# TR Property Investment Trust plc

## Report & Accounts for the year ended 31 March 2002





HG15994/2002

# TR Property Investment Trust plc

## Contents

# Highlights of the Year

- NAV total return of 8.9%. Share price total return of 14.3%. Benchmark total return of 4.1%.
- Strong revenue growth. Earnings per share up 16.9%. Net dividend per share increased by 17.9%.
- Good period for property and property shares relative to bonds and general equities.
- Benchmark and portfolio successfully enlarged onto a Pan European base improving diversification and the Trust's income potential.

## Warrants

- Warrant holders are reminded that their last opportunity to exercise their subscription rights will be 31 July 2002.
- Warrant holders' attention is drawn to the Circular Letter accompanying this Report and Accounts.

The objective of TR Property Investment Trust plc is to maximise shareholders' total returns by investing in property shares and property on an international basis. Approximately 80% of the Company's assets are invested in Pan European listed property securities with the balance in directly owned UK real estate.

## Investment Selection

Our investment selection process seeks to identify well managed companies of all sizes, with a focus on a particular type of real estate business. We generally regard future growth and capital appreciation potential more highly than immediate initial yield or discount to asset value.

## Benchmark

The benchmark is the Schroder Salomon Smith Barney European Property Index in Sterling (the SSSB Index). The benchmark was changed from the FTSE Real Estate Index at the end of September 2001. The SSSB Index, against which the manager's performance is measured by the board, comprises 90 companies and is itself a sub-index of the SSSB Global Property Index, a longstanding and widely used benchmark in the world of real estate securities. The SSSB Index is freefloat based and calculated daily on a price only and total return basis. The Datastream code is SSBPEU£. Further details can be found on the benchmark web site www.ssbgei.com.

## Capital Growth

The net asset value total return of the Company over the past five years has been 77%, equivalent to 12.1% p.a. compound (see graph on page 5). Over the same period the benchmark total return has been 22% (4.1% p.a. compound).

## Income Growth

Over the past five years the dividend has grown by 60%, equivalent to 9.9% p.a. compound.

## Independent Board

The directors are all independent of the management company and meet regularly to consider investment strategy and to monitor performance.

## Shares easy to buy

Details of how the shares can be bought through the Henderson Investment Trust Share Plan and the Henderson ISA are given on the inside back cover.

## Web Site

Information about the Company can be found on our manager's web site (http://its.henderson.com). The web site trproperty.co.uk is under construction and should be available later in the summer.

# Financial Highlights

| | 31 March 2002 | 31 March 2001 | % Change |
|---|---|---|---|
| **Revenue** | | | |
| **Gross revenue (£'000)** | **13,751** | 13,307 | +3.3 |
| **Revenue pre-tax (£'000)** | **9,027** | 8,204 | +10.0 |
| **Revenue per share (fully diluted)** | **1.80p** | 1.54p | +16.9 |
| **Net dividend per share** | **1.65p** | 1.40p | +17.9 |
| **Balance Sheet** | | | |
| **Gross assets (£'000)** | **428,553** | 415,424 | +3.2 |
| **Shareholders' funds (£'000)** | **342,481** | 342,556 | -0.02 |
| **Shares in issue at end of period (m)** | **416.6** | 439.0 | -5.1 |
| **Gearing (%)** | **24** | 19 | |
| **Net asset value per share – basic** | **82.21p** | 78.03p | +5.4 |
| **– fully diluted** | **78.08p** | 73.18p | +6.7 |

# Performance
Assets and Benchmarks

| | 31 March 2002 | 31 March 2001 |
|---|---|---|
| **Benchmark performance (price only)*** | **+1.6%** | +25.5% |
| **NAV (fully diluted) price only return** | **+6.7%** | +29.5% |
| **Benchmark performance (total return)*** | **+4.1%** | +28.8% |
| **NAV (fully diluted) total return*** | **+8.9%** | +32.2% |
| **IPD Monthly Index total return**** | **+7.2%** | +9.1% |
| **Total return from direct property#** | **+12.8%** | +21.3% |

# Performance
Share Price and Warrants

| | 31 March 2002 | 31 March 2001 | % Change |
|---|---|---|---|
| **Share price at 31 March** | **64.75p** | 58.25p | +11.2 |
| **Share price total return†** | **+14.3%** | +31.9% | |
| **Warrant price** | **16.75p** | 12.00p | +39.6 |
| **Market capitalisation at 31 March** | **£270m** | £256m | +5.6 |

Sources: †AITC/*Datastream/#WM Company/**IPD

# Chairman's Statement

Alastair Ross Goobey CBE MA Hon. FIA Hon. RICS *Chairman*
6 June 2002

**Introduction**

I am pleased to report a busy year and one which has again been fruitful in terms of asset and revenue performance. The NAV total return of 8.9% and the share price total return of 14.3% both exceeded the benchmark total return of 4.1%. Revenue earnings have risen 16.9% and the board is recommending a 17.9% increase in the full year dividend.

It was by no means a great year for European property shares per se, but they shone relative to general equities and bonds. Across Europe investors have bought real estate stocks as a counterweight to the uncertainty prevailing in most other equity sectors and to the low income returns from bonds and cash. As a sector specialist Trust the board measures the managers' performance against a real estate index, but it is nevertheless satisfying to note that the total return on the Trust's ordinary shares has beaten the FTSE All Share Index total return by 72% over the last three years and 53% over the last five years.

The board changed the Trust's benchmark from a UK only index to a Pan European index at the end of September 2001, and, by March 2002, Continental equity shareholdings made up almost 30% of our total assets. As the UK quoted property sector is larger than all the Continental country sectors put together, the majority of our assets are likely to remain within the UK. Within our new benchmark, the Continental portion outperformed with a total return of 8.5% versus 2.5% from the UK portion. The widening of the benchmark is providing the managers with greater manoeuvrability and new investment opportunities which I hope will add to our performance potential in years to come.

Our direct property holdings, which remain all within the UK, produced an ungeared total return of 12.8% compared with the IPD Monthly Index total return of 7.2%. Over the last three years our ungeared total return from direct property has been 67% compared with the IPD Index figure of 35%, an outperformance which betters the ungeared returns shown by the majority of UK property companies with their own portfolios over the period.

**Revenue Earnings**

Fully diluted revenue earnings have risen by 16.9% from 1.54p to 1.80p per share. Though gross revenue rose only

# Five Year Performance

**Index of TR Property fully diluted net asset value and share price compared with a composite index comprising the FTSE Real Estate Index (for the period 31 March 1997 to 30 September 2001) and the SSSB European Property Index (for the period 1 October 2001 to 31 March 2002)**

3.3%, net revenue before tax was up by 10.0% partly due to lower costs. Earnings per share growth benefited from the reduction in the number of shares following repurchases. The average yield from Continental European real estate shares is some 2% p.a. higher than from their UK counterparts. Most of these continental investments produced no income for the Trust in our last financial year as their dividends are paid once a year in the April to July period. The managers therefore anticipate that the Trust's dividend income should show a further advance in the current year.

### Dividend

Your board now proposes a final dividend of 1.00p, which, added to the interim dividend of 0.65p already paid, produces a total payment for the year ended 31 March 2002 of 1.65p per share, a 17.9% increase over the total dividends of 1.40p per share paid last year.

### Expiry of the Warrants

Warrant holders will have received with this Annual Report a Circular Letter reminding them that the last date on which they can exercise the warrants is 31 July 2002. Details of the action that holders need to take is set out in this letter. Arrangements have been made for warrants not exercised to be taken up and sold in the market and the proceeds distributed to the relevant holders. Those uncertain of what action to take should consult their financial adviser.

### Share Buy-Backs

The board is seeking renewal of powers at the AGM to buy back ordinary shares. During the last financial year a total of £17.93m was spent buying back just under 23 million shares and just over 26 million warrants, reducing the outstanding number of ordinary shares by 5.2% and the outstanding number of warrants by 31%. The average prices paid were 60.6p for the shares and 15.3p for the warrants. The immediate enhancement to the diluted NAV per share was some 1.2p per share. We have continued to use our buy-back powers judiciously, subject to market conditions in the current year.

### Prospects

Generally across Europe real estate investment demand is much stronger than tenant demand, particularly in office

# Chairman's Statement continued

markets. Buyers are attracted by high initial yields, the stability and transparency of real estate and by the positive spread of rents over borrowing costs. They are also encouraged by a plethora of forecasts which predict an early return of higher levels of tenant demand on the basis of a smooth increase in economic growth over the next two years across Europe.

This outlook is one that the board treats with some scepticism. Two years ago, property was considered the quintessential "old economy" sector: the technology revolution was going to make many of the traditional investment fields obsolete, and the way in which companies occupied business premises was going to change irreversibly. The investing institutions had been reducing their exposure to property shares and direct property investment throughout the 1990s. Today there is a focus on income producing investments, of which property is the most obvious. Many shareholders will be familiar with these violent swings in sentiment, and the fact that the investing institutions are showing renewed interest in the sector is no guarantee of future performance. The institutions have shown themselves past masters at investing via the rear-view mirror, buying what has performed well recently, rather than looking to the future. I believe it is unlikely that the relative performance of the property sector will be as strikingly good over the next two years as it has been over the last two. While the wider geographical spread which we now have gives us greater flexibility, we need to be vigilant. Across Europe strong growth in money supply and low interest rates have fuelled a mini-consumer boom and a frenzy in some residential markets. In several Eurozone countries inflation is now above the ECB base rate. Base rate rises both in the UK and in the Eurozone look likely later in the year. If these increases have to be made while economic growth remains anaemic their consequence may be a setback in both consumer demand and in investor sentiment and they may only serve to defer further the timing of any sustained economic recovery.

**Board**

Grant Cochrane retired from the board during the year, having been a director since 1989 and Chairman since1997. His contribution to the Trust has been immense and his wise counsel much valued. We wish him well in his retirement. Roger Carey and John Barkshire have indicated their desire to retire from the board at the forthcoming AGM, both having served as directors since 1993. Their knowledge of property and financial markets has been of great service to the managers over the last decade and I should like to express the board's grateful thanks for their significant contributions to your Company.

I am delighted to report that invitations to join the board as non-executive directors have been accepted by Caroline Burton and Jeremy Newsum. Caroline was formerly Managing Director of Guardian Asset Management as well as a main board director of Guardian Royal Exchange with responsibility for international investment management. Jeremy is the Chief Executive of Grosvenor, one of Europe's largest privately owned investment and development companies. His other current roles include directorships of property companies in France and Portugal. He is also the immediate past President of the British Property Federation.

**AGM**

On behalf of the board I should like to thank the managers and secretarial staff at Henderson Global Investors for the successful results achieved during the year. The board looks forward to welcoming shareholders to our AGM at 12 noon on 25 July 2002 at 4, Broadgate. As usual there will be a presentation by the manager and light refreshments following the meeting.

# Manager's Report

Chris Turner *Fund Manager*
6 June 2002

When I wrote the interim manager's report last November, markets were in sombre mood. I was cautious about property values, particularly in the London market. I reported that the level of the Trust's borrowings had been reduced and that I had increased the holdings in lightly geared and liquid shares, such as Land Securities. Soon after I wrote that report it became apparent that I was being much too gloomy. Strong demand was returning in investment markets and for property shares as well. Discarding the cautious policy, we bought shares (including our own shares and warrants) and increased our debt so that, at the year end, our borrowings stood at a record level having nearly doubled in the six months since September 2001. These moves greatly assisted us in being able to report a record asset value per share at the year end.

The uncertainty which investors felt last autumn and still feel today towards many equity sectors has revived interest in property shares across Europe. Stocks are primarily rated against independently assessed asset values and not by reference to earnings. Most companies we invest in employ so few people that any pension fund deficit would make very little difference to their value.

# Manager's Report continued

**Changes in Investments**

| | Valuation 2001 £'000 | Purchases £'000 | Sales Proceeds £'000 | Appreciation/ (Depreciation) £'000 | **Valuation 2002 £'000** | % |
|---|---|---|---|---|---|---|
| Direct Property (UK) | 93,323 | 277 | 14,410 | 3,780 | **82,970** | 19.36 |
| UK | 297,600 | 36,711 | 122,614 | 9,746 | **221,443** | 51.67 |
| Belgium | – | 3,762 | 368 | 143 | **3,537** | 0.82 |
| Denmark | – | 2,040 | 288 | (133) | **1,619** | 0.38 |
| France | 7,049 | 26,038 | 1,396 | 650 | **32,341** | 7.55 |
| Germany | – | 2,546 | – | (465) | **2,081** | 0.49 |
| Ireland | 4,550 | – | 1,703 | (12) | **2,835** | 0.66 |
| Italy | – | 4,478 | – | 389 | **4,867** | 1.14 |
| Netherlands | 703 | 39,640 | 807 | 4,368 | **43,904** | 10.25 |
| Spain | 1,592 | 10,267 | 84 | 1,361 | **13,136** | 3.06 |
| Sweden | 2,416 | 12,364 | 1,333 | 1,379 | **14,826** | 3.46 |
| Switzerland | – | 4,390 | – | (270) | **4,120** | 0.96 |
| Continental Europe | 16,310 | 105,525 | 5,979 | 7,410 | **123,266** | 28.77 |
| North America | 7,349 | – | 7,243 | (106) | **-** | - |
| Other | 842 | 259 | 230 | 3 | **874** | 0.20 |
| Total | 415,424 | 142,772 | 150,476 | 20,833 | **428,553** | 100.00 |

Property shares may lack financial sophistication but they have tangible assets, real income and a business that can be clearly understood without a PhD.

Direct property has now become the best performing UK asset class (compared with equities and bonds) on one, three, five and ten year timescales. I hope that the recent surge in interest in property and property shares is not just the sector's "fifteen minutes of fame", but a move towards a long term re-rating of the asset class. Nevertheless property demand does not exist in a vacuum but is reliant on the economy and commercial and residential rents must be paid out of tenants' profits and employees' pay packets.

