acquire BPT plc.

TRADING PROPERTIES

The balance sheet carrying value of our trading properties was £234.4m (2000: £220.1m). The equivalent market value was £400.8m (2000: £373.5m). The increase comes from the Tenanted Residential division - a slight fall in the number of units held has been more than compensated for by an increase in the average value of units held. At 30 September 2001 the average vacant possession of our Tenanted Residential properties was £75,000 (2000: £67,000). The value of our Development and Trading stocks has stayed more or less constant, land sales at Kennel Farm being matched by reinvestment in other projects.

OTHER CURRENT ASSETS AND LIABILITIES

Excluding current instalments due on borrowings, net current liabilities have increased from £13.0m to £14.4m, principally due to a fall in the value of sales contracts exchanged which are included in debtors.

NET ASSETS

Net assets, including trading stock at market value, without adjusting for contingent tax, have increased from £242.7m to £301.5m. The major movements were:-

	Reflected in the accounts £m	Not reflected in the accounts £m	Total £m
Net assets at 1 October 2000	89.4	153.3	242.7
Retained profits	7.7		7.7
Revaluation surpluses:			
Tenanted Residential		18.1	18.1
Development and trading		(4.9)	(4.9)
Investment	(1.5)		(1.5)
Joint venture share	2.9	9.3	12.2
Share of joint venture negative goodwill on acquisition of BPT plc		27.2	27.2
Net assets at 30 September 2001	98.5	203.0	301.5
Net assets per share £	3.99	8.23	12.22

It is becoming increasingly common to show net asset value after deductions for contingent tax (assuming all properties sold at market value) and for marking Group debt to market value ("FRS 13" adjustment). The Group's net net NAV after making these deductions is computed as:-

	30 September 2001 £m	30 September 2001 Per Share	30 September 2000 £m	30 September 2000 Per Share
Net asset value	301.5	12.22	242.7	9.85
Less:				
Contingent Tax	72.2	2.93	53.7	2.18
FRS 13 Adjustment	7.2	0.29	6.4	0.26
Net net net asset value	222.1	9.00	182.6	7.41

Position

CASH AND DEBT

Cash balances at the year end amounted to £23.1m, up from £7.5m at 30 September 2000. Of the year end balance, £22.0m is held by lenders awaiting substitution of alternative security.

Group borrowings have increased from £185.5m to £224.0m. Total new loans amounted to £85.9m principally to fund our investment in the BPT joint venture. Loan repayments totalled £47.5m including £8.3m of our Quoted Debenture stock.

The sale of £40m of our commercial investment portfolio combined with the increase in net assets has led to a reduction in gearing on a revalued balance sheet basis to 67% from 73%.

CASHFLOW

The significant elements of the Group's cashflow are:-

	£m
Receipts	
Group operating profit	36
Cost of trading properties sold	46
Investment property sales	40
Net loans raised	39
	161
Payments	
Net interest	22
Tax and dividends	11
Properties acquired	59
Investment in joint venture	54
Increase in cash	15
	161

Group Borrowings at 30 September 2001

Borrowings	Principal £m	Interest Payable %	Annualised Interest £m	Repayable
Permanently fixed				
Quoted Debenture	10	10.9	1.1	2024
Other	45	10.1	4.5	2001-2025
	55	10.2	5.6	
Fixed over one year	53	6.6	3.5	2001-2011
Hedged loans	47	6.2	2.9	2001-2011
Variable/fixed under one year	69	6.1	4.2	2001-2022
	169	6.3	10.6	
Total	224	7.2	16.2	
Less: cash	(23)			
	201			

Treasury Management

The group finances its operations through a combination of shareholders funds and borrowings. The main borrowing source is banks 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 the majority of our debt is maintained at fixed rates of interest or is subject to protective caps or collars.

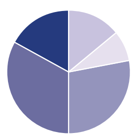
At 30 September 2001, 69% of group debt was either fixed to termination or for over one year or was protected by financial instruments (2000: 65%). A combination of interest rate swaps and financial caps are used to provide a degree of certainty over future interest rate costs whilst enabling the Group to take advantage of favourable short term rates. At 30 September 2001 the Group had in place £52.5m of swap contracts at an average rate of 6.6% maturing between 2005 and 2009. At the same date there were also financial caps in place at pre margin rates of 6% and 7.5% covering £22.5m and £25m of debt respectively. These caps expire in 2004 and 2005.

The notional effect of the fair value adjustment of marking the Group's fixed debt and derivatives to current market rates would be to produce an additional "liability" after tax of £7.2m or 29p per share (2000: £6.4m and 26p per share). This includes 7p per share being the Groups share of the FRS 13 adjustments relating to the debt in our joint venture company. The total adjustment represents approximately 3% of Group gross borrowings at 30 September 2001 and will not be recognised in the accounts until the position matures or is terminated.

