

>  
Interim results for the half year  
ended 31st March 2004

Continued growth and  
development



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## > Financial highlights

Profit before tax\*

**£35.1m**  
+57%

Earnings per share\*

**85.8p**  
+61%

Interim dividend

**4.04p**  
+15%

\*Before exceptional items

## > Chairman's statement

We are delighted to report on another excellent trading performance by the Group. Profit before tax and exceptional charges for the six months to 31 March 2004 has increased by 57% to £35.1m from £22.4m. We have continued to maximise the opportunities from the strong residential market and returns from our development and trading division have been impressive.

### Results

Our results have been affected by two recent significant changes to our business, as reported at the last year end. Firstly, we completed the acquisition of the outstanding 50% stake in Bromley, our joint venture with Deutsche Bank, at the end of September 2003, which means that we are consolidating the full results of that business in our profit and loss account for the first time. Secondly, the successful rationalisation of our development and trading division through the disposal of our commercial investment portfolio and the sales of the remaining two major land sites at Kennel Farm have produced excellent results.

Earnings before interest and tax have increased by 49% to £54.8m from £36.9m. Interest charges have risen to £23.4m from £14.5m, mainly due to the full interest charge of Bromley and to exceptional costs from early repayments of the majority of our expensive fixed rate debt. Earnings per share before exceptional items have increased to 85.8p from 53.3p, a rise of 61%.

Your directors are declaring an interim dividend of 4.04p per share, an increase of 15%, and this will be payable on 23 July 2004 to shareholders on the register at close of business on 25 June 2004.

### Net asset value

In addition to the statutory balance sheet we provide three measures of balance sheet worth. Firstly, net asset value per share ("NAV") shows the market value of our assets less liabilities. Secondly, diluted or triple net NAV ("NNNAV") which adjusts the NAV for the mark to market value of our long term debt and financial instruments and for the contingent tax that would crystallise were our assets to be disposed of. Thirdly, Grainger NAV, which takes into account the taxed, discounted reversionary surplus on our core residential portfolio.

Because of the numbers of properties involved we do not revalue our properties at the interim stage. Consequently our market value balance sheet includes assets at 30 September 2003 values, as adjusted for sales and purchases. This impacts on the reported NAV as valuation surpluses on properties sold since the last valuation are eliminated without any compensating increase in valuation of the remaining portfolio. However NAV is increased by retained earnings and the overall net movement is a fall of 47p per share to £21.47. NNNAV has risen by 1.4% to £14.11 from £13.91 because of falls in both the mark to market debt and contingent tax adjustments. The Grainger NAV has increased by 2.3% from £18.40 to £18.83 per share.

## > Chairman's statement continued

### Tenanted Residential

Another excellent six months' trading for the tenanted residential division. All areas of the country have shown good levels of house price growth reflecting the fact that our typical properties are below the UK average value and are un-modernised when they are released for sale. Demand for this type of property has remained strong and sales values achieved in the period have exceeded our 30 September 2003 vacant possession values by an average of 8.9%.

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

In the six month period to 31 March 2004 we sold 676 properties for £73.6m (compared to 784 for £69.4m in the same period last year) producing trading profits of £30.7m (2003:£24.8m), an increase of 24%, and profit on disposal of fixed assets of £1.2m (2003: £1.5m)

Rents net of expenses but including other income increased to £9.7m from £9.0m. Overall the tenanted residential division produced operating profits 18% higher (including profits on residential assets held as fixed assets) at £41.7m, compared to £35.2m last year.

We have continued to invest in this division, acquiring 179 units for £17.5m, including 62 life tenancy interests for a consideration of £4.2m. This is a growing area of our business and we are currently engaged in reviewing how we can best position ourselves to take advantage of the opportunities that present themselves to us.