**Property Market Comment**

In the UK, I have continued to become more cautious of the London office property market. While we expect the London economy to remain vibrant in the medium to long term, the area has the largest exposure of any European city to the finance, telecoms and media industries. These are all sectors of the international economy which are now suffering in employment terms. We have reduced our weightings in stocks with the majority of their portfolios in London offices and sold one of our large office buildings in the capital. London's residential property values have also grown very fast relative to values elsewhere in Europe and the values of three of the Trust's direct property holdings have significantly benefited. I find London house prices to now be at a level that baffles me.

Elsewhere in the UK, shop property demand has recovered from a lethargic three years thanks to the strong consumer spending levels seen since last autumn. The out of town retail warehouse market has remained buoyant and tenant demand continues to be stronger than supply of new space. Office markets around the M25 are quiet and demand very modest. Supply of secondhand space is rising as both the telecom and technology industries retrench.

In Continental Europe, property markets are generally performing to a similar pattern. House prices are rising, though only in Spain are they rising at anything like the rate in the UK, and in East Germany they are still falling. Demand for retail space is stable to good, strongest in out of town locations and weakest in smaller town centres. Office markets are almost all quiet. Demand is noticeably weaker in peripheral and suburban markets than in central business districts, but even here vacancy rates are rising

**Largest Quoted Investments** as at 31 March 2002

The 40 largest quoted investments amount to £301,634,000 or 70% of total investments (convertibles and all classes of equity in any one company being treated as one investment).

| | Market Value £'000 | | Market Value £'000 | | Market Value £'000 |
|---|---|---|---|---|---|
| Land Securities | 26,790 | Vallehermoso (Spain) | 7,066 | Vastned Retail (Netherlands) | 3,718 |
| British Land | 19,148 | Chelsfield | 6,520 | Benchmark | 3,605 |
| Unibail (France) | 16,362 | Corio (Netherlands) | 6,234 | Drott (Sweden) | 3,554 |
| Hammerson | 16,103 | Pillar Properties | 5,372 | Inmobiliaria Colonial (Spain) | 3,340 |
| Slough Estates | 14,820 | Development Securities | 5,184 | Brixton Estate | 3,260 |
| St Modwen Properties | 14,150 | Ashtenne | 5,053 | PSP Swiss Property (Switzerland) | 3,254 |
| Big Yellow Group | 13,915 | Rugby Estates | 4,837 | Derwent Valley | 3,240 |
| Canary Wharf Group | 13,665 | Eurocommercial Properties (Netherlands) | 4,824 | Cofinimmo (Belgium) | 3,004 |
| Liberty International | 11,370 | Klepierre (France) | 4,438 | Simco (France) | 2,898 |
| Helical Bar | 10,468 | Beni Stabili (Italy) | 4,393 | Green Property (Ireland) | 2,835 |
| Rodamco Europe (Netherlands) | 9,716 | Silic (France) | 4,284 | Metrovacesa (Spain) | 2,730 |
| Rodamco North America (Netherlands) | 9,597 | Grainger Trust | 4,250 | Quintain | 2,634 |
| Haslemere (Netherlands) | 8,864 | Great Portland | 3,969 | | |
| Castellum (Sweden) | 8,263 | Compco | 3,907 | | |

and tenants have more bargaining power. Those cities which, like London, saw the strongest demand from technology business in 1998-2000 now have the fastest increases in office vacancy rates – Stockholm, Dublin and Madrid. In Paris the Central Business District is stable as it is in Brussels, where the continued growth of the EU civil service creates its own special demand. New development starts are not a major issue in most markets, though Amsterdam has over 7 million feet or 10% of total stock coming out of the ground now.

**Distribution of Assets and Property Share Activity**

The major activity during the year has been the enlargement of the Continental share section of the portfolio. This grew from 4% of gross assets at the start of the year to 29% at the year end. To make way for this growth, the percentage in UK property shares fell from 71% to 52%, UK directly held property dropped from 22% to 19% and other overseas stocks dropped from 2% to nil. The table on page 8 headed 'Changes in Investments' details the opening and closing valuations in each country together with the purchases, sales and valuation movements. The current target distribution of the portfolio is 35% to 55% in UK equities, 35% to 55% in Continental equities and 10% to 30% in UK direct property.

Last year in summary we raised a net £86m from UK shareholdings, £14m from direct property, £7m from the USA and spent a net £100m in Continental Europe and (omitted from the table) £18m on share and warrant buy-backs.

In the UK the bulk of the sales were aimed at reducing the overweight exposure to the London office market. This position has served us well but is no longer justified on a one to two year outlook. Equally we have been underweight in UK town centre retail for two to three years and the recovery in retailing profits and tenant demand has caused us to reweigh this sector back to its normal level. We were buyers of Liberty International and Land Securities partly on this basis.

Of the £100m net spent on the Continent nearly 40% went into companies based in the Netherlands. The Dutch property companies in which we have invested all have what is termed "BI Status". A company that has this status pays no corporation tax provided it pays out 100% of its

# Manager's Report continued

**Classification of Investments**

| as at 31 March | 2002 £'000 | 2002 % | 2001 £'000 | 2001 % |
|---|---|---|---|---|
| Equities | 340,119 | 79.4 | 315,978 | 76.1 |
| Convertibles | 3,364 | 0.8 | 4,055 | 0.9 |
| Fixed interest | 22 | – | 22 | – |
| Unquoted investments | 1,204 | 0.3 | 1,204 | 0.3 |
| Investment properties | 82,970 | 19.3 | 93,323 | 22.5 |
| Total market value of fixed assets | 427,679 | 99.8 | 414,582 | 99.8 |
| Secured loans to unquoteds | 874 | 0.2 | 842 | 0.2 |
| **Total investments** | 428,553 | 100.0 | 415,424 | 100.0 |

fiscal earnings (usually equivalent to 80% of the commercial earnings). All these Dutch BI companies have yields of between 6% and 11% and many of them hold all or the majority of their assets outside Holland. Further details of four of the companies purchased can be seen on page 15 in the table of our 20 largest equity investments. The graph on page 11 shows the total returns by our benchmark on a country by country basis over the twelve months to end March 2002. Aside from Finland which has only one small listed stock, Dutch companies produced the highest total return in the benchmark last year.

We spent £25m net on French property shares. Half our French portfolio is in Unibail, a company whose management we admire. More details of the business are given on page 14. The two other main holdings in this market are Klepierre, a specialist shopping centre owner, and Silic which has all its investments in Paris industrial and business space. The main shareholding in Sweden is Castellum, and in Spain is Vallehermoso (see page 15).

Areas where we have generally avoided investment are Germany, where the economy is weak and tenant demand likewise, and Switzerland, where there is stability but little growth potential.

**Take-overs, Privatisations and Other Corporate Deals**

The European real estate sector saw six companies taken private in the year to March 2002 involving some £1,500m, a sharp reduction on the £5,000m seen in the previous twelve months. Again we have been fortunate to have significant holdings in three of the companies involved, Asda Properties and BPT, both of which featured in our top twenty investments last March. We also held 4% of Jermyn Investments which was taken over for shares by Real Estate Opportunities Ltd. The shares we received in the latter company were sold at an early date. Recommended bids were outstanding for two more of our top twenty holdings at March 2002 – Rodamco North America and Haslemere.

**Largest Equity Investments**

Despite the significant switch of assets onto the Continent during the year, fourteen of the names in the list of our top twenty equity investments are the same as at March 2001. Brief details of these companies and their recent performances are set out on pages 14 and 15. The new

**Salomon Smith Barney Global Property Equity Index: Total Returns for year to 31 March 2002**

entrants to the list are all continental companies and four are based in Holland giving us the benefit of the high yields available under the BI tax status.

### Gearing

Over the year the Trust's on balance sheet gearing has risen from 19% to 24% with net debt rising from £65.0m to £82.2m. The increase in debt was not spread evenly over the year, indeed in the first half of the year we repaid borrowings as share prices fell, so that at September gearing was 17% and net debt down to £43.5m. When we felt that equilibrium had been re-established in real estate equities after the shocks from 11 September 2001, we borrowed again and at the year end we were using our existing overdraft facilities fully. Our underlying see-through gearing (which takes account of the gearing levels in the companies in whose equity we are invested) has followed a similar pattern with a fall from 90% to around 75% in the first half of the year and a rebound to close to 90% in the second half of the year.

### Currency Exposure

In the period between March and September 2001 we hedged our exposure to the Euro, the Swedish Kroner and the Swiss Franc by borrowing funds in these currencies to pay for our investments on the Continent. Since the end of September these currency loans have been repaid. All our debt is now in Sterling and we hold no forward positions or other hedges against overseas currencies.

### Direct Property Portfolio

Our direct property portfolio produced a total return of 12.8% in the year – well ahead of the return from equities over the period. The income return was 7.8% and we saw a 5.0% appreciation in the value of the portfolio following an external professional valuation at the end of March. No new properties were bought. Just after the end of the half year we sold 30, St James's Street SW1, one of our two largest West End office buildings, for £12.9m compared with a valuation in March 2001 of £13m. At the year end we sold a small office building in Wallington, Surrey for £1.5m compared with a March 2001 valuation of £1.15m.

Active management of the property portfolio has been both fruitful and frustrating. The fruitful gains include obtaining consent for a development of flats in an unused part of a car park we own in Southwark. We hope to sell this site fairly soon. At The Colonnades, buying the freehold has given us unfettered control of the property where we were previously just long leaseholders. This has allowed us to embark on a programme of selling residential lease extensions and to plan the improvement of the commercial element. At Piccadilly we have completed a lengthy series of consultations with interested parties and have now submitted an application for the redevelopment of the site with 90,000 sq ft of offices and shops (compared to the 65,000 sq ft in the existing property).

The major frustration has been at Battersea, where our commercial centre is ripe for redevelopment. This spring we won consent from the local authority for a scheme involving 57 flats and 28,000 sq ft of commercial space. However this approval has been challenged by the Government Office for London and referred to a public inquiry. At both Piccadilly and Battersea we continue to rent out the existing buildings on a short term basis with the two investments now housing some seventy tenants paying the Trust around £1.85m p.a.

### Unquoted Investments

We made no new unquoted investments during the year and the portfolio exposure to this area, including associate loans, remained at 0.5% of gross assets. The only remaining asset of any significance is in Controlrun Ltd, a joint venture investing in petrol filling stations.

### Outlook

Our new financial year has started with our benchmark and our fully diluted NAV per share both rising by 10% before the end of May. While this appreciation is welcome, it is not sustainable. Across Europe discounts are now averaging 15% to headline asset values and 0% to 5% to asset values after contingent tax and expensive debt. This implies that the re-rating of property shares this spring has virtually run its course. Looking forward the dilemma is that a strengthening economy promises higher tenant demand but also higher interest rates so reducing demand for property investments. If the economy remains weak then tenant demand will continue to suffer. I have reduced our borrowings again and am targeting fresh investment towards higher yielding shares. Safe high yielders are scarce in all sectors of the market and should, if well chosen, perform well for the Trust in the coming months.

**See-Through Portfolio by Market (%)***

| | Benchmark Index | **TR Property** |
|---|---|---|
| UK | | |
| City of London offices | 7.9 | **7.3** |
| West End of London offices | 7.3 | **9.7** |
| West End of London retail | 2.1 | **3.0** |
| Docklands | 6.2 | **3.8** |
| Greater London and SE offices | 2.1 | **6.1** |
| Provincial offices | 0.7 | **1.1** |
| In town retail | 8.1 | **9.1** |
| Supermarkets | 1.3 | **1.3** |
| Retail warehouses | 4.0 | **4.0** |
| Out of town retail | 4.8 | **4.3** |
| SE industrials | 4.1 | **9.1** |
| Other industrials | 1.6 | **2.6** |
| Leisure | 0.9 | **0.8** |
| Residential | 1.3 | **3.6** |
| Other | 1.2 | **1.0** |
| Total UK | 53.6 | **66.8** |
| Austria | 0.9 | **–** |
| Belgium | 2.6 | **1.6** |
| Denmark | – | **–** |
| Finland | 0.6 | **0.3** |
| French retail | 3.7 | **3.6** |
| French offices | 6.9 | **4.8** |
| French residential | 2.1 | **1.3** |
| French industrial | 0.5 | **0.4** |
| Germany | 2.2 | **0.4** |
| Irish offices | 0.3 | **0.3** |
| Irish retail | 0.3 | **0.2** |
| Italy | 2.1 | **2.7** |
| Holland business space | 3.0 | **0.4** |
| Holland retail | 2.4 | **3.8** |
| Spain | 5.4 | **5.4** |
| Sweden | 9.0 | **6.6** |
| Switzerland | 2.3 | **0.9** |
| USA | 1.5 | **0.4** |
| Other | 0.6 | **0.1** |
| **Total** | 100.0 | **100.0** |

*Combines the underlying property from the Trust's shareholdings and direct property holdings.