The Group also maintains a range of borrowing maturities to enable it to balance continuity of funding with flexibility. At 30 September 2001 the average duration of the Groups debt was 7.7 years (2000: 9.4 years). Full details of the Group's borrowings and financial instruments are given in note 18 to the financial statements on pages 50 to 51.

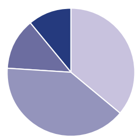
Andrew Cunningham
Finance Director
25 January 2002

Debt maturity at 30 September 2001



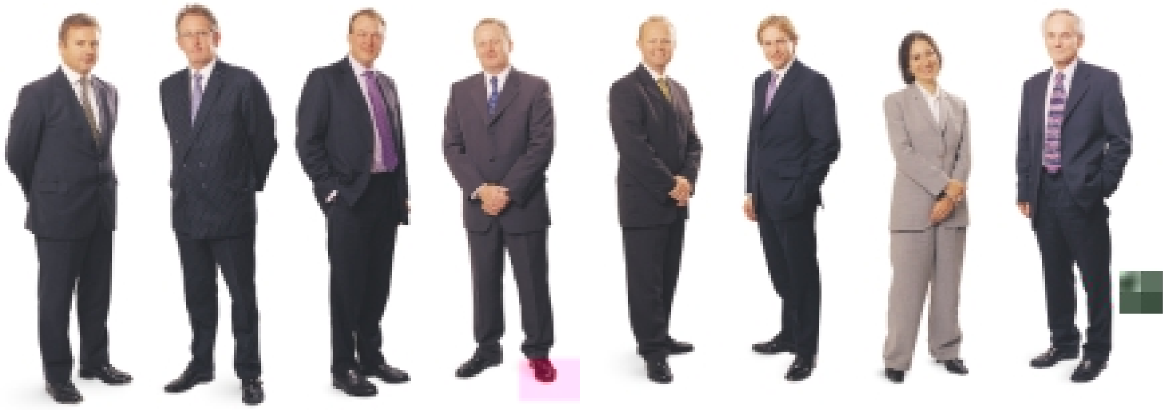
- Less than one year 14%
- Between one and two years 8%
- Between two and five years 28%
- Between five and ten years 33%
- > ten years 17%

Fixed rate profile at 30 September 2001



- Less than one year 36%
- Between two and five years 40%
- Between five and ten years 13%
- > ten years 11%

The Management Team



FROM LEFT TO RIGHT
Sean Slade, Brian Crumbley, Peter Schwerdt, Geoff Davis, Mark Robson, James Fielder, Debra Yudolph, Andy James.

SEAN SLADE, M.R.I.C.S.
Aged 37, Chartered Surveyor. BSc (Hons) Valuation and Estate Management. Joined the company and appointed subsidiary director in 1996. Began career at Richard Ellis before moving to Hill Samuel Asset Management as Fund Manager responsible for the investment and development activities of the Life Fund.

BRIAN CRUMBLEY, F.R.I.C.S.
Aged 43, Chartered Surveyor. After completing a BSc degree course in General Practice Surveying spent two years with Newcastle Chartered Surveyors Storey, Sons & Parker before joining Grainger Trust plc in November 1981.

PETER SCHWERDT
Aged 43, Acquisitions & Sales Director, Southern. Started career with Daniel Smith in 1976 selling houses and flats on the Duchy of Cornwall Estate and other known estates in central London. Moved to Winkworth in 1983 setting up the Kennington office and worked freelance for Grainger Trust from 1985 and became full time in 1989 to date.

GEOFF DAVIS, F.C.A.
Aged 44, Company Secretary, Chartered Accountant. Degree in Economics and Accountancy at Newcastle University. Began career at Thomson McLintock & Co. (now KPMG) in 1978. Became Group Accountant at Grainger Trust plc in 1984. Company Secretary since 1996.

MARK ROBSON, M.R.I.C.S.
Aged 42, Chartered Surveyor. Degree in General Practice Surveying. Began career at Lamb & Edge Chartered Surveyors in 1982 before joining the Estate Department at Scottish and Newcastle Breweries in 1985. Joined Grainger Trust plc in 1988, appointed a subsidiary director in 1995.

JAMES FIELDER, M.R.I.C.S.
Aged 37, Chartered Surveyor, joined Grainger Trust in 1999, appointed subsidiary director in 2000. Previous property development executive roles at Pillar Property Plc and Trafalgar House Plc.

DEBRA YUDOLPH
Aged 37, Joined Grainger Trust plc in 1999 in London, as Head of Residential Management for the Southern Portfolio. Previously at W A Ellis running the residential management department and involved in Residential Management since 1985. Became a subsidiary director in 2000.

ANDY JAMES, CEng M.I.C.E.
Aged 55, Chartered Civil Engineer. Degree in Civil Engineering at Nottingham University. Career includes work with Tilbury Douglas, English Estates and The Tyne and Wear Development Corporation. Joined Grainger Trust plc as a subsidiary director in 2000 with responsibility for Land Development and Grainger Homes Limited.