The investment value of our tenanted residential portfolio at 31 March 2004 was £1,124m (30 September 2003: £1,164m). This is calculated by using the September 2003 values and adjusting them for purchases at cost and sales. The portfolio consisted of a total of 11,613 units as follows:

	No. of properties	Vacant possession value £m	Investment value £m
Regulated	7,854	1,131	820
Life tenancies/reversions	2,377	271	138
Assured	1,024	129	109
Vacant	358	44	40
Other interests	–	21	17
31 March 2004	11,613	1,596	1,124
30 September 2003	12,030	1,648	1,164

We are confident of the outlook for this division. Sales since the period end have continued to be strong and we have recently completed a portfolio acquisition of 128 London based units for a consideration of £25m.

Also, in recent weeks we have been involved in the high profile acquisition of 15 properties in the beautiful and unspoilt village of Gittisham, Devon. We have withdrawn the notices to quit which had previously been served on several of the tenants and have pledged that those tenants will have long term security of tenure. This transaction showed not only our ability to move and complete quickly but also our recognition that Grainger's long term interest can be enhanced by taking a responsible and sympathetic attitude to our tenants' interests.

Our size and reputation is providing us with access to opportunities which have the potential to produce significant benefit to the Group. Since the full acquisition of Bromley last year we have been able to take a long term view of our tenanted residential activities with the aim of building a sustainable, high quality business encompassing ownership, development and management.

### Development and Trading

As previously announced our prime objective for this division for this year was to re-focus our energies and skills on residential or mixed use projects or on those with a residential bias. This has resulted in a significant divestment of assets in the period, and we have sold a total of £19.0m of assets held as investment properties at a £2.8m surplus above 30 September 2003 values.

Other major sales have included 12.4 acres of housing land at Kennel Farm for £14.2m. This completes the sale of the major plots at this site which since 1998 has produced £76.2m of revenue for the Group. Future activity at Kennel Farm will be restricted to the completion of the local centre, the B1 allocated land and the sale of minor plots on a piecemeal basis.

Grainger Homes, our housebuilding subsidiary, has completed the sale of 78 properties for £7.4m at a profit of £1.0m.

In total, the division has produced operating profits (including profits on properties held as fixed assets) of £17.0m (2003: £6.1m) and at the period end the investment value of its portfolio stood at £91.8m (30 September 2003: £129.9m). Because of the size of the sales programme in the first half we do not anticipate this level of trading performance to be maintained through to the year end.

The refocusing of our objectives in this division has provided it with a new impetus. We are greatly encouraged by the type of opportunities and activities that the business is currently pursuing.

### Financing and net assets

At 31 March our net debt amounted to £643.3m (30 September 2003: £679.5m) and gearing (based on 30 September 2003 values) was 121% (2003:125%). We have taken the opportunity to repay early the majority of our expensive fixed rate debt; a total of £16.7m was repaid at an exceptional cost of £3.7m. This has greatly improved our operational flexibility by releasing cumbersome fixed charges and onerous covenant requirements on certain assets in our portfolio.

At the period end, 80% of our debt was hedged or fixed and the average interest rate was 6.1%.

## Chairman's statement continued

Since 31 March we have been actively involved in renegotiating the funding arrangements for the enlarged Group. We hope to conclude these negotiations shortly and will provide further details in due course.

At 31 March our NAV stood at £21.47 per share (30 September 2003: £21.94) The movement is as follows:

	£m	£ per share
NAV at 30 September 2003	543.4	21.94
Retained earnings	17.6	0.71
Surpluses eliminated on sale		
and other valuation movements	(24.1)	(0.97)
Sundry other	(4.4)	(0.21)
NAV at 31 March 2004	532.5	21.47

Taking account of contingent tax of £7.21 per share (30 September 2003: £7.72 per share) and the effect of marking our long term debt and financial instruments to market values (15p per share, 30 September 2003: 31p per share) reduces the NAV to triple net of £14.11 per share (30 September 2003: £13.91 per share).

Contingent tax has decreased because of the sale of assets with a large liability attached. The mark to market adjustment has fallen as a result of the repayment of expensive debt and because of increases in underlying interest rates which have brought our financial instruments closer to being in the money.

At the year end we disclosed for the first time 'Grainger NAV' which takes account of the discounted and taxed effect of the reversionary surplus in our core portfolios. At 31 March this calculation increases the NNNAV by £4.72 per share to give a Grainger NAV of £18.83 (30 September 2003: £18.40). The total reversionary surplus in our entire portfolio stood at £472m at 31 March (30 September 2003: £484m).