# Manager's Report continued

## Distribution of Investments

| as at 31 March | 2002 £'000 | 2002 % | 2001 £'000 | 2001 % |
|---|---|---|---|---|
| UK Securities – quoted | 220,239 | 51.4 | 296,396 | 71.3 |
| UK Securities – unquoted | 1,204 | 0.3 | 1,204 | 0.3 |
| UK Investment properties | 82,970 | 19.4 | 93,323 | 22.5 |
| UK Total | 304,413 | 71.1 | 390,923 | 94.1 |
| USA | – | – | 7,346 | 1.8 |
| Europe | 123,266 | 28.7 | 16,310 | 3.9 |
| Other areas | – | – | 3 | – |
| Market value of fixed assets | 427,679 | 99.8 | 414,582 | 99.8 |
| Secured loans to unquoteds | 874 | 0.2 | 842 | 0.2 |
| **Total investments** | **428,553** | **100.0** | 415,424 | 100.0 |

## Spread of Direct Portfolio by Capital Value (%)

| as at 31 March 2002 | Office and mixed use | Retail | Industrial and business space | Residential | Total |
|---|---|---|---|---|---|
| West End of London | 39.9 | – | – | – | **39.9** |
| City of London | – | – | – | – | – |
| Around the M25 | 10.4 | – | 30.3 | – | **40.7** |
| Other South East | 4.1 | – | 3.3 | – | **7.4** |
| Remainder of UK | 9.6 | – | – | 2.4 | **12.0** |
| **Total** | 64.0 | – | 33.6 | 2.4 | **100.0** |

## Portfolio Summary

| as at 31 March | 2002 | 2001 | 2000 |
|---|---|---|---|
| Total investments | **£428m** | £415m | £328m |
| Net assets | **£342m** | £343m | £265m |
| UK quoted property shares | **51%** | 71% | 76% |
| Overseas quoted property stocks | **29%** | 6% | 1% |
| Direct property (externally valued) | **19%** | 22% | 20% |
| Unquoted investments (including loans) | **1%** | 1% | 3% |

## Lease Lengths within the Direct Property Portfolio

| as at 31 March 2002 | Gross rental income |
|---|---|
| less than 1 year | 38% |
| 1 to 3 years | 10% |
| 4 to 5 years | 9% |
| 6 to 10 years | 8% |
| 11 to 15 years | 22% |
| Over 15 years | 13% |

# Twenty Largest Equity Investments

The twenty largest equity investments (convertibles and all classes of equity in any one company being treated as one investment) were as follows:

| | Value (£m)<br>% of Gross Assets<br>% of equity owned | **Comment**<br>**Note:** Market caps, yields and share price returns all at end March 2002. |
|---|---|---|
| **1. Land Securities (UK)** | *£26.8m*<br>6.3%<br>0.6% | *Europe's largest quoted property company with an all UK portfolio concentrated on Central London offices (44%), in town retail (33%) and retail warehousing (12%). Recent diversification into property services. Market cap £4,680m. In FTSE 100 Index. Gross yield 4.1%. Five year share price total return of 41%.* |
| **2. British Land (UK)** | *£19.1m*<br>4.5%<br>0.7% | *An investor with virtually 100% of the portfolio in the UK. Main concentrations are in City of London offices (40%) and out of town retail and supermarkets (34%). Gearing is around 90%. Market cap £2,680m. In FTSE 100 Index. Gross yield 2.5%. Five year share price total return of 8%.* |
| **3. Unibail (France)** | *£16.4m*<br>3.8%<br>0.9% | *The largest French quoted property company with an all French portfolio comprising Paris offices (65%), regional shopping centres (30%) and exhibition space (5%). Market cap £1,730m. Gross yield 5.1%. Five year share price total return of 168%.* |
| **4. Hammerson (UK)** | *£16.1m*<br>3.8%<br>1.0% | *A developer and owner of offices in London (35%) and Paris (20%) and of regional shopping centres in the UK (including Brent Cross) and in France. Market cap £1,580m. Gross yield 2.9%. Five year share price total return of 51%.* |
| **5. Slough Estates (UK)** | *£14.8m*<br>3.5%<br>0.9% | *Industrial and business park office owner with a portfolio located principally in the UK around the M4. Slough also develops and invests on the Continent and in the USA. Market cap £1,620m. Gross yield 3.7%. Five year share price total return of 64%.* |
| **6. St Modwen Properties (UK)** | *£14.1m*<br>3.3%<br>8.3% | *A West Midlands based developer and investor with a wide ranging portfolio of higher yielding retail and industrial assets and a large residential and commercial landbank. Market cap £170m. Gross yield 3.9%. Five year total return of 135%.* |
| **7. Big Yellow Group (UK)** | *£13.9m*<br>3.3%<br>10.9% | *A specialist self-storage business floated in 2000. Operating primarily in London and the South East. The business is targeting to move into profit in the 2004 period. Shares recently moved to the main market from AIM. Market cap £127m. No dividend. Share price total return of 390% since the Trust's investment as a start-up in September 1998.* |
| **8. Canary Wharf Group (UK)** | *£13.7m*<br>3.2%<br>0.5% | *Owner and developer of most of the Canary Wharf office centre in the London Docklands where it holds 100% of its assets. In FTSE 100 Index. Market cap £2,790m. No dividend. Share price total return of 38% since flotation in March 1999.* |
| **9. Liberty International (UK)** | *£11.4m*<br>2.7%<br>0.7% | *Specialist developer and owner of regional UK shopping centres including Lakeside at Thurrock and Metrocentre at Gateshead. Market cap £1,620m. Current yield 4.5%. Five year share price total return of 54%.* |
| **10. Helical Bar (UK)** | *£10.5m*<br>2.4%<br>4.4% | *Very active and versatile developer and investor primarily in offices in London and the South East. Current yield 1.8%. Market cap £240m. Five year share price total return of 188%.* |

# Twenty Largest Equity Investments
continued

| | Value (£m)<br>% of Gross Assets<br>% of equity owned | Comment<br>**Note:** Market caps, yields and share price returns all at end March 2002. |
|---|---|---|
| **11. Rodamco Europe (Netherlands)** | *£9.7m*<br>*2.3%*<br>*0.7%* | *This Dutch based tax transparent company is the largest quoted company in the Eurozone. It owns a portfolio of high quality shopping centres mainly in Holland, Sweden, France and Spain. Market cap £2,070m. Yield 5.1%. Share price total return of 11% since flotation in September 1999.* |
| **12. Rodamco North America (Netherlands)** | *£9.6m*<br>*2.2%*<br>*0.7%* | *This Dutch based tax transparent company, a substantial owner of shopping malls in the USA, was the subject of a cash takeover offer at the year end. This bid was completed and the shares delisted at the end of April 2002. Gross yield was 8.1%.* |
| **13. Haslemere (Netherlands)** | *£8.9m*<br>*2.1%*<br>*1.0%* | *A Dutch based tax transparent company owning a mixed portfolio 100% located in the UK. Market cap £920m. Gross yield 5.6%. Since March 2002 the company has been taken over for cash.* |
| **14. Castellum (Sweden)** | *£8.3m*<br>*1.9%*<br>*2.4%* | *Based in Gothenburg, this company owns a higher yielding portfolio primarily located in Central and Southern Sweden. Market cap £340m. Gross yield 5.6%. Five year share price total return of 163%.* |
| **15. Vallehermoso (Spain)** | *£7.1m*<br>*1.7%*<br>*0.9%* | *The largest quoted Spanish property investment and development company, which also owns and operates a substantial housebuilding business. Market cap £810m. Gross yield 2.4%. Five year share price total return of 42%.* |
| **16. Chelsfield (UK)** | *£6.6m*<br>*1.5%*<br>*0.8%* | *Investor and developer of large scale UK projects including Merryhill Shopping Centre, Paddington Basin and White City. Owns Global Switch, a troubled telehousing business. Market cap £850m. Dividend yield 1.6%. Five year share price total return of 5%.* |
| **17. Corio (Netherlands)** | *£6.2m*<br>*1.5%*<br>*0.6%* | *Dutch based owner of shops and shopping malls in Holland, France, Spain and Italy. Market cap £1,060m. Gross yield 8%. Five year share price total return of 115%.* |
| **18. Pillar Properties (UK)** | *£5.4m*<br>*1.3%*<br>*1.0%* | *Owns, develops and asset manages prime out of town retail warehouse parks in the UK. Recently announced major return of capital to shareholders. Market cap £530m. Gross yield 2.2%. Five year share price total return of 94%.* |
| **19. Development Securities (UK)** | *£5.2m*<br>*1.2%*<br>*4.8%* | *Investor and developer concentrating on major office schemes forward sold to institutional investors. Currently developing a major office complex at Paddington. Market cap £110m. Dividend yield 1.3%. Five year share price total return of 75%.* |
| **20. Ashtenne (UK)** | *£5.1m*<br>*1.2%*<br>*3.0%* | *Floated in 1997, Ashtenne owns and active manages high yielding industrial property in the UK. During 2001, the bulk of its assets were sold into a JV with CGNU. Market cap £170m. Gross yield 3.8%. Share price total return of 123% since flotation in June 1997.* |

Five year share price total returns are from Datastream using the period ended 31 March 2002.

# Principal Investment Properties as at 31 March 2002

<table>
<tr><th>Value in excess of £5 million</th><th>Property</th><th>Sector</th><th>Tenure</th><th>Size (sq ft)</th><th>Principal tenants</th></tr>
<tr><td></td><td>198/202 Piccadilly and<br>32/34 Jermyn Street<br>London W1</td><td>West End Offices<br>and Retail</td><td>Leasehold<br>84 years from 1949</td><td>Offices 37,000<br>Retail 28,000</td><td>Daks Simpson<br>Boots the Chemist<br>Bradford & Bingley</td></tr>
<tr><td></td><td colspan="5">The Group's largest direct property investment is located on the south side of Piccadilly adjacent to the Waterstones book store. An application for the total redevelopment of the property was submitted shortly after the year end. The proposal is for a mixed retail and office development of 10,500m². The planning determination process will continue into 2003. In the interim we are maximising the short term income.</td></tr>
<tr><td></td><td>Elizabeth House<br>Duke Street<br>Woking, Surrey</td><td>Offices</td><td>Freehold</td><td>54,150</td><td>Gallaher</td></tr>
<tr><td></td><td colspan="5">Located in the centre of Woking, the building is let for 99 years from 1982 with five yearly upwards only rent reviews to approximately two-thirds of rental value. The property is sublet to TM Group plc until 2023.</td></tr>
<tr><td></td><td>The Colonnades<br>Bishops Bridge Road<br>London W2</td><td>Mixed<br>Use</td><td>Freehold</td><td>44,000<br>200 space car park<br>242 residential units</td><td>NCP; Pizza Express<br>Scottish & Newcastle<br>Bishops Stores Ltd</td></tr>
<tr><td></td><td colspan="5">The freehold interest was purchased from Westminster City Council in April 2001. We are now able to offer our residential tenants extensions to their leases and the first extension was granted shortly after the year end. The supermarket operator has surrendered 350m² of surplus storage space which will be converted into office accommodation.</td></tr>
<tr><td></td><td>Cambridge Science Park<br>Cambridge</td><td>Offices</td><td>Leasehold<br>125 years from 1987</td><td>38,500</td><td>Worldpay Ltd</td></tr>
<tr><td></td><td colspan="5">Acquired in February 2001, this property was built in 1989 and extensively refurbished in 2000. Worldpay Ltd have a 15 year lease from December 2000. The tenant has sublet part of the property.</td></tr>
<tr><td></td><td>Southbank Commercial Centre<br>Battersea Park Road<br>London SW11</td><td>Light Industrial<br>and Offices</td><td>Freehold</td><td>49,000</td><td>Various</td></tr>
<tr><td></td><td colspan="5">Our application to redevelop this property for a mixed residential and commercial scheme received the full support of Wandsworth Borough Council in August. However, the application was 'called in' for comment by the Government Office for London and it is now the subject of a Public Inquiry.</td></tr>
<tr><td></td><td>HQ3, Hook Rise,<br>Tolworth, Surrey</td><td>Warehousing</td><td>Freehold</td><td>56,100</td><td>World Investor Link<br>Zebra Pens Ltd</td></tr>
<tr><td></td><td colspan="5">Acquired in February 1998 and located adjacent to the A3 trunk road, these three units were constructed in 1985, and have a higher than average office content. The rent review on unit 2 was concluded satisfactorily.</td></tr>
</table>

# Principal Investment Properties as at 31 March 2002 continued

**Value between £2 million and £5 million**

| Property | Sector | Tenure | Size (sq ft) | Principal tenants |
|---|---|---|---|---|
| **The Quay, Ocean Village Southampton** | **Offices** | **Virtual Freehold** | **23,150** | **Pricewaterhouse-Coopers** |

Purchased in October 1997, this high quality office building has good parking and overlooks the principal marina in Southampton's regenerated docklands. PricewaterhouseCoopers have a lease until 2013 with a tenant's only break in October 2003. The adjacent site is currently being developed for high quality residential units. This will complete the regeneration of Southampton's premier marina.

| | | | | |
|---|---|---|---|---|
| **268 London Road, Staines** | **Car Showroom** | **Freehold** | **23,000** | **Polar Motor Group Ltd** |

Bought in August 2000, this 1.6 acre site has good frontage and visibility to the A30 London Road. The lease has been assigned to a new Ford dealership. The lease is 25 years from August 2000. The tenant has recently completed the re-roofing of the entire property.

| | | | | |
|---|---|---|---|---|
| **Unit 3, Interface Business Park Wootton Bassett** | **Industrial** | **Freehold** | **20,000** | **Optical Micro Devices Ltd** |

Let to OMD Ltd, this industrial unit has an office content of over 20%. The tenant has installed a state-of-the-art semi-conductor wafer foundry within the unit. The last vacant unit on this estate has recently been let.

| | | | | |
|---|---|---|---|---|
| **Ferrier Street Industrial Estate, Ferrier Street, Wandsworth SW18** | **Industrial** | **Freehold** | **38,500** | **Wandsworth Borough Council** |

Let to Wandsworth Borough Council at 80% of open market value. This estate is fully sublet to 14 tenants. The Council has an option to take another 25 year lease in 2008. New sublettings on this estate have taken the rental values to new record highs.

| | | | | |
|---|---|---|---|---|
| **Tavern Quay Commercial Centre Rope Street, London SE16** | **Light Industrial and Offices** | **Freehold** | **20,500** | **Various** |

This purpose built business centre has 26 tenants and is fully let. During the year, planning permission was obtained for the construction of 12 residential units on an underutilised part of the site. This area will be sold to a residential developer following completion of minor enabling works.

**Value at under £2 million**

At 31 March 2002 the Group owned 4 further properties with individual values of under £2 million. They are located in Addlestone, London W2, Swanley and Weybridge. Their aggregate value was £4.4 million.

# Directors

A Ross Goobey CBE MA Hon. FIA
Hon. RICS
Chairman

R R St J Barkshire CBE TD JP DL ACIB

C M Burton MA

R W Carey FRICS

J Newsum FRICS

P L Salsbury BSc

R A Stone MA FCA

# Managers

C M Turner MRICS

J L Elliott ACA

M A Phayre-Mudge MRICS

J S Ellman-Brown ACIS

# Directors continued

**Alastair Ross Goobey**, age 56, joined the Board in 1994 and was appointed Chairman on 1 January 2002. He is President of the Investment Property Forum and was, until 31 December 2001, Chief Executive of Hermes Pensions Management Limited.

**John Barkshire**, age 66, was Chairman and Chief Executive of Mercantile House Holdings plc from 1972 to 1987 and Chairman of Liffe from 1982 to 1985. He was a non executive Director of Sun Life and Provincial Holdings PLC until December 2000. He joined the Board in 1993, but will be retiring at the AGM in July.

