

EATON SQUARE PROPERTIES LIMITED

COMPANY REGISTRATION NUMBER 417751

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

YEAR ENDED 31 DECEMBER 2005



EATON SQUARE PROPERTIES LIMITED**DIRECTORS' REPORT**

The directors present their annual report together with the audited financial statements of the company for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company during the year was investment in leasehold property in the United Kingdom.

The directors do not anticipate any significant change in the activity of the company and its profitability.

RESULTS AND DIVIDENDS

The results of the company for the year are shown on page 5. Profit on ordinary activities before taxation was £10,431,498 (2004 - £7,296,246).

The following dividends have been paid:

	2005 £	2004 £ Restated
Dividends paid on ordinary shares	<u>7,296,246</u>	<u>47,867,893</u>

THE DIRECTORS AND THEIR INTERESTS IN SHARES OF THE COMPANY

The directors who served the company throughout the year, except as noted, were as follows:

S-J Curtis
R S Handley
J R Milne
S H R Musgrave
R C Williams
P S Vernon

(Appointed 7 April 2005)

None of the directors in office at 31 December 2005 had any interests in the securities of the company, Grosvenor Group Limited, its ultimate parent undertaking, or any of its fellow subsidiary undertakings which are required to be disclosed under the Companies Act 1985.

D J P Rawcliffe was appointed as a director on 1 February 2006.

R C Williams resigned as a director on 1 February 2006.

DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss for the year then ended.

In preparing those financial statements, the directors are required to:

select suitable accounting policies and then apply them consistently;

make judgements and estimates that are reasonable and prudent;

state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

prepare the financial statements on the going concern basis unless it is inappropriate

EATON SQUARE PROPERTIES LIMITED**DIRECTORS' REPORT** *(continued)***DIRECTORS' RESPONSIBILITIES** *(continued)*

to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. The directors are also responsible for safeguarding the assets of the company, for the system of internal control and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

The company has elected to dispense with the obligation to appoint auditors annually and, accordingly, Deloitte & Touche LLP shall be deemed to be re-appointed as auditors for a further term under the provisions of section 386(2) of the Companies Act 1985.

Signed by order of the Board



C M Tolhurst
Company Secretary

09 MAY 2006

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
EATON SQUARE PROPERTIES LIMITED
YEAR ENDED 31 DECEMBER 2005

We have audited the financial statements of Eaton Square Properties Limited for the year ended 31 December 2005 which comprise the profit and loss account, the statement of total recognised gains and losses, the note of historical cost profits and losses, the balance sheet and the related notes 1 to 21. These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant financial reporting framework and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
EATON SQUARE PROPERTIES LIMITED
YEAR ENDED 31 DECEMBER 2005 *(continued)*

OPINION

In our opinion:

the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended;

the financial statements have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, United Kingdom

09 MAY 2006
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EATON SQUARE PROPERTIES LIMITED**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2005**

	Note	2005 £	2004 £ Restated
Turnover	2	6,830,693	6,482,687
Cost of sales		(7,470,721)	(8,447,083)
Gross loss		(640,028)	(1,964,396)
Administrative expenses		(103,741)	(122,915)
Operating loss	3	(743,769)	(2,087,311)
Profit on disposal of investment properties	6	11,164,726	9,319,763
		10,420,957	7,232,452
Interest receivable and similar income		12,424	65,019
Interest payable and similar charges	7	(1,883)	(1,225)
Profit on ordinary activities before taxation		10,431,498	7,296,246
Tax on profit on ordinary activities		—	—
Profit on ordinary activities after taxation		10,431,498	7,296,246
Dividends	9	(7,296,246)	(47,867,893)
Retained profit/(loss) for the financial year		3,135,252	(40,571,647)

All results are derived from continuing operations.

EATON SQUARE PROPERTIES LIMITED**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**
FOR THE YEAR ENDED 31 DECEMBER 2005

	2005 £	2004 £
Profit for the financial year attributable to the shareholders	10,431,498	7,296,246
Unrealised gain on revaluation of investment properties	26,107,924	60,973,903
Total recognised gains and losses relating to the year	<u>36,539,422</u>	<u>68,270,149</u>
Total recognised gains and losses	<u>36,539,422</u>	<u>68,270,149</u>

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	2005 £	2004 £ Restated
Reported profit on ordinary activities before taxation	10,431,498	7,296,246
Realisation of gains recognised in previous periods	20,107,872	22,532,098
Historical cost profit on ordinary activities before taxation	<u>30,539,370</u>	<u>29,828,344</u>
Historical cost profit/(loss) for the year retained after taxation and dividends	<u>23,243,124</u>	<u>(18,039,549)</u>