We have noted that we do not revalue our properties at the half year. However, if our tenanted residential stock values have increased overall by 8.9%, the value at which normal sales on vacancy have exceeded 30 September vacant possession values, then our NAV would amount to £632.5m, or £25.50 per share. Over the same period the Halifax and Nationwide house price increased by 9.9% and 9.6% respectively.

### Prospects

We look forward to the future with optimism. There are changes in the wider economic and regulatory environment which present us with exciting opportunities. The most widely publicised of these relates to the Government document, 'Promoting more flexible investment in property: a consultation,' which invites views on Government proposals for a new form of UK property vehicle – a property investment fund or PIF (elsewhere described as a REIT). We are actively involved in contributing to the debate on this matter and are hopeful that an attractive tax-advantaged property investment vehicle will result. We would hope to be at the forefront of any initiative which will facilitate investment in the private rented sector.

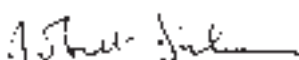
Secondly, we are pleased to note that Home Reversion Plans are to be regulated by the FSA following consultation by the Treasury. We were concerned that the regulation of mortgages due to be

introduced this autumn would have left our home reversion product at a disadvantage when being presented alongside life time mortgages. We were involved in making strong representations on this matter and are pleased that change will come about. We look forward to the legislation being brought forward as soon as possible and are confident that this will help us make good progress in our plans to expand this important sector of our business.

We are also looking at opportunities on mainland Europe, particularly in those countries where there are likely to be significant changes to the housing market as a result of political change. This initiative will commence on a low risk basis using experienced local partners and only in those areas where we can apply our existing skills and expertise.

We are aware of media commentary on future prospects for the housing market. The Grainger business has shown that it can produce robust performance even when market conditions become generally less favourable. This strength comes from the geographic spread of our portfolio, our low exposure to the volatile top end of the market, the high margins we achieve on sale and the strong demand for our typical un-modernised, below average value property. We believe that our unique business is well positioned to continue to perform well should the housing market weaken.

These are exciting and demanding times for Grainger. In addition to the ways in which we are looking to expand and build on our core skills our staff have been heavily involved in fully integrating the operations and activities of Bromley since its acquisition last September. We would like to record our gratitude to all of our staff for the very considerable efforts that they have made in the period.



**Robert Dickinson**

Chairman

15th June 2004

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## Consolidated profit and loss account

	Half year ended 31 March 2004 £m	Half year ended 31 March 2003 £m	Year ended 30 September 2003 £m
For the half year ended 31 March 2004			
<b>Turnover (2003: including share of Joint Venture)</b>	<b>121.9</b>	83.5	173.6
Less: Share of turnover of Joint Venture	–	(26.3)	(55.6)
<b>Group turnover</b>	<b>121.9</b>	57.2	118.0
Gross rentals	<b>21.2</b>	10.9	21.4
Trading profits	<b>44.5</b>	20.0	38.8
Other income	<b>0.5</b>	0.3	0.9
	<b>66.2</b>	31.2	61.1
Less:			
Property expenses	<b>(11.5)</b>	(4.8)	(9.1)
Administration expenses	<b>(3.9)</b>	(2.2)	(4.7)
<b>Group operating profit</b>	<b>50.8</b>	24.2	47.3
Share of operating profit in Joint Venture (after £nil (2003: £23,000) amortisation of goodwill))	–	11.1	23.6
<b>Total operating profit: Group and share of Joint Venture</b>	<b>50.8</b>	35.3	70.9
Net profit on disposal of & provisions against fixed assets			
– Group	<b>4.0</b>	0.2	1.9
– Joint Venture	<b>–</b>	1.4	4.1
	<b>4.0</b>	1.6	6.0
<b>Profit on ordinary activities before interest and taxation</b>	<b>54.8</b>	36.9	76.9
Net interest payable and similar charges			
– Group normal	<b>(19.7)</b>	(5.9)	(11.5)
– Group exceptional	<b>(3.7)</b>	–	–
– Joint Venture	<b>–</b>	(8.6)	(16.9)
	<b>(23.4)</b>	(14.5)	(28.4)
<b>Profit on ordinary activities before taxation</b>	<b>31.4</b>	22.4	48.5
Tax on profit on ordinary activities	<b>(12.7)</b>	(9.3)	(19.1)
<b>Profit on ordinary activities after taxation</b>	<b>18.7</b>	13.1	29.4
Minority interest – equity	–	–	(0.1)
<b>Profit attributable to shareholders</b>	<b>18.7</b>	13.1	29.3
Dividends	<b>(1.0)</b>	(0.8)	(4.0)
<b>Retained profit for the period</b>	<b>17.7</b>	12.3	25.3
<b>Earnings per share</b>	<b>75.3p</b>	53.3p	118.5p
<b>Diluted earnings per share</b>	<b>74.8p</b>	53.1p	118.0p
<b>Basic earnings per share before exceptional items</b>	<b>85.8p</b>	53.3p	118.5 p