**Caroline Burton**, age 52, was Managing Director of Guardian Asset Management from 1987 to 1999 and a Director of Guardian Royal Exchange from 1990 to 1999. She joined the Board of TRPIT in June 2002.

**Roger Carey**, age 57, is Chief Executive of Saville Gordon Estates plc and a past President of the British Property Federation. He joined the Board in 1993, but will be retiring at the AGM in July.

**Jeremy Newsum**, age 47, is Group Chief Executive of Grosvenor and a Trustee of the Grosvenor Trusts. He is also a Director of Societe Fonciere Lyonnaise (France) and Sonae Imobiliaria (Portugal) and a member of CapitaLand's International Advisory Panel. He was President of the British Property Federation for the year 2001/2002. He joined the Board in June 2002.

**Peter Salsbury**, age 52, was Chief Executive of Marks and Spencer plc. He joined the Board in 1997.

**Richard Stone**, age 59, was Deputy Chairman of Coopers and Lybrand in 1998 and a member of the Global Board of PricewaterhouseCoopers until he joined the TRPIT Board in 2000. He is Chairman of Shearings Group Limited and a non-executive director of Halma plc and British Nuclear Fuels plc. He is Chairman of the Audit Committee.

All directors are independent of the manager and are members of the Audit and Management Engagement Committees.

**Chris Turner**, age 56, has been the Fund Manager since 1995, when he joined Henderson following a career in the City as a property share analyst. He qualified as a Chartered Surveyor in 1970.

**Jo Elliott**, age 40, qualified with Ernst & Young, became an investment analyst with Heron Corporation plc and then Corporate Finance Manager with SPP. LET prior to joining Henderson in 1995. She is finance manager for the TR Property Group.

**Marcus Phayre-Mudge**, age 34, qualified as a Chartered Surveyor in 1992. He joined Henderson in January 1997 from Knight Frank where he was an Associate Partner in fund management. He specialises in direct property investment.

**John Ellman-Brown**, age 43, is the appointed representative of Henderson Secretarial Services Ltd, the Corporate Secretary.

# Report of the Directors

The directors present the audited accounts of the Group and their report for the year ended 31 March 2002. The Group comprises TR Property Investment Trust plc ("the Company") and a number of subsidiaries.

**Status, Principal Activities and Business Review**

The Company is an investment company, as defined in Section 266 of the Companies Act 1985, and operates as an investment trust in accordance with Section 842 of the Income and Corporation Taxes Act 1988. It is required to seek Inland Revenue approval of its status as an investment trust under the above-mentioned Section 842 every year, and this approval will continue to be sought. Inland Revenue approval of the Company's status as an investment trust has been received in respect of the year ended 31 March 2001. The directors are of the opinion that the Company has subsequently conducted its affairs in a manner which will enable it to continue to gain such approval. The Company has no employees and the 'close company' provisions do not apply.

A review of the business is given in the Chairman's Statement on pages 4 to 6 and the Manager's Report on pages 7 to 13.

**Annual General Meeting**

The Annual General Meeting (AGM) will be held on Thursday 25 July 2002 at 12 noon. The Notice of Meeting is set out on page 43 and an explanation of the business to be conducted is given on page 44.

**Dividends**

An interim dividend of 0.65p per share was paid on 8 January 2002.

The directors recommend the payment of a final dividend of 1.00p per share. Subject to approval at the AGM, the dividend will be paid on 29 July 2002 to shareholders on the register at 28 June 2002. The shares will be quoted ex-dividend from 26 June 2002.

The total dividend for the year is, therefore, 1.65p per share.

**Investments**

The fully diluted net asset value per share, after deducting prior charges at par, was 78.08p compared with the net asset value per share of 73.18p on 31 March 2001. Details of the investments are shown within the Manager's Report on pages 7 to 13.

**Property Valuation**

Valuations of all the Group's properties as at 31 March 2002 have been carried out by external independent valuers. These valuations have been adopted in the accounts. Details of the valuers and changes in fixed assets are shown in notes 12 and 13 to the accounts.

**Directors**

The names and biographies of the directors holding office at the date of this report are listed on page 19. All these directors served throughout the year with the exceptions of Ms C M Burton and Mr J Newsum who were appointed as new directors on 6 June 2002. Both retire in accordance with the Articles of Association and, being eligible, offer themselves for election at the forthcoming AGM.

The Articles of Association require that every director retires by rotation at least every three years. They may then offer themselves for re-election. The directors retiring by rotation at the forthcoming AGM are Mr R R St J Barkshire and Mr R W Carey. Neither director is seeking re-election.

Mr W G Cochrane, the previous Chairman, retired from the board on 31 December 2001.

**Directors' Interests in Shares and Warrants**

| | Ordinary Shares of 25p | | Warrants | |
|---|---|---|---|---|
| | **31 March 2002** | 31 March 2001 | **31 March 2002** | 31 March 2001 |
| R R St J Barkshire | **35,000** | 35,000 | **5,936** | 5,936 |
| R W Carey | **5,000** | 5,000 | **1,000** | 1,000 |
| W G Cochrane | **73,374*** | 73,374 | **–*** | – |
| A Ross Goobey | **11,026** | – | **–** | – |
| P L Salsbury | **10,000** | 10,000 | **–** | – |
| R A Stone | **30,000** | 5,000 | **–** | – |

*as at date of retirement.

The interests of the directors in the ordinary shares and warrants of the Company at the beginning and end of the year are shown in the table above. All interests are beneficial. There have been no changes in the directors' interests in the ordinary shares or warrants between the end of the financial year and the date of this report, with the exception of Mr Barkshire who sold his entire holding of warrants on 22 May 2002.

To date, neither Ms Burton nor Mr Newsum have any interests in the share capital or warrants of the Company.

There were no contracts subsisting during or at the end of the year in which a director of the Company is or was materially interested and which is or was significant in relation to the Company's business.

No director has a service contract with the Company.

**Payment of Suppliers**

It is the Company's payment policy for the current financial year to obtain the best possible terms for all business. The Company agrees with its suppliers the terms on which business will take place and it abides by these terms. There were no trade creditors at 31 March 2002.

**Manager and Company Secretary**

Investment management, accounting, secretarial, administrative and UK custodial services are provided to the Group by wholly owned subsidiary companies of Henderson Global Investors (Holdings) plc.

The management contract provides for a notice period of one year. With effect from 1 April 2000, the board agreed with Henderson Global Investors new fee arrangements. The base fee is 0.70% p.a. and is calculated half yearly at the rate of 0.35% of the Group Equity Shareholders' Funds as at 30 September and 31 March.

The board has also agreed a performance fee based on the Group's total return compared to the total return of the benchmark plus a hurdle of 2% over the accounting period. The fee is calculated at 15% of the difference between the Group Equity Shareholders' Funds at 31 March each year and the theoretical increase in those funds had they been invested in the Company's benchmark plus the hurdle of 2%. The fee is capped at 1% of the relevant Group Equity Shareholders' Funds. If, in any period, the Company's total investment return under performs its benchmark, no performance fee will become payable in subsequent periods until such under performance has been made good in full. To the extent that there is any unpaid performance fee over and above the capped amount then the unutilised performance may be carried forward. The performance carried forward may only be used to offset under performance and not enhance outperformance. The carry forward only lasts to the next fee review. The Group Equity Shareholders' Funds will be adjusted to compensate for share and warrant repurchases and issues and to measure performance before the deduction of the base fee but after all other expenses.

On the basis of the board's expected long-term split of returns, in the form of capital gains and income in equal proportions, the Group charges 50% of its interest payable and management fee (as far as it relates to the maintenance of or enhancement in the value of investments) to capital. All performance fees are charged to capital.

**Corporate Governance**

A statement on Corporate Governance is given on pages 23 and 24.

**Share Capital Changes**

At 31 March 2001 the Company had 438,988,893 ordinary shares and 82,887,721 warrants in issue. During the year to 31 March 2002 the Company has made market purchases for cancellation of 22,995,000 ordinary shares and 26,053,500 warrants. The aggregate consideration paid by the Company for the ordinary shares was £13,945,000 and £3,986,000 for the warrants.

There was also an exercise of 605,780 warrants into the same number of ordinary shares on 31 July 2001.

The number of ordinary shares and warrants in issue on 31 March 2002 was 416,599,673 and 56,228,441 respectively.

Since 1 April 2002 and up to the date of this document the Company has made further purchases for cancellation of 29,076,338 warrants for a consideration of £6,845,000. No further ordinary shares have been purchased.

# Report of the Directors continued

The Company is seeking to renew the power to make market purchases of ordinary shares for cancellation at the AGM.

### Substantial Share Interests

| Shareholder | % of issued shares |
|---|---|
| BT Pension Scheme | 10.55 |
| Legal & General Investment Management | 3.59 |
| Prudential Assurance Co | 3.40 |

Declarations of notifiable interests in the issued share capital of the Company, at 31 May 2002, are set out above.

### Warrant Terms

The warrants give holders the right to subscribe for ordinary shares at a subscription price of 47.5p per share on 31 July 2002. This is the final opportunity for holders to exercise this right before the warrants expire.

### ISAs/PEPs

The Company has conducted its affairs, and will continue to conduct its affairs, in such a way as to comply with the Individual Savings Accounts and Personal Equity Plan Regulations.

### Shareholder Information

Further information on the Company can be found on pages 45 to 48.

### Going Concern

The directors believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts as the assets of the Company consist mainly of securities which are readily realisable and, accordingly, it has adequate financial resources to continue in operational existence for the foreseeable future.

### Registered Auditor

A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

By order of the Board

J S Ellman-Brown ACIS
For and on behalf of
Henderson Secretarial Services Limited
Secretary
6 June 2002

# Statement of Directors' Responsibilities

in respect of the Accounts

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

The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the accounts for the year ended 31 March 2002. The directors also confirm that applicable accounting standards have been followed and that the accounts have been prepared on a going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Corporate Governance

**Background**
The UK Listing Authority requires all listed companies to disclose how they have applied the principles and complied with the provisions of the Combined Code ("the Code").

**Application of the Code's Principles**
The board attaches great importance to the matters set out in the Code and observes its principles. It should be noted that, as an investment trust, most of the Company's day to day responsibilities are delegated to third parties and the directors are all non-executive. Thus not all the provisions of the Code are directly applicable to the Company.

**The Board and Committees**
The board currently consists of seven non-executive directors, all of whom are independent of the Company's investment manager. Their biographies, set out on page 19, demonstrate a breadth of investment, property and professional experience.

The board meets six times a year and deals with the important aspects of the Company's affairs, including the setting and monitoring of investment strategy and the review of investment performance. Between these meetings there is regular contact with the investment manager. The investment manager takes decisions as to the purchase and sale of individual investments within certain limits prescribed by the board. The investment manager also ensures that all directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of the investment manager attend each board meeting enabling directors to probe further on matters of concern or seek clarification on certain issues. Matters specifically reserved for decision by the full board have been defined and a procedure adopted for directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company. The directors have access to the advice and services of the Corporate Company Secretary (through its appointed representative) who is responsible to the board for ensuring that board procedures are followed and that applicable rules and regulations are complied with.

The Chairman of the Company is a non-executive director. A senior non-executive director has not been identified as the board considers that all the directors have different qualities and areas of expertise on which they may lead where issues arise and to whom concerns can be conveyed.

When a director is appointed he or she receives an induction briefing which is held by the investment manager. Changes in directors' responsibilities are advised as they arise.

The board has not established a nominations committee to make recommendations on the appointment of new directors as it considers itself to be a small board. The board as a whole considers nominations made in accordance with an agreed procedure. In accordance with the AITC recommendation, a management engagement committee, with defined terms of reference, has been established. This consists of all the independent non-executive directors and meets when necessary to review and discuss the terms of the appointment of the investment manager. There is also an audit committee consisting of all the independent non-executive directors with defined terms of reference. This committee is responsible for review of the annual accounts and interim report, terms of appointment of the auditors together with their remuneration as well as the non-audit services provided by the auditors. It also meets with representatives of the investment manager and receives reports on the quality and effectiveness of the accounting records and management information maintained on behalf of the Company.

In accordance with the Articles of Association new directors stand for election at the first Annual General Meeting following their appointment and then at every third Annual General Meeting.

**Directors' Remuneration**
The board as a whole considers directors' remuneration and therefore has not appointed a separate remuneration committee. As the Company is an investment trust and all directors are non-executive, the Company is not required to comply with the principles of the Code in respect of executive directors' remuneration. Directors' fees are detailed in note 8 to the Accounts.

**Accountability and Audit**
The Statement of Directors' Responsibilities in respect of the Accounts is set out on page 22 and the Report of the Independent Auditors on page 25. The board has delegated contractually to external agencies, including the manager, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the day to day accounting, company secretarial

# Corporate Governance continued

and administration requirements and the registration services. Each of these contracts was entered into after full and proper consideration by the board of the quality and cost of the services offered, including the control systems in operation in so far as they relate to the affairs of the Company. The board receives and considers regular reports from the manager and ad hoc reports and information are supplied to the board as required. In addition, the Chairman attends meetings of all the chairmen of the investment trust companies managed by the manager; these meetings provide a forum to discuss industry matters and the Chairman reports on them to the board.

The manager has established an internal control framework to give reasonable assurance on the effectiveness of the internal controls operated on behalf of its clients. The effectiveness of these controls is assessed by the manager's compliance and risk department on an ongoing basis.

**Internal Control**

The board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process is subject to regular review by the board and accords with the Internal Control Guidance for Directors on the Combined Code published in September 1999 ("the Turnbull guidance"). The process was fully in place from June 2000 and up to the date of approval of this annual report. During the earlier months of 2000 the board's review of the measures necessary to implement the Turnbull guidance was being finalised. The board is responsible for the Company's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risks of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The board, assisted by the manager, undertook a full review of the Company's business risks and these are analysed and recorded in a risk map. The board receives each quarter from the manager a formal report which details the steps taken to monitor the areas of risk, including those that are not directly the responsibility of the manager, and which reports the details of any known internal control failures. Steps will continue to be taken to embed the system of internal control and risk management into the operations and culture of the Company and its key suppliers.