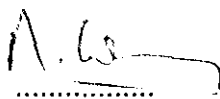
EATON SQUARE PROPERTIES LIMITED
BALANCE SHEET AS AT 31 DECEMBER 2005

	Note	2005 £	2004 £ Restated
Fixed assets			
Investment properties	11	335,204,289	324,872,983
Investments	12	1	1
		<u>335,204,290</u>	<u>324,872,984</u>
Current assets			
Debtors	13	49,837,172	29,329,486
Creditors: amounts falling due within one year	14	(7,496,554)	(5,900,738)
Net current assets		<u>42,340,618</u>	<u>23,428,748</u>
Total assets less current liabilities		<u>377,544,908</u>	<u>348,301,732</u>
Creditors: amounts falling due after more than one year	15	(35,000)	(35,000)
		<u>377,509,908</u>	<u>348,266,732</u>
Capital and reserves			
Called up share capital	17	307,100	307,100
Revaluation reserve	18	318,645,541	312,645,489
Profit and loss account	19	58,557,267	35,314,143
Shareholders' funds	20	<u>377,509,908</u>	<u>348,266,732</u>

09 MAY 2006

These financial statements were approved by the Board on the and are signed on its behalf by:


 Director


 Director

EATON SQUARE PROPERTIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS****1. ACCOUNTING POLICIES****(a) Basis of accounting**

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain fixed assets, and in accordance with applicable United Kingdom law and accounting standards. The accounting policies have been applied consistently throughout the current and preceding year with the exception of FRS21 'Events after the balance sheet date' and FRS25 'Financial instruments: disclosure and presentation', the impact of which are explained in note 10.

The company is a wholly owned subsidiary of Grosvenor Group Limited, its ultimate parent undertaking, which is incorporated in Great Britain and registered in England and Wales and prepares consolidated financial statements. Consequently the company is not required to prepare consolidated financial statements.

(b) Cash flow statement

The directors have taken advantage of the exemption in FRS1 'Cash flow statements' from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes a consolidated cash flow statement.

(c) Turnover

The turnover shown in the profit and loss account represents gross income net of VAT including rents and service charges receivable.

(d) Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Fixtures and Fittings - 12.5%

In accordance with SSAP19 (Revised) 'Accounting for Investment Properties' no depreciation is provided on freehold or on leasehold properties with an unexpired term exceeding twenty years. The directors consider that this departure from the requirement of the Companies Act 1985 for all properties to be depreciated is necessary for the financial statements to show a true and fair view, since depreciation is reflected in the open market valuation and cannot be quantified separately.

EATON SQUARE PROPERTIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS****1. ACCOUNTING POLICIES *(continued)*****(e) Investment properties**

Investment properties are valued annually at open market value by independent valuers. Any surplus or deficit on revaluation is transferred to the revaluation reserve, except that if a deficit which is expected to be permanent and which is in excess of any previously recognised surplus over cost relating to the same property, or the reversal of such a deficit, is charged or credited to the profit and loss account.

Investment properties under development are stated at cost, except where the directors consider that the value has fallen below cost, when they are revalued to the lower amount. The revaluation deficit is transferred to the revaluation reserve unless it is considered permanent, in which case it is charged to the profit and loss account.

Profits and losses on the disposal of investment properties are recognised on unconditional exchange of contracts and are calculated by reference to book value and are included in the profit and loss account. On the disposal or recognition of a provision for impairment of a revalued asset, any related balance remaining in the revaluation reserve is also transferred to the profit and loss account as a movement on reserves.

(f) Deferred taxation

Deferred taxation is provided in full in respect of timing differences between the recognition of income and expenditure for accounting and taxation purposes. Deferred taxation is not provided in respect of unrealised revaluation surpluses where there is no commitment to sell the asset. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

(g) Investments

Investments held as fixed assets are stated at cost less provision for any material diminution in value.

(h) Taxation

Current UK corporation tax is provided at a group level at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

2. TURNOVER

Turnover and profit before tax are attributable to the one principal activity of the company in the United Kingdom.

3. OPERATING LOSS

Operating loss is stated after charging:

	2005	2004
	£	£
Depreciation	<u>44,303</u>	<u>5,920</u>

EATON SQUARE PROPERTIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS****4. AUDITORS' REMUNERATION**

Auditors' remuneration for Eaton Square Properties Limited has been borne by a fellow subsidiary undertaking for both the current and preceding year.

5. PARTICULARS OF EMPLOYEES

The average number of employees by business:

	2005 No.	2004 No.
Property management	<u>1</u>	<u>1</u>

All employees are based in the United Kingdom.

The aggregate payroll costs of the above were:

	2005 £	2004 £
Wages and salaries	—	10,900
Social security costs	—	944
	<u>—</u>	<u>11,844</u>

The cost of the 1 employee, was borne by Belgravia Estate Services Limited, a fellow subsidiary undertaking, in the current year.