All results relate to continuing operations.

## Statement of Group total recognised gains and losses

	Half year ended 31 March 2004 £m	Half year ended 31 March 2003 £m	Year ended 30 September 2003 £m
For the half year ended 31 March 2004			
Profit for the period attributable to shareholders	18.7	13.2	29.3
Taxation on realisation of property revaluation gains of previous years	(0.3)	–	–
Unrealised surplus on revaluation of properties	0.1	–	3.1
Surplus recognised in the profit and loss account in the period	–	–	(1.3)
Adjustment to reserves arising from consolidation of Joint Venture	–	–	(2.9)
<b>Total gains and losses recognised – Group</b>	<b>18.5</b>	<b>13.2</b>	<b>28.2</b>
Share of Joint Venture tax on realisation of revaluation reserves	–	(0.1)	(0.9)
Unrealised surplus on revaluation of Joint Venture properties	–	0.5	4.4
<b>Total gains and losses recognised since the last annual report – Group and Joint Venture</b>	<b>18.5</b>	<b>13.6</b>	<b>31.7</b>

# Consolidated balance sheet

	31 March 2004 £m	31 March 2003 Restated £m	30 September 2003 Restated £m
As at 31 March 2004			
<b>Fixed assets</b>			
Intangible assets	(90.8)	(1.0)	(97.2)
Tangible assets	81.8	22.2	109.1
Investments:			
Investment in Joint Venture:			
Share of gross assets	–	270.9	–
Share of gross liabilities	–	(294.9)	–
	–	(24.0)	–
Goodwill	–	0.3	–
	–	(23.7)	–
Loan to Joint Venture	–	13.7	–
	–	(10.0)	–
Other investments	7.0	7.0	7.0
	7.0	(3.0)	7.0
	(2.0)	18.2	18.9
<b>Current assets</b>			
Stocks	862.8	334.3	888.3
Debtors: amounts falling due within one year	14.0	4.0	10.0
Cash at bank and in hand	92.8	23.1	81.7
	969.6	361.4	980.0
<b>Creditors: amounts falling due within one year</b>			
Short term borrowings	(101.1)	(21.7)	(76.4)
Other creditors	(55.2)	(22.8)	(78.1)
<b>Net current assets</b>	<b>813.3</b>	<b>316.9</b>	<b>825.5</b>
<b>Total assets less current liabilities</b>	<b>811.3</b>	<b>335.1</b>	<b>844.4</b>
<b>Creditors: amounts falling due after more than one year</b>	<b>(635.0)</b>	<b>(200.9)</b>	<b>(684.8)</b>
<b>Provisions for liabilities and charges</b>	<b>(11.7)</b>	<b>(2.6)</b>	<b>(12.8)</b>
<b>Net assets</b>	<b>164.6</b>	<b>131.6</b>	<b>146.8</b>
<b>Capital and reserves</b>			
Called-up share capital	6.2	6.2	6.2
Share premium account	21.5	21.4	21.4
Revaluation reserve	10.1	10.7	14.7
Capital redemption reserve	0.2	0.2	0.2
Profit and loss account	126.5	93.1	104.2
Equity shareholders' funds	164.5	131.6	146.7
Minority interests – equity	0.1	–	0.1
<b>Total capital employed</b>	<b>164.6</b>	<b>131.6</b>	<b>146.8</b>