The Company does not have an internal audit function; it delegates to third parties most of its operations and does not directly employ any staff. The board will continue to monitor its system of internal control in order to provide assurance that it operates as intended and the directors will review from time to time whether a function equivalent to an internal audit is needed.

**Exercise of Voting Powers**

The Company has approved a corporate governance voting policy which accords with current best practice whilst maintaining a primary focus on financial returns.

**Relations with Shareholders**

The investment manager has a programme of meetings with institutional shareholders and reports back to the board on these meetings.

The board is very conscious that the Annual General Meeting is an event which private shareholders are encouraged to attend and participate in. The investment manager makes a presentation to the meeting and proxy votes are relayed. The Company has adopted a nominee share code which is set out on page 47.

The board has arranged for twenty working days' notice of the Annual General Meeting to shareholders as required under Code Provision C.2.4.

The Notice of Meeting sets out the business of the meeting and the special resolution is explained more fully in the Report of the Directors and in the Explanation of the Notice of Meeting on pages 43 and 44. Separate resolutions are proposed for each substantive issue.

**Environmental Policy**

The Company has adopted an environmental policy in respect of its investments. The annual statements of the companies in which it invests are reviewed and their environmental statement considered. In respect of the direct property portfolio, there is an environmental assessment prior to purchase to identify possible contamination or materials considered environmentally harmful. Remedial action is taken where appropriate. Tenants are encouraged to pursue their own environmental procedures.

**Statement of Compliance**

The directors consider that the Company has complied throughout the year ended 31 March 2002 with all the relevant provisions set out in section 1 of the Code.

# Report of the Independent Auditors

to the members of TR Property Investment Trust plc

We have audited the Group's accounts for the year ended 31 March 2002 which comprise the Group Statement of Total Return, Group and Company Balance Sheets, Group Cash Flow Statement and the related notes 1 to 28. These accounts have been prepared on the basis of the accounting policies set out therein.

**Respective Responsibilities of Directors and Auditors**

The directors' responsibilities for preparing the Annual Report and the accounts in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, 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 with the Group is not disclosed.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises Highlights of the Year, Profile, Financial Highlights and Performance Information, Chairman's Statement, Manager's Report, Twenty Largest Equity Investments, Principal Investment Properties, Report of the Directors and Corporate Governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

**Basis of Audit Opinion**

We conducted our audit in accordance with United Kingdom 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group'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 accounts 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 accounts.

**Opinion**

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2002 and of the total return of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London
6 June 2002

# Group Statement of Total Return

(Incorporating the Revenue Account) for the year ended 31 March 2002

| Notes | | Year ended 31 March 2002 Revenue £'000 | Year ended 31 March 2002 Capital £'000 | Year ended 31 March 2002 Total £'000 | Year ended 31 March 2001 Revenue £'000 | Year ended 31 March 2001 Capital £'000 | Year ended 31 March 2001 Total £'000 |
|---|---|---|---|---|---|---|---|
| 2 | Total capital gains from investments | – | **20,129** | **20,129** | – | 91,408 | 91,408 |
| 18 | Repurchase of warrants | – | **(3,986)** | **(3,986)** | – | (970) | (970) |
| 3 | Investment income | **7,502** | – | **7,502** | 7,713 | – | 7,713 |
| 4 | Net rental income | **5,869** | – | **5,869** | 5,139 | – | 5,139 |
| | | **13,371** | **16,143** | **29,514** | 12,852 | 90,438 | 103,290 |
| 5 | Interest receivable and similar income | **380** | – | **380** | 455 | – | 455 |
| | **Gross revenue and capital gains** | **13,751** | **16,143** | **29,894** | 13,307 | 90,438 | 103,745 |
| 6 | Management and performance fees | **(1,687)** | **(2,155)** | **(3,842)** | (1,546) | (3,696) | (5,242) |
| 7, 8 | Other administrative expenses | **(558)** | – | **(558)** | (949) | – | (949) |
| | **Net return on ordinary activities before interest payable and taxation** | **11,506** | **13,988** | **25,494** | 10,812 | 86,742 | 97,554 |
| 9 | **Interest payable and similar charges** | **(2,479)** | **(2,479)** | **(4,958)** | (2,608) | (2,608) | (5,216) |
| | **Net return on ordinary activities before taxation** | **9,027** | **11,509** | **20,536** | 8,204 | 84,134 | 92,338 |
| 10 | **Taxation on net return on ordinary activities** | **(1,080)** | **1,059** | **(21)** | (1,123) | 782 | (341) |
| | **Net return on ordinary activities after taxation** | **7,947** | **12,568** | **20,515** | 7,081 | 84,916 | 91,997 |
| | Equity minority interests | – | – | – | (12) | – | (12) |
| | **Net return attributable to ordinary shares** | **7,947** | **12,568** | **20,515** | 7,069 | 84,916 | 91,985 |
| | **Ordinary dividends** | | | | | | |
| | Interim of 0.65p (2001: 0.55p) | **(2,766)** | – | **(2,766)** | (2,431) | – | (2,431) |
| | Final of 1.00p (2001: 0.85p) | **(4,166)** | – | **(4,166)** | (3,653) | – | (3,653) |
| | | **(6,932)** | – | **(6,932)** | (6,084) | – | (6,084) |
| | **Transfer to reserves** | **1,015** | **12,568** | **13,583** | 985 | 84,916 | 85,901 |
| 11 | **Return per ordinary share** | | | | | | |
| | Basic | **1.86p** | **2.94p** | **4.80p** | 1.58p | 19.03p | 20.61p |
| | Fully diluted | **1.80p** | **2.84p** | **4.64p** | 1.54p | 18.52p | 20.06p |

The revenue columns of this statement represent the revenue accounts of the Group.

All revenue and capital items in the above statement derive from continuing operations.

The notes on pages 29 to 42 form part of these accounts.

# Group and Company Balance Sheets

as at 31 March 2002

| Notes | | Group 2002 £'000 | Group 2001 £'000 | Company 2002 £'000 | Company 2001 £'000 |
|---|---|---|---|---|---|
| 12, 13, 14 | **Fixed asset investments** | **427,679** | 414,582 | **418,876** | 398,854 |
| | **Current assets** | | | | |
| 15 | Debtors | **7,049** | 8,089 | **5,136** | 7,032 |
| | Cash at bank and short term deposits | **901** | 1,351 | **51** | 272 |
| | | **7,950** | 9,440 | **5,187** | 7,304 |
| 16 | **Creditors** – amounts falling due within one year | | | | |
| | Bank loans and overdrafts | **42,932** | 26,127 | **42,911** | 26,127 |
| | Other creditors | **10,028** | 15,158 | **38,421** | 37,225 |
| | | **52,960** | 41,285 | **81,332** | 63,352 |
| | **Net current liabilities** | **(45,010)** | (31,845) | **(76,145)** | (56,048) |
| | **Total assets less current liabilities** | **382,669** | 382,737 | **342,731** | 342,806 |
| 16 | **Creditors** – amounts falling due after more than one year | **40,188** | 40,181 | **250** | 250 |
| | **Total net assets** | **342,481** | 342,556 | **342,481** | 342,556 |
| | **Capital and reserves** | | | | |
| 17 | Called up share capital | **104,150** | 109,747 | **104,150** | 109,747 |
| 18 | Share premium | **30,111** | 28,538 | **30,111** | 28,538 |
| 18 | Warrant reserve | **3,031** | 4,469 | **3,031** | 4,469 |
| 19 | Other reserves | **189,383** | 185,011 | **196,793** | 191,499 |
| 19 | Revenue reserve | **15,806** | 14,791 | **8,396** | 8,303 |
| 21 | **Equity shareholders' funds** | **342,481** | 342,556 | **342,481** | 342,556 |
| 21 | **Net asset value per share** – basic | **82.21p** | 78.03p | **82.21p** | 78.03p |
| | – fully diluted | **78.08p** | 73.18p | **78.08p** | 73.18p |

These accounts were approved by the directors on 6 June 2002

A Ross Goobey – Director

The notes on pages 29 to 42 form part of these accounts.

# Group Cash Flow Statement

for the year ended 31 March 2002

| Notes | | 2002 £'000 | 2002 £'000 | 2001 £'000 | 2001 £'000 |
|---|---|---|---|---|---|
| 22 | **Net cash inflow from operating activities** | | **6,811** | | 8,983 |
| | **Returns on investments and servicing of finance** | | | | |
| | Interest paid | **(5,050)** | | (5,168) | |
| | **Net cash outflow from servicing of finance** | | **(5,050)** | | (5,168) |
| | **Taxation recovered** | | **461** | | 162 |
| | **Capital expenditure and financial investment** | | | | |
| | Purchase of investments | **(146,766)** | | (129,510) | |
| | Sale of investments | **152,024** | | 136,578 | |
| | **Net cash inflow from financial investment** | | **5,258** | | 7,068 |
| | **Equity dividends paid** | | **(6,419)** | | (6,066) |
| | **Net cash inflow before financing** | | **1,061** | | 4,979 |
| | **Financing** | | | | |
| | Issue of shares | **287** | | 126 | |
| | Purchase of own shares | **(13,945)** | | (8,639) | |
| | Purchase of own warrants | **(3,986)** | | (970) | |
| | Purchase of minority interests | – | | (535) | |
| | Bank loans repaid | – | | (2,588) | |
| | **Net cash outflow from financing** | | **(17,644)** | | (12,606) |
| 23 | **Decrease in cash** | | **(16,583)** | | (7,627) |

The notes on pages 29 to 42 form part of these accounts.

# Notes to the Accounts

1 **Accounting policies**

**(a) Basis of preparation**

The accounts are prepared on the historical cost basis of accounting, modified to include the revaluation of investment properties and fixed asset investments. The accounts have been prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice – "Financial Statements of Investment Trust Companies" (the "SORP"). All of the Group's operations are of a continuing nature.

**(b) Basis of consolidation**

The Group accounts consolidate the accounts of the Company and its subsidiary undertakings to 31 March 2002.

Undertakings, other than subsidiary undertakings, in which the Group has an investment representing 20% or more of the voting rights and over which it exerts significant influence, are treated as associated undertakings. The Group accounts include the appropriate share of the results and reserves of these undertakings based on the latest available accounts. Other undertakings, in which the Group has an investment representing 20% or more of the voting rights but where the directors consider that the Group does not exert significant influence, are not treated as associated undertakings and are accounted for as investments.

**(c) Properties**

Properties held by subsidiary undertakings for dealing are treated as current assets and are included in the balance sheet at the lower of cost and market value.

Properties held for long term investment are treated as follows:

(i) they are revalued annually and the aggregate surplus or deficit is transferred to/from non-distributable reserves; and

(ii) no depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties where the unexpired lease term is 20 years or more. The directors consider that this accounting policy is necessary for the accounts to give a true and fair view. Depreciation is only one of the factors reflected in the valuation, and the amount which might otherwise have been shown cannot be separately identified or quantified.

The purchase and sale of properties is recognised to be effected on the date unconditional contracts are exchanged.

**(d) Fixed asset investments**

Fixed asset investments are valued at middle market prices. Unlisted investments are included at directors' valuation, which is based on current market prices, trading conditions and the general economic climate. Where no active market exists for shares listed on inactive exchanges the directors' valuation policy is used.

The Company's investments in subsidiary undertakings are revalued annually to the Company's share of the net assets of those undertakings.

**(e) Capital gains and losses**

Realised and unrealised capital gains and losses on investments, together with exchange differences arising on the translation of foreign currency assets and liabilities, are dealt with in the non-distributable reserves.

### (f) Income

Dividend income from equity shares is recognised on an ex-dividend basis and income from fixed interest debt securities and preference shares is recognised on a time apportionment basis and, if material, so as to reflect the effective yield on each such security. Interest receivable is accounted for on an accruals basis.

### (g) Expenses and interest payable

On the basis of the board's expected long-term split of returns in the form of capital gains and income in equal proportions, the Group charges 50% of its interest payable and management fee (as far as it relates to the maintenance or enhancement of the value of investments) to capital. Managers' performance fees payable are charged 100% to capital. The finance cost in respect of capital instruments other than equity shares is calculated so as to give a constant rate of return on the outstanding balance.

### (h) Foreign currency

Transactions denominated in overseas currencies during the year are translated into sterling at the appropriate daily exchange rate. Assets and liabilities denominated in overseas currencies at the balance sheet date are translated into sterling at the exchange rates ruling at that time.

### (i) Taxation

These accounts follow the requirements of Financial Reporting Standard ("FRS") 16, "Current Taxation", to show franked investment income net of the related tax credits. The tax effect of different items of expenditure is allocated between capital and revenue using the Group's effective rate of tax for the year. The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Following the introduction of FRS 19, deferred taxation is provided using the liability method on all timing differences, calculated at the rate at which it is anticipated the timing differences will reverse. Deferred tax assets are recognised only when, on the basis of available evidence, it is more likely than not that there will be taxable profits in the future against which the deferred tax asset can be offset.

## 2 Total capital gains from investments

| | 2002 £'000 | 2001 £'000 |
|---|---|---|
| Realised gains based on historical cost | **25,838** | 31,398 |
| Amounts recognised as unrealised in previous years | **(26,169)** | (6,820) |
| Realised gains based on carrying value at previous balance sheet date | **(331)** | 24,578 |
| Net movement in unrealised appreciation | **21,132** | 67,217 |
| Net loss on foreign exchange | **(672)** | (387) |
| | **20,129** | 91,408 |

## 3 Investment income

| | 2002 £'000 | 2001 £'000 |
|---|---|---|
| Dividends from UK listed investments | **5,628** | 6,678 |
| Dividends from overseas listed investments | **1,675** | 790 |
| Interest from listed investments | **199** | 245 |
| | **1,874** | 1,035 |
| | **7,502** | 7,713 |

## 4 Net rental income

| | 2002 £'000 | 2001 £'000 |
|---|---|---|
| Gross rent | **7,266** | 6,292 |
| Direct property expenses including ground rent | **(1,397)** | (1,153) |
| | **5,869** | 5,139 |

## 5 Interest receivable and similar income

| | 2002 £'000 | 2001 £'000 |
|---|---|---|
| Interest receivable | **380** | 219 |
| Other income | **–** | 236 |
| | **380** | 455 |

## 6 Management and performance fees

| | 2002 Revenue £'000 | 2002 Capital £'000 | 2002 Total £'000 | 2001 Revenue £'000 | 2001 Capital £'000 | 2001 Total £'000 |
|---|---|---|---|---|---|---|
| Management fee | **1,509** | **755** | **2,264** | 1,378 | 679 | 2,057 |
| Managers' performance fee | **–** | **1,129** | **1,129** | – | 2,527 | 2,527 |
| Irrecoverable VAT thereon | **178** | **271** | **449** | 168 | 490 | 658 |
| | **1,687** | **2,155** | **3,842** | 1,546 | 3,696 | 5,242 |

A summary of the terms of the management agreement is given in the Report of the Directors on page 21.

# Notes to the Accounts continued

**7 Other administrative expenses**
(including irrecoverable VAT)

| | 2002<br>£'000 | 2001<br>£'000 |
|---|---|---|
| Directors' fees (note 8) | **96** | 101 |
| Auditors' remuneration: | | |
| for audit services (note 7a) | **59** | 58 |
| Other expenses payable to the management company (note 7b) | **7** | 26 |
| Marketing (note 7c) | **29** | 76 |
| Expenses of TUPRD subsidiary (note 7d) | **8** | 353 |
| Other expenses | **359** | 335 |
| | **558** | 949 |

a) Includes £31,000 (2001: £30,000) relating to the parent undertaking.

b) Other expenses payable to the management company relate to share plan administration services.

c) Includes £23,000 relating to the AITC "its" campaign (2001: £72,000).

d) Trust Union Properties Residential Developments Ltd (formerly Chaco Investments Ltd).

**8 Directors' emoluments**

| | 2002<br>£'000 | 2001<br>£'000 |
|---|---|---|
| Paid by the Group: | | |
| Aggregate fees | **85** | 86 |
| Sums paid to third parties for directors' services | **11** | 15 |
| | **96** | 101 |

All directors are non-executive. Directors receive an annual fee of £15,000 (2001: £15,000) each and the Chairman £25,000 (2001: £25,000). For the period 1 April to 31 December 2001, the fee for Mr Ross Goobey was paid to Hermes Pensions Management Ltd.

**9 Interest payable and similar charges**

| | 2002<br>£'000 | 2001<br>£'000 |
|---|---|---|
| Bank loans and overdrafts repayable within 1 year | **1,178** | 1,423 |
| Debentures repayable after more than 5 years | **3,780** | 3,793 |
| | **4,958** | 5,216 |
| Amount allocated to capital | **(2,479)** | (2,608) |
| Total allocated to revenue | **2,479** | 2,608 |

# Notes to the Accounts continued

**10 Taxation on net return on ordinary activities**

a) Analysis of charge in the year

| | 2002 Revenue £'000 | 2002 Capital £'000 | 2002 Total £'000 | 2001 Revenue £'000 | 2001 Capital £'000 | 2001 Total £'000 |
|---|---|---|---|---|---|---|
| UK corporation tax | 1,059 | (1,059) | – | 782 | (782) | – |
| Overseas taxation | 283 | – | 283 | 114 | – | 114 |
| | 1,342 | (1,059) | 283 | 896 | (782) | 114 |
| Deferred taxation | (301) | – | (301) | – | – | – |
| Underprovision in respect of prior years | 39 | – | 39 | 227 | – | 227 |
| | 1,080 | (1,059) | 21 | 1,123 | (782) | 341 |

b) Factors affecting current tax charge for the year

The tax assessed for the period is lower than the standard rate of corporate tax in the UK for a large company (30%). The difference is explained below.

| | 2002 £'000 | 2001 £'000 |
|---|---|---|
| Net profit on ordinary activities before taxation | 9,027 | 8,204 |
| Corporation tax at 30% | 2,708 | 2,461 |
| Effects of: | | |
| Non taxable UK dividends | (1,688) | (2,003) |
| Expenses charged to capital | (330) | (1,109) |
| Chargeable gains covered by capital losses | – | 850 |
| ACT written back | – | (440) |
| Double taxation relief taken as expenses | (59) | (34) |
| Overseas withholding taxes | 283 | 114 |
| Underprovision in respect of prior years | 39 | 667 |
| Excess expenses not utilised | 374 | 579 |
| Disallowable expenses | 42 | 43 |
| Interest on overdue tax | 12 | (5) |
| Current tax charge for the year | 1,381 | 1,123 |

The Group has not recognised deferred tax assets of £1,801,000 (2001: £344,000) arising as a result of excess management expenses and excess non trade debits. These expenses will only be utilised if the Group has profits chargeable to corporation tax in future accounting periods.

c) Provision for deferred taxation

The amounts of deferred taxation provided at 30% comprise:

| | 2002 £'000 | 2001 £'000 |
|---|---|---|
| Accelerated capital allowances | 147 | 136 |
| Unutilised losses carried forward | (448) | (136) |
| | (301) | – |

10 **Taxation on net return on ordinary activities** continued

The movement in provision in the year is as follows

| | £'000 |
|---|---|
| Provision at the start of the year | – |
| Deferred tax charge in Statement of Total Return: | |
| Accelerated capital allowances | **11** |
| Unutilised losses carried forward | **(312)** |
| Provision at the end of the year | **(301)** |

11 **Return per ordinary share**

Basic revenue return per ordinary share is based on the net revenue return on ordinary activities after taxation and minority interests of £7,947,000 (2001: £7,069,000) and on the weighted average number of ordinary shares in issue during the year, being 427,073,371 (2001: 446,171,463). Basic capital return per ordinary share is based on net capital gains of £12,568,000 (2001: £84,916,000) and on the same weighted average number of ordinary shares in issue.

The calculations of the fully diluted revenue and capital returns per ordinary share are carried out in accordance with Financial Reporting Standard 14, "Earnings per Share". For the purposes of calculating diluted revenue and capital returns per share, the number of shares is the weighted average used in the basic calculation plus the number of shares deemed to be issued for no consideration on exercise of all warrants, by reference to the average price of the ordinary shares during the year.

12 **Fixed asset investments**

| | Group 2002 £'000 | Group 2001 £'000 | Company 2002 £'000 | Company 2001 £'000 |
|---|---|---|---|---|
| Listed at market value: | | | | |
| United Kingdom | **220,239** | 296,396 | **220,217** | 296,374 |
| Overseas | **123,266** | 23,659 | **123,266** | 23,659 |
| Unlisted at Directors' valuation | **1,204** | 1,204 | **1,204** | 1,204 |
| Subsidiary undertakings (note 27) | **–** | – | **40,789** | 44,149 |
| Investment properties | **82,970** | 93,323 | **33,400** | 33,468 |
| | **427,679** | 414,582 | **418,876** | 398,854 |

The Company's investment in subsidiary undertakings is stated at the Company's share of the net assets of those undertakings.

Investment properties were independently valued on the basis of open market value in accordance with the definition set out in the appraisal and valuation manual published by The Royal Institution of Chartered Surveyors ("the Red Book"). The valuations were carried out as at 31 March 2002 by Drivers Jonas save for residential properties held in Trust Union Properties Limited which were valued by DTZ Pieda Consulting at the same date.

The historical cost to the Group of the investment properties shown above was £64,889,000 (2001: £76,720,000).

13 **Changes in fixed asset investments**

| | Group £'000 | Company £'000 |
|---|---|---|
| Valuation at 1 April 2001 | 414,582 | 398,854 |
| Unrealised appreciation | (101,843) | (97,965) |
| Cost at 1 April 2001 | 312,739 | 300,889 |
| Additions at cost | 142,772 | 142,686 |
| Disposals at cost | (124,638) | (117,873) |
| Cost at 31 March 2002 | 330,873 | 325,702 |
| Unrealised appreciation | 96,806 | 93,174 |
| **Valuation at 31 March 2002** | 427,679 | 418,876 |

14 **Derivatives and other financial instruments**

The Group's financial instruments, other than derivatives, comprise securities and other investments, cash balances and debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement and debtors for accrued income.

The Group has little exposure to credit and cash flow risk. Unquoted investments in the portfolio are subject to liquidity risk. This risk is taken into account by the directors when arriving at their valuation of these items.

The principal risks the Group faces in its portfolio management activities are:

- market price risk (i.e. movements in the value of investment holdings caused by factors other than interest rate or currency movement);
- foreign currency risk;
- interest rate risk.

The Investment Manager's policies for managing these risks are summarised below and have been applied throughout the year.

(i) Market Price Risk

By the very nature of its activities, the Group's investments are exposed to market price fluctuations. Further information on the investment portfolio and investment policy is set out in the Investment Manager's report on pages 7 to 13.

(ii) Foreign Currency Risk

A proportion of the Group's portfolio is invested in overseas securities and their sterling value can be significantly affected by movements in foreign exchange rates. Until 30 September 2001, the Group hedged against foreign currency movements by funding investments in overseas securities with unsecured loans denominated in the same currency. From 1 October 2001, this hedging was applied only to currencies outside the Eurozone.

(iii) Interest Rate Risk

The majority of the Group's borrowings are at a fixed rate. A proportion of term loans may be hedged by the use of interest rate swaps and cap contracts. Short term borrowings are not hedged.

(iv) Use of Derivatives

It is not the Group's policy to enter into derivative contracts other than for the purposes of hedging against price movements in the value of particular constituents of the portfolio or interest rate exposures.

# Notes to the Accounts continued

**14 Derivatives and other financial instruments** continued

Foreign currency and interest rate exposures at 31 March 2002 (using exchange rates of 1.6323 Euros, 14.7501 Swedish Kroner, 12.1341 Danish Kroner and 2.3949 Swiss Francs to £1) are:

| | Financial Assets | | | | Financial Liabilities | | | |
|---|---|---|---|---|---|---|---|---|
| | Fixed interest £'000 | Floating rate £'000 | Non interest bearing £'000 | Total £'000 | Fixed rate £'000 | Floating rate £'000 | Non interest bearing £'000 | Total £'000 |
| Sterling | 3,384 | 3,688 | 221,999 | 229,071 | 40,188 | 44,570 | 8,476 | 93,234 |
| Euro | – | 1,530 | 102,702 | 104,232 | – | 1,423 | – | 1,423 |
| Swedish Kroner | – | 2,434 | 14,825 | 17,259 | – | 2,156 | – | 2,156 |
| Danish Kroner | – | 1,607 | 1,619 | 3,226 | – | 1,603 | – | 1,603 |
| Swiss Francs | – | 17 | 4,120 | 4,137 | – | – | – | – |
| Other | – | 2 | – | 2 | – | – | – | – |
| | 3,384 | 9,278 | 345,265 | 357,927 | 40,188 | 49,752 | 8,476 | 98,416 |

Foreign currency and interest rate exposures at 31 March 2001 (using exchange rates of 1.6082 Euros and 1.4217 US Dollars to £1) were:

| | Financial Assets | | | | Financial Liabilities | | | |
|---|---|---|---|---|---|---|---|---|
| | Fixed interest £'000 | Floating rate £'000 | Non interest bearing £'000 | Total £'000 | Fixed rate £'000 | Floating rate £'000 | Non interest bearing £'000 | Total £'000 |
| Sterling | 4,077 | 2,103 | 304,007 | 310,187 | 40,181 | 10,800 | 14,197 | 65,178 |
| Euro | – | 52 | 9,344 | 9,396 | – | 7,400 | 233 | 7,633 |
| US Dollar | – | 32 | 8,659 | 8,691 | – | 7,069 | – | 7,069 |
| Other | – | 6 | 2,419 | 2,425 | – | 858 | 728 | 1,586 |
| | 4,077 | 2,193 | 324,429 | 330,699 | 40,181 | 26,127 | 15,158 | 81,466 |

The fixed rate assets have a weighted average life of 12.9 years and a weighted average interest rate of 7.6% per annum. The non interest bearing assets represent the equity element of the investment portfolio. Floating rate financial assets and liabilities consist primarily of bank balances, loans and overdrafts; their respective interest rates are linked to LIBOR.

Currency Exposure

The currency denomination of the Group's financial assets and liabilities is shown above.

Primary Financial Instruments

Securities and other investments are included in the balance sheet at market values.

## 15 Debtors

| Amounts falling due within one year: | Group 2002 £'000 | Group 2001 £'000 | Company 2002 £'000 | Company 2001 £'000 |
|---|---|---|---|---|
| Securities and properties sold for future settlement | **2,236** | 3,784 | **761** | 3,776 |
| Amounts due from substantial interests | **874** | 842 | **874** | 842 |
| Tax recoverable | **203** | 706 | **187** | 712 |
| Deferred taxation | **302** | – | **313** | – |
| Prepayments and accrued income | **2,862** | 1,418 | **2,644** | 1,157 |
| Other debtors | **572** | 1,339 | **357** | 545 |
| | **7,049** | 8,089 | **5,136** | 7,032 |

## 16 Creditors

| Amounts falling due within one year: | Group 2002 £'000 | Group 2001 £'000 | Company 2002 £'000 | Company 2001 £'000 |
|---|---|---|---|---|
| Bank loans and overdrafts | **42,932** | 26,127 | **42,911** | 26,127 |
| Securities and properties purchased for future settlement | **1,552** | 5,546 | **1,552** | 5,546 |
| Amounts due to Group undertakings | **–** | – | **29,830** | 24,299 |
| Taxation payable | **139** | 172 | **–** | – |
| Ordinary dividends declared and proposed | **4,166** | 3,653 | **4,166** | 3,653 |
| Managers' performance fees payable | **1,310** | 2,934 | **1,310** | 2,934 |
| Accruals and deferred income | **2,217** | 2,399 | **1,152** | 480 |
| Other creditors | **644** | 454 | **411** | 313 |
| | **10,028** | 15,158 | **38,421** | 37,225 |
| | **52,960** | 41,285 | **81,332** | 63,352 |
| Amounts falling due after more than one year: | | | | |
| Debenture loans (a), (b) and (c) below | **40,188** | 40,181 | **250** | 250 |

The total amount of secured creditors is £40,000,000.