# Cash flow statement

	Half year ended 31 March 2004 £m	Half year ended 31 March 2003 £m	Year ended 30 September 2003 £m
For the half year ended 31 March 2004			
<b>Net cash inflow/(outflow) from operating activities</b>	<b>48.9</b>	(10.9)	(37.3)
<b>Dividends from joint ventures and associates</b>	<b>–</b>	52.0	52.0
<b>Returns on investments and servicing of finance</b>			
Interest received	1.6	1.7	2.9
Interest paid – normal	(21.1)	(7.5)	(14.0)
– exceptional	(3.7)	–	–
Dividends received	0.1	0.2	0.2
	(23.1)	(5.6)	(10.9)
<b>Taxation</b>			
UK Corporation tax paid	(12.7)	(6.1)	(11.8)
<b>Capital expenditure and financial investment</b>			
Purchase of fixed asset investments	(0.3)	(1.3)	(1.4)
Purchase of tangible fixed assets	(0.3)	(0.3)	(0.5)
Sale of fixed asset investments	–	–	–
Sale of tangible fixed assets	31.0	0.5	2.1
	30.4	(1.1)	0.2
<b>Acquisitions and disposals</b>			
Purchase of subsidiaries	–	(1.6)	(25.9)
Costs on purchase of subsidiaries	–	(0.1)	(0.3)
Cash acquired on purchase of subsidiaries	–	–	74.9
	–	(1.7)	48.7
<b>Equity dividends paid</b>	<b>(3.1)</b>	(2.8)	(3.6)
<b>Cash inflow before financing</b>	<b>40.4</b>	23.8	37.3
<b>Financing</b>			
New loans raised	16.0	–	64.0
Repayment of loans	(45.4)	(11.1)	(30.2)
Issue of shares	0.1	–	0.1
<b>Net cash (outflow)/inflow from financing</b>	<b>(29.3)</b>	(11.1)	33.9
<b>Increase in cash in the period</b>	<b>11.1</b>	12.7	71.2

	Half year ended 31 March 2004 £m	Half year ended 31 March 2003 £m	Year ended 30 September 2003 £m
<b>Reconciliation of operating profit to net cash inflow/(outflow) from operating activities</b>			
Operating profit	50.8	24.1	47.3
Depreciation	0.2	0.1	0.2
Amortisation of goodwill	(3.2)	(0.2)	(0.2)
Increase in debtors	(4.4)	(0.7)	(1.6)
Decrease in creditors	(20.0)	(18.2)	(13.6)
Decrease/(increase) in stocks	25.5	(16.0)	(69.4)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>48.9</b>	(10.9)	(37.3)

## Notes to the interim statement

**1** The interim financial report has been prepared on the basis of the accounting policies set out in the Group's 2003 annual report and accounts with the exception of the policy on accounting for investments in own shares. UITF 38 Accounting for ESOP Trusts will be effective for the Group's annual financial statements for the year ending 30 September 2004. In accordance with UITF 38, shares purchased by subsidiary undertakings to meet commitments for share awards under long term incentive plans are held at cost and treated as Treasury Shares and are taken as a deduction from shareholders' funds. Previously these were held within fixed asset investments at the lower cost less provision for impairments. The balance sheets as at 30 September 2003 and 31 March 2003 have been restated accordingly.

The effect is to reduce net assets in the statutory balance sheet by £2.2m as at 31 March 2003 and 30 September 2003.