Debenture Loans

(a) £15,000,000 (2001: £15,000,000) participation by TR Property Finance Limited, a subsidiary undertaking, in 11.5% 2016 several debenture stock issued by TRUSTCO Finance plc, which is guaranteed by the Company by a floating charge over its assets. The market value of this debenture at 31 March 2002 was £20,897,000.

(b) £25,000,000 (2001: £25,000,000) 8.125% 2008 debenture stock in the name of Trust Union Finance (1991) PLC, a subsidiary undertaking, which is guaranteed by the Company by a floating charge over its assets. The market value of this debenture at 31 March 2002 was £26,609,000.

(c) £250,000 5% unsecured loan notes issued on 31 March 1999 by TR Property Investment Trust plc for the finance of 198/202 Piccadilly. The estimated fair value of these loan notes at 31 March 2002 was £250,000.

## 17 Called up share capital

| | 2002 Number | 2002 £'000 | 2001 Number | 2001 £'000 |
|---|---|---|---|---|
| Authorised: | | | | |
| Ordinary shares of 25p | **779,170,350** | **194,793** | 779,170,350 | 194,793 |
| Issued, allotted and fully paid: | | | | |
| Ordinary shares of 25p | **416,599,673** | **104,150** | 438,988,893 | 109,747 |

On 31 July 2001, 605,780 ordinary shares were issued as the result of the exercise of the same number of warrants at 47.5p per ordinary share.

The market price of the ordinary shares on 31 July 2001 was 61.00p per share.

During the year, the Company made market purchases for cancellation of 22,995,000 ordinary shares of 25p each representing 5.2% of the number of shares in issue at 31 March 2001. The aggregate consideration paid by the Company for the shares was £13,945,000. Shares are repurchased in order to enhance shareholder value.

Based on the number of shares and warrants in issue on 31 March 2002, if all the outstanding warrants were fully exercised the total number of shares in issue would be 472,828,114.

## 18 Share premium and warrant reserve

| | Share premium | | Warrant reserve | |
|---|---|---|---|---|
| | Group £'000 | Company £'000 | Group £'000 | Company £'000 |
| At 1 April 2001 | **28,538** | **28,538** | **4,469** | **4,469** |
| Warrants exercised | **168** | **168** | **(33)** | **(33)** |
| Warrants purchased | **1,405** | **1,405** | **(1,405)** | **(1,405)** |
| **At 31 March 2002** | **30,111** | **30,111** | **3,031** | **3,031** |

At 31 March 2002 there were 56,228,441 (2001: 82,887,721) warrants outstanding. The warrants give holders the right to subscribe for shares at a subscription price of 47.5p per share on 31 July 2002. This is the final opportunity for holders to exercise this right before the warrants expire.

During the year the Company purchased 26,053,500 warrants for a total consideration of £3,986,000. Since the year end a further 29,076,338 warrants have been purchased for a total consideration of £6,845,000. Warrants are repurchased in order to enhance future shareholder value.

## 19 Reserves

### a) Group

| | | Other reserves | | | |
|---|---|---|---|---|---|
| | Capital redemption £'000 | Unrealised appreciation £'000 | Realised reserves £'000 | Total £'000 | Revenue reserve £'000 |
| At 1 April 2001 | 8,050 | 101,843 | 75,118 | 185,011 | 14,791 |
| Transfer on disposal of assets | – | (26,169) | 26,169 | – | – |
| Net gain from fixed asset investments | – | 21,132 | (331) | 20,801 | – |
| Net loss on foreign exchange | – | – | (672) | (672) | – |
| Expenses and interest payable charged to capital | – | – | (4,634) | (4,634) | – |
| Tax relief on expenses and interest payable charged to capital | – | – | 1,059 | 1,059 | – |
| Purchase of own shares | 5,749 | – | (13,945) | (8,196) | – |
| Purchase of own warrants | – | – | (3,986) | (3,986) | – |
| Retained revenue for the year | – | – | – | – | 1,015 |
| **At 31 March 2002** | 13,799 | 96,806 | 78,778 | 189,383 | 15,806 |

Unrealised appreciation at 31 March 2002 includes £937,000 (2001: £6,717,000 depreciation) relating to unlisted fixed asset investments and £18,081,000 (2001: £16,603,000) relating to investment properties.

### b) Company

| | | Other reserves | | | |
|---|---|---|---|---|---|
| | Capital redemption £'000 | Unrealised appreciation £'000 | Realised reserves £'000 | Total £'000 | Revenue reserve £'000 |
| At 1 April 2001 | 8,050 | 97,965 | 85,484 | 191,499 | 8,303 |
| Transfer on disposal of assets | – | (20,519) | 20,519 | – | – |
| Net gain from fixed asset investments | – | 15,728 | 4,942 | 20,670 | – |
| Net loss on foreign exchange | – | – | (672) | (672) | – |
| Expenses and interest payable charged to capital | – | – | (3,269) | (3,269) | – |
| Tax relief on expenses and interest payable charged to capital | – | – | 747 | 747 | – |
| Purchase of own shares | 5,749 | – | (13,945) | (8,196) | – |
| Purchase of own warrants | – | – | (3,986) | (3,986) | – |
| Retained revenue for the year | – | – | – | – | 93 |
| **At 31 March 2002** | 13,799 | 93,174 | 89,820 | 196,793 | 8,396 |

Unrealised appreciation at 31 March 2002 includes £11,643,000 (2001: £3,969,000) relating to unlisted fixed asset investments and £7,805,000 (2001: £6,100,000) relating to investment properties.

# Notes to the Accounts continued

**20 Company revenue account**

As permitted by Section 230 of the Companies Act 1985, the Company has not presented its own revenue account. The net revenue after taxation of the Company dealt with in the accounts of the Group was £7,025,000 (2001: £7,284,000).

**21 Net asset value per ordinary share**

Basic net asset value per ordinary share is based on net assets attributable to ordinary shares of £342,481,000 (2001: £342,556,000) and on 416,599,673 (2001: 438,988,893) ordinary shares in issue at the year-end. The fully diluted net asset value per ordinary share has been calculated on the assumption that the 56,228,441 warrants in issue at 31 March 2002 (2001: 82,887,721) were fully converted into ordinary shares at 47.5p per share.

Warrants are assumed to have been exercised when dilution would occur (when the net asset value is greater than or equal to the warrant exercise price of 47.5p).

The movements during the year of the Group assets attributable to the ordinary shares were as follows:

| | £'000 |
|---|---|
| Total net assets at 1 April 2001 | **342,556** |
| Proceeds on exercise of warrants | **287** |
| Total net return on ordinary activities after taxation and dividends | **13,583** |
| Purchase of own shares | **(13,945)** |
| **Total net assets at 31 March 2002** | **342,481** |

**22 Reconciliation of Group operating revenue to net cash inflow from operating activities**

| | 2002 £'000 | 2001 £'000 |
|---|---|---|
| Net revenue before interest payable and taxation | **11,506** | 10,812 |
| Increase in operating debtors | **(781)** | (347) |
| Increase/(decrease) in operating creditors | **121** | (505) |
| UK income tax deducted at source | **(11)** | (38) |
| Overseas withholding tax suffered | **(322)** | (135) |
| Scrip dividends included in investment income | **–** | (63) |
| Depreciation of tangible fixed assets | **–** | 22 |
| Performance fees paid | **(2,934)** | – |
| Management fee charged to capital | **(768)** | (763) |
| Net cash inflow from operating activities | **6,811** | 8,983 |

**23 Analysis of changes in net debt**

| | At 1 April 2001 £'000 | Cash flow £'000 | Other non-cash changes £'000 | At 31 March 2002 £'000 |
|---|---|---|---|---|
| Cash at bank and overdrafts | (24,776) | **(16,583)** | **(672)** | **(42,031)** |
| Debts falling due after more than one year | (40,181) | – | **(7)** | **(40,188)** |
| Net debt | (64,957) | **(16,583)** | **(679)** | **(82,219)** |

**24 Commitments and contingent liabilities**

At 31 March 2002 the Company had no contingent liabilities and commitments (2001: £nil).

The Company has guaranteed a £15,000,000 (2001: £15,000,000) participation in 11.5% 2016 secured debenture stock and a £25,000,000 (2001: £25,000,000) 8.125% 2008 debenture stock (see note 16).

**25 Group reconciliation of movement in shareholders' funds**

| | 2002 £'000 | 2001 £'000 |
|---|---|---|
| Net revenue on ordinary activities after taxation and minority interests | **7,947** | 7,069 |
| Dividends | **(6,932)** | (6,084) |
| | **1,015** | 985 |
| Proceeds on exercise of warrants | **287** | 126 |
| Increase in non-distributable reserves | **16,554** | 85,886 |
| Purchase of own shares and warrants | **(17,931)** | (9,609) |
| Net (decrease)/increase in shareholders' funds | **(75)** | 77,388 |
| Shareholders' funds at 1 April | **342,556** | 265,168 |
| **Shareholders' funds at 31 March** | **342,481** | 342,556 |

**26 Related party transactions**

Under the terms of an agreement dated 15 March 1995 the Company has appointed wholly owned subsidiaries of Henderson Global Investors (Holdings) plc ("Henderson") to provide investment management, accounting, secretarial, administrative and UK custody services. Details of the fee arrangements for these services are given in the Report of the Directors on page 21. The total of the fees paid or payable to Henderson under these agreements in respect of the year ended 31 March 2002 was £3,393,000 (excluding VAT) (2001: £4,584,000) of which £1,666,000 was outstanding at 31 March 2002 (2001: £2,527,000).

In addition to the above services Henderson has provided the Company with share plan administration services. The total fees paid or payable for these services for the year ended 31 March 2002 amounted to £7,000 (excluding VAT) (2001: £22,000), of which £35,000 (2001: £11,000) was outstanding at 31 March 2002.

# Notes to the Accounts continued

27 **Subsidiary undertakings**

The Group has the following principal subsidiary undertakings, all of which are registered and operating in England and Wales:

| Name of Company | Principal Activities |
|---|---|
| Trust Union Properties Ltd | Property investment and dealing |
| TR Property Finance Ltd | Investment holding and finance |
| * Trust Union Finance (1991) PLC | Investment holding and finance |
| Trust Union Properties (Bayswater) Ltd | Property investment |
| * The Colonnades Ltd | Property investment |
| * New England Properties PLC | Property investment, development, dealing and management services |

* Indirectly held

All the subsidiary undertakings are wholly owned and all the holdings are ordinary shares. The Group also has other subsidiary undertakings which are either not trading or not significant.

28 **Substantial interests**

The Group has the following substantial interests, all of which are registered and operating in England and Wales:

| Name of Company | Class of Shares held | Percentage Holding of Class | Principal Activities |
|---|---|---|---|
| Controlrun Limited | B Ordinary £1 | 100.0% | Property investment in petrol stations |
| | Cumulative Redeemable Preference 10p | 100.0% | |
| Big Yellow Group | Ordinary 10p | 10.9% | Ownership and operation of self storage facilities |
| Rugby Estates | Ordinary 20p | 11.3% | Property investment |
| Safeland | Ordinary 5p | 12.9% | Property investment |
| Trust of Property Shares | Ordinary 5p | 18.6% | Investment trust |
| UK Land | Ordinary 5p | 11.0% | Property investment |

The Group also held interests in 3% or more of any class of capital in 6 investee companies. None of these investments is considered significant in the context of these accounts.

# Notice of Annual General Meeting

Notice is hereby given that the Ninety-Eighth Annual General Meeting of TR Property Investment Trust plc will be held at 4 Broadgate, London, EC2M 2DA on Thursday 25 July 2002 at 12 noon for the following purposes:

1 To receive the Report of the Directors and the audited accounts for the year ended 31 March 2002.

2 To declare a final dividend of 1.00p per ordinary share.

3 To elect Ms C M Burton as a director.

4 To elect Mr J Newsum as a director.

5 To re-appoint Ernst & Young LLP as auditors of the Company.

6 To authorise the directors to determine the remuneration of the auditors.

To consider and, if thought fit, to pass the following resolution as a special resolution:

7 THAT the Company be and is hereby generally and unconditionally authorised in accordance with Section 166 of the Companies Act 1985 ("the Act") to make market purchases (within the meaning of Section 163 of the Act) of ordinary shares of 25 pence each in the capital of the Company ("Shares") on such terms and in such manner as the Directors may from time to time determine provided that:

(a) the maximum number of Shares hereby authorised to be purchased shall be 62,448,290 (representing approximately 14.99% of the Company's ordinary shares in issue at 6 June 2002, the date of this Notice of Annual General Meeting);

(b) the maximum price (exclusive of expenses) at which a Share may be purchased shall not exceed 105 per cent. of the average of the middle market quotations for the Shares as taken from the Official List of the UK Listing Authority for the five business days immediately preceding the date of purchase;

(c) the minimum price (exclusive of expenses) which may be paid for a Share shall be 25p, being the nominal value per Share; and

(d) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2003 or, if earlier, 12 months from the passing of this resolution, save that the Company may before such expiry enter into a contract to purchase Shares under which such purchases will or may be completed or executed wholly or partly after the expiration of this authority and may make a purchase of Shares in pursuance of any such contract.

By order of the Board

J S Ellman-Brown ACIS
Henderson Secretarial Services Limited
Secretary
6 June 2002

**Notes**

1. Pursuant to Section 41 of the Uncertificated Securities Regulations 2001, only those shareholders registered in the register of members of the Company at 7.00pm on 23 July 2002 shall be entitled to attend and/or vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after close of business on 23 July 2002 shall be disregarded in determining the rights of any person to attend or vote at the Meeting.
2. A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote on his/her behalf. A proxy need not be a member of the Company. The number of votes cast by proxy for each resolution will be communicated to shareholders at the AGM and will be available on request.
3. A form of proxy is enclosed and to be valid must be lodged with the Registrar of the Company not less than 48 hours before the time fixed for the meeting.
4. This notice is sent for information only to warrant holders and holders of debentures issued by Trust Union Finance (1991) PLC.
5. The Register of Directors' Interests kept by the Company in accordance with Section 325 of the Companies Act 1985 will be open for inspection at the AGM.
6. The Registered Office of the Company is 4 Broadgate, London EC2M 2DA.

# Explanation of Notice of Annual General Meeting

**Resolutions 1 and 2: Accounts & Dividend**
These are the normal resolutions which deal with the presentation of the audited accounts and the declaration of the final dividend.

**Resolutions 3 and 4: Election of Directors**
These resolutions deal with the election of Ms C M Burton and Mr J Newsum as Directors. Under the Articles of Association, directors are required to retire at the first AGM following their initial appointment.

**Resolutions 5 and 6: Auditors**
These deal with the re-appointment of the Auditors, Ernst & Young LLP, and the authorising of the directors to determine their remuneration.

**Resolution 7: Authority to make Market Purchases of the Company's own Shares**
At the Annual General Meeting held on 26 July 2001, a special resolution was proposed and passed, giving the directors authority, until the conclusion of the Annual General Meeting in 2002, to make market purchases of the Company's own issued ordinary shares up to a maximum of 64,457,000 (being 14.99% of the issued share capital at that time) for cancellation.

As stated in the Report of the Directors on page 21 these powers have been used to purchase 22,995,000 ordinary shares in the year to 31 March 2002 and your board is proposing that they should be given renewed authority to purchase ordinary shares in the market for cancellation. Your board believes that to make such purchases in the market at appropriate times and prices is a suitable method of enhancing shareholder value. The Company would, within guidelines set from time to time by the board, make either a single purchase or a series of purchases, when market conditions are suitable, with the aim of maximising the benefits to shareholders.

Where purchases are made at prices below the prevailing net asset value per share, this will enhance the net asset value for the remaining shareholders. It is therefore intended that purchases would only be made at prices below net asset value. Your board considers that it will be most advantageous to shareholders for the Company to be able to make such purchases as and when it considers the timing to be favourable and therefore does not propose to set a timetable for making any such purchases.

The rules of the UK Listing Authority limit the price which may be paid by the Company to 105% of the average middle-market quotation for an ordinary share on the 5 business days immediately preceding the date of the relevant purchase. The minimum price to be paid will be 25p per ordinary share (being the nominal value). Also these rules limit a listed company to purchases of shares representing up to 15% of its issued ordinary share capital through the market pursuant to a general authority such as this. For this reason, the Company is limiting its authority to make such purchases to 62,448,290 ordinary shares (being approximately 14.99% of the ordinary shares in issue at the date of the Notice of AGM). The authority will last until the Annual General Meeting of the Company to be held in 2003.

The total number of warrants to subscribe for ordinary shares in the Company as at 5 June 2002 (being the latest practicable date prior to publication of this document) was 27,152,103. If exercised in full, ordinary shares issued on exercise of the Company's warrants would represent 6.5% of the Company's issued share capital at that date. If the unused portion of the Company's existing authority to purchase its own shares and the new authority being sought were both to be exercised in full, and no further warrants were purchased for cancellation, then the ordinary shares issued on exercise of the Company's warrants would represent 9.0% of the Company's issued share capital.

The Company has power to repurchase warrants under the terms of the warrants and no further authority is required. The price paid for the warrants is limited to 105% of the average middle-market quotation for the warrants over the preceding 10 business days immediately preceding the date of purchase.

A special resolution is one that requires a majority of at least 75% of those present and voting to be passed.

# General Shareholder Information

Historical Performance for years ended 31 March

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | **2002** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Gross revenue (£'000)** | 4,817 | 8,247 | 10,275 | 15,591 | 14,643 | 11,986 | 12,868 | 15,182 | 12,693 | 13,307 | **13,751** |
| **Net revenue (per share)†** | | | | | | | | | | | |
| Earnings | 0.28 | 0.95 | 1.43 | 1.33 | 1.54 | 1.42 | 1.34 | 1.97 | 1.41 | 1.58 | **1.86** |
| Dividends | 1.45 | 0.90 | 0.90 | 0.94 | 0.98 | 1.03 | 1.12 | 1.27 | 1.32 | 1.40 | **1.65** |
| Total assets less current liabilities (£m) | 110.4 | 96.5 | 146.8 | 191.0 | 191.4 | 248.3 | 308.9 | 292.5 | 305.8 | 382.7 | **382.7** |
| NAV per share (p) | 30.7 | 28.8 | 42.0 | 34.0 | 35.3 | 44.0 | 54.4* | 52.0* | 56.5* | 73.2* | **78.1*** |
| **Indices of growth (per share)** | | | | | | | | | | | |
| Share Price | 100 | 91 | 158 | 133 | 127 | 159 | 214 | 192 | 201 | 259 | **288** |
| Net Asset Value | 100 | 94 | 137 | 111 | 115 | 143 | 177 | 169 | 184 | 238 | **254** |
| Dividend Net | 100 | 62 | 62 | 65 | 68 | 71 | 77 | 88 | 91 | 97 | **114** |
| Benchmark** | 100 | 120 | 156 | 138 | 145 | 185 | 238 | 189 | 177 | 222 | **226** |

†adjusted to present capital

*Fully diluted for warrant conversion.

**Composite Index (comprising FTSE Real Estate and SSSB European Property Indices)

Source: Datastream

# Glossary of Terms

**Discount**

The amount by which the market price per share of an Investment Trust Company is lower than the net asset value per share. The discount is normally expressed as a percentage of the net asset value per share.

**Dividend Yield**

The annual dividend expressed as a percentage of the share price.

**Gearing**

Total debt including bank loans and overdrafts less cash at bank and short term deposits divided by shareholders' funds.

**Net Asset Value**

The value of the total assets less the liabilities. Liabilities for this purpose include both current and long-term liabilities. To calculate the net asset value per ordinary share, divide the net asset value by the number of shares in issue.

**Ordinary shares**

Confer certain rights to the holder as laid down in the Articles of Association. These include entitlements to any income distributions paid by the Company, to all undistributed net income if the Company is wound-up and certain voting rights. They rank for payment of capital after repayment of borrowings and the entitlements of all other share classes.

**Premium**

The amount by which the market price per share of an Investment Trust Company exceeds the net asset value per share. The premium is normally expressed as a percentage of the net asset value per share.

**Warrants**

Confer certain rights to the holder as laid down in the Terms & Conditions. These include the right to subscribe in cash on 31 July in any of the years 1997 to 2002 inclusive for one ordinary share per warrant at a price of 47.5p. This is payable in full in cash on subscription.

# General Shareholder Information

continued

**Release of Results**

The half year results are announced in early December. The full year results are announced in early June.

**Annual General Meeting**

The AGM is held in London in July.

**Dividend Payment Dates**

Dividends are paid on the ordinary shares as follows:

Interim : early January
Final : late July

**Dividend Payments**

Dividends can be paid to ordinary shareholders by means of BACS (Bankers' Automated Clearing Services); mandate forms for this purpose are available from the Registrar. Alternatively, shareholders can write to the Registrar (the address is given on page 48 of this report) to give their instructions; these must include the bank account number, the bank account title and the sort code of the bank to which payments are to be made.

**Share Price Listings**

The market prices of the Company's ordinary shares and warrants are published daily in The Financial Times. Some of the information is published in other leading newspapers. The Financial Times also shows figures for the estimated net asset values and the discounts applicable.

**Share Price Information**

The ISIN code/SEDOL (Stock Exchange Daily Official List) number of the Company's ordinary shares is GB0009064097/0906409 while the number of the warrants is GB0008887126/0888712. Other sources include Bloomberg (TRY.LN) and Reuters (TRY.L).

**Internet**

Details of the market prices and net asset values of the shares can be found on the Henderson website. The address is **http://its.henderson.com**.

Shareholders who hold their shares or warrants in certificated form can check their holdings with the Registrar, Computershare Investor Services PLC, via **www.computershare.com**. Please note that to gain access to your details on the Computershare site you will need the holder reference number stated on the top left hand corner of your share or warrant certificate.

**Disability Act**

Copies of this Report and Accounts and other documents issued by the Company are available from the company secretary. If needed, copies can be made available in a variety of formats, including Braille, audio tape or larger type as appropriate.

You can contact the Registrar, Computershare Investor Services PLC, which has installed telephones to allow speech and hearing impaired people who have their own telephone to contact them directly, without the need for an intermediate operator. Specially trained operators are available during normal business hours to answer queries via this service.

Alternatively, if you prefer to go through a 'typetalk' operator (provided by The Royal National Institute for Deaf People) the number is 0800 959 598.

For investors through the Henderson Investment Trust Share Plan, Henderson ISA or Henderson Transfer PEP, a textphone telephone service is available on 020 7850 5406. This service is available during normal business hours.

# General Shareholder Information

continued

**Nominee Share Code**

Where notification has been provided in advance, the Company will arrange for copies of shareholder communications to be provided to the operators of nominee accounts. Nominee investors may attend general meetings and speak at meetings when invited to do so by the Chairman.

Investors in the Henderson Investment Trust Share Plan, Henderson ISA and Henderson Transfer PEP receive all shareholder communications. A letter of direction is provided to facilitate voting at general meetings of the Company.

**Capital Gains Tax**

The value for CGT purposes of the Company's shares on 31 March 1982, the start of indexation allowance for inflation, is shown below.

| | |
|---|---|
| Ordinary shares of 25p each | 11.828p*' |
| Warrants issued 1994 | 3.775p' |

For shareholders who acquired ordinary shares through the conversion of C Shares on 7 July 1994 the adjusted cost of the new shares for CGT purposes is 40.143'p per share.

Warrants issued to C shareholders have a base cost for CGT purposes of 12.811'p per warrant.

* Adjusted for share issues ' Source: Dun & Bradstreet

The Finance Act 1998 included provisions which made considerable changes to the way that chargeable gains are calculated for non-corporate shareholders in respect of disposals made on or after 6 April 1998. From that date pooling no longer applies and disposals are matched against shares acquired in the following order:

- same date acquisitions;
- acquisitions within the following 30 days;
- previous acquisitions on or after 6 April 1998 (using 'last in first out' basis);
- any shares held in the pool as at 5 April 1998;
- any shares held in the pool as at 5 April 1982;
- any shares acquired before 6 April 1965; and
- any shares acquired subsequent to the disposal.

For disposals on or after 6 April 1998 indexation is still allowed but only up to April 1998. The Finance Act changes apply a taper relief to the amount of the chargeable gains on these disposals. The taper is 5% for each complete year of ownership after the first two complete years, with a maximum reduction of 40% after ten complete years.

In calculating the taper relief, assets held before 17 March 1998 qualify for an extra year.

The way that chargeable gains are calculated for companies remains under review by the Inland Revenue and for the time being pooling remains.

The special rules that previously applied to shareholders disposing of shares, who had purchased their shares through the Henderson Investment Trust Share Plan on a monthly basis, was withdrawn by the Inland Revenue for savings commenced on or after 6 April 1998.

When savings commenced before 6 April 1998, the simplified basis will still apply for ***acquisitions*** during the investment trust's accounting period ended before 6 April 1999 which in the case of TR Property is 31 March 1999.

**The calculation of the tax on chargeable gains will depend on personal circumstances. The above information is of a general nature and is not exhaustive. If you are in any doubt about your personal tax position, you are recommended to contact your professional adviser.**

# Directors and other Information

**Directors**
A Ross Goobey (Chairman)
R R St J Barkshire
C M Burton
R W Carey
J Newsum
P L Salsbury
R A Stone

**Registered Office**
4 Broadgate
London EC2M 2DA
Telephone: 020 7638 5757
Facsimile: 020 7377 5742

**Registered Number**
Registered as an investment company in England and Wales No. 84492

**Investment Manager**
Henderson Global Investors Limited, an Company regulated by the Financial Services Authority

Fund Manager:
C M Turner MRICS
Direct Property Portfolio Manager:
M A Phayre-Mudge MRICS
Finance Manager:
J L Elliott ACA

**Secretary**
Henderson Secretarial Services Limited, represented by J S Ellman-Brown ACIS

**Registrar**
Computershare Investor Services PLC
PO Box 435
Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR
Telephone: 0870 702 0010

**Registered Auditors**
Ernst & Young LLP
Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH

**Stockbrokers**
UBS Warburg
1 Finsbury Avenue
London EC2M 2PP

**Solicitors**
Slaughter and May
One Bunhill Row
London EC1Y 8YY

# Henderson Investment Trust Share Plan

The Henderson Investment Trust Share Plan offers a simple and flexible way of investing in **TR Property Investment Trust plc**. The Share Plan offers the following:

- **Regular savings from £50 per month/quarter, or lump sum investments from £500 and additional 'top-up' from £100**
- **An income reinvestment facility. Alternatively, you can have dividends paid to your bank or building society account**
- **All paperwork and documentation is simplified and reduced to a minimum**
- **Half yearly valuations with consolidated tax certificate and complimentary newsletters**

# Henderson ISA

You can invest directly in **TR Property Investment Trust plc** through the Henderson ISA. The ISA offers the following:

- **Tax free income and tax free growth**
- **Regular savings from £100 per month or lump sum investments from £2,000**
- **An income reinvestment facility. Alternatively, you can have dividends paid to your bank or building society account**
- **Half yearly valuations, reports and complimentary newsletters**
- **Both Mini and Maxi ISAs available for investment by lump sum or regular savings**

# Henderson Transfer PEP

Although you cannot subscribe new funds to any PEP, it is possible to transfer existing PEP funds in cash from other managers into a Henderson PEP. This offers you the opportunity to invest PEP funds in **TR Property Investment Trust plc**.

# Further Information

Please consult our website **http://its.henderson.com** or write to Henderson Global Investors, FREEPOST, Newbury RG14 2ZZ. No stamp is required.

Alternatively, please contact your professional adviser for further information or call our Investor Services Department on freephone **0800 106 106** quoting the reference **REPORT**. Please call (44) 20 7452 1315 if you are telephoning from abroad. We may record telephone calls for our mutual protection and to improve customer service.

Please remember that the value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested.

Tax assumptions may change if the law changes and the value of tax relief will depend upon individual circumstances.

Henderson Global Investors is the name under which Henderson Global Investors Limited, Henderson Investment Funds Limited, Henderson Fund Management plc and Henderson Administration Limited (all regulated by the Financial Services Authority), provide investment products and services.

4 Broadgate, London EC2M 2DA.

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