### 2 Net Asset Value (NAV) AND NNNAV

	Statutory balance sheet	Market value adjustments	£m Market value balance sheet	FRS13	Contingent tax	NNNAV balance sheet
Properties	943.7	272.4	1,216.1	–	–	1,216.1
Investments/other assets	7.9	4.3	12.2	–	–	12.2
Negative goodwill	(90.8)	90.8	–	–	–	–
Cash	92.8	–	92.8	–	–	92.8
<b>Total assets</b>	<b>953.6</b>	<b>367.5</b>	<b>1,321.1</b>	<b>–</b>	<b>–</b>	<b>1,321.1</b>
Borrowings	(736.1)	–	(736.1)	(5.2)	–	(741.3)
Net current liabilities	(41.2)	1.4	(39.8)	–	–	(39.8)
Provisions/contingent tax	(11.7)	–	(11.7)	1.5	(178.8)	(189.0)
Minority interest	(0.1)	(0.9)	(1.0)	–	–	(1.0)
<b>Total liabilities/minority interest</b>	<b>(789.1)</b>	<b>0.5</b>	<b>(788.6)</b>	<b>(3.7)</b>	<b>(178.8)</b>	<b>(971.1)</b>
Net assets attributable to shareholders	164.5	368.0	532.5	(3.7)	(178.8)	350.0
<b>Net assets per share £</b>	<b>6.63</b>	<b>14.84</b>	<b>21.47</b>	<b>(0.15)</b>	<b>(7.21)</b>	<b>14.11</b>
Net assets per share at 30 September 2003 £ (restated)	5.92	16.02	21.94	(0.31)	(7.72)	13.91

Properties are not revalued at the half year. The market value balance sheets include properties at 30 September 2003 values, adjusted for sales and purchases.

### 3 Earnings per share

The calculation of earnings per share is based on the following number of shares:

	31 March 2004 No. of shares '000	31 March 2003 No. of shares '000	30 September 2003 No. of shares '000
Weighted average number of shares for basic earnings per share	24,782	24,745	24,745
Weighted average number of shares for diluted earnings per share	24,937	24,831	24,862

### 4 Taxation

Tax on profit on ordinary activities:

	31 March 2004 £m	31 March 2003 £m	30 September 2003 £m
Group:			
Normal	13.8	6.3	11.9
Exceptional	(1.1)	–	–
	12.7	6.3	11.9
Share of Joint Venture	–	3.0	7.2
	12.7	9.3	19.1

# Notes to the interim statement continued

## 5 Dividends

Dividends on ordinary shares:

	31 March 2004 £m	31 March 2003 £m	30 September 2003 £m
Interim of 4.04p per share (2003: 3.51p)	1.0	0.8	0.8
Final for year ended 30 September 2003 of 12.80p per share	–	–	3.2
	1.0	0.8	4.0

## 6 Debtors

Trade debtors	4.1	1.9	2.6
Other debtors	3.6	1.1	0.6
Prepayments and accrued income	3.7	1.0	4.0
Deferred tax	2.6	–	2.8
	14.0	4.0	10.0

## 7 Creditors

Amounts falling due within one year:

Mortgages and other loans	3.5	0.5	11.7
Loan notes	39.1	1.7	41.3
Bank loans	58.5	19.5	23.4
Deposits received	0.7	0.6	1.0
Trade creditors	4.8	6.5	7.0
Corporation tax payable	25.1	8.6	24.9
Other taxation and social security	1.3	0.3	2.0
Accruals and deferred income	22.3	5.9	40.0
Dividends payable	1.0	0.9	3.2
	156.3	44.5	154.5
Amounts falling due after more than one year			
Debenture stock	–	2.5	2.5
Mortgages and other loans	405.2	28.1	427.6
Loan notes	–	0.7	–
Bank loans	229.8	169.6	254.7
	635.0	200.9	684.8

8 This announcement does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for the year ended 30 September 2003 have been filed with the Registrar of Companies. The auditors have reported on those accounts; their report was unqualified and did not contain any statement under Section 237(2) or (3) of the Companies Act 1985.

9 Copies of this statement are being sent to all shareholders. Copies may be obtained from the Company's registered office, Citygate, St. James' Boulevard, Newcastle upon Tyne. NE1 4JE. Further details of this announcement can be found on our website, [www.graingertrust.co.uk](http://www.graingertrust.co.uk).

10 The Board of Directors approved this interim statement on 15 June 2004. This interim report has neither been audited nor reviewed by the auditors.

>

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