No fees or other emoluments were paid to the directors of the company during either the current or the preceding year in respect of their services to the company. The directors are paid by Grosvenor Estate Management Limited.

6. PROFIT ON DISPOSAL OF INVESTMENT PROPERTIES

	2005 £	2004 £
Profit on disposal of investment properties	11,164,726	9,319,763
	<u>11,164,726</u>	<u>9,319,763</u>

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2005 £	2004 £
Interest payable on trust service charge accounts	658	—
Dividends payable on 3.5% preference shares	1,225	1,225
	<u>1,883</u>	<u>1,225</u>

8. TAXATION

The taxation charge will be borne by the intermediate holding company Grosvenor Limited both in the current and preceding year.

EATON SQUARE PROPERTIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS

9. DIVIDENDS

	2005 £	2004 £ Restated
Dividend paid on equity shares	<u>7,296,246</u>	<u>47,867,893</u>

Refer to note 10 for the effect of the adoption of FRS21 'Events after the balance sheet date' on the dividends paid in the current and preceding year.

10. PRIOR YEAR ADJUSTMENT

The company has adopted FRS21 'Events after the balance sheet date' in the current year. In accordance with this standard, when dividends are declared after the balance sheet date, the entity shall not recognise these dividends as an asset or a liability at the balance sheet date. The balance sheet and profit and loss account at 31 December 2004 have been restated to reflect this change in accounting policy. The impact on the balance sheet was to reduce creditors and increase net assets by £7,297,471 being the proposed dividend for 2004. The retained result for the year was reduced by £(40,571,647) comprising of £(47,869,118) being the proposed dividend for 2003 which was paid in 2004 and £7,297,471 being the proposed dividend for 2004.

The company also has adopted FRS25 'Financial instruments: disclosure and presentation' in the current year. In accordance with this standard, the preference shares of the company have been reclassified as debt. Dividends payable on these shares have been reclassified as interest payable and accounted for on an accruals basis. The balance sheet and profit and loss account at 31 December 2004 have been restated to reflect this change in accounting policy. The impact on the balance sheet was to increase creditors and decrease share capital by £35,000, being the nominal value of the preference shares, and to increase accruals by £1,225, being an accrual for the value of the dividend payable for 2004. The impact on the profit and loss account for 2004 was to increase interest payable by £1,225, being the accrual of the dividend payable in respect of 2004, and decrease the dividend payable, as restated above, by £1,225, to reflect the fact that the 2003 preference share dividend paid in 2004 would have been accrued in 2003 under this standard.

EATON SQUARE PROPERTIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS****11. INVESTMENT PROPERTIES**

	Long leasehold £	Furniture and equipment £	Total £
Cost or valuation			
At 1 January 2005	324,745,582	133,321	324,878,903
Additions	4,946,640	169,346	5,115,986
Disposals	(20,848,301)	–	(20,848,301)
Revaluation	26,107,924	–	26,107,924
At 31 December 2005	334,951,845	302,667	335,254,512
Depreciation			
At 1 January 2005	–	5,920	5,920
Charge for the year	–	44,303	44,303
At 31 December 2005	–	50,223	50,223
Net book value			
At 31 December 2005	334,951,845	252,444	335,204,289
At 31 December 2004	324,745,582	127,401	324,872,983

Revaluation of investment properties

Long leasehold investment properties were valued at 31 December 2005 by CB Richard Ellis on the basis of open market value as defined in the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual.

The historical cost of properties was £16,306,301 (2004 - £12,100,092).

The taxation on capital gains which would be payable on the surplus arising on the revaluation of investment properties, in the event of their sale at valuation, is estimated to be approximately £104,310,000 (2004 - £93,234,000).

12. INVESTMENTS**Subsidiary Undertakings**

	£
Cost:	
At 1 January 2005 and 31 December 2005	1
Net book value:	
At 31 December 2005	1
At 31 December 2004	1

The company owns 100% of the issued share capital of Grosvenor Hong Kong Limited, an investment company incorporated in Hong Kong. Grosvenor Hong Kong Limited became dormant on 22nd February 2005.

The directors consider the value of the shares in the subsidiary is not less than the amount at which the investment is included in the balance sheet.

EATON SQUARE PROPERTIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS****13. DEBTORS**

	2005 £	2004 £
Trade debtors	614,407	409,104
Amounts owed by group undertakings	45,436,583	23,771,549
Other debtors	2,072,535	1,801,014
Prepayments and accrued income	1,713,647	3,347,819
	<u>49,837,172</u>	<u>29,329,486</u>

14. CREDITORS: amounts falling due within one year

	2005 £	2004 £
		Restated
Trade creditors	875,269	833,483
Other creditors	2,263,593	1,824,711
Accruals and deferred income	4,357,692	3,242,544
	<u>7,496,554</u>	<u>5,900,738</u>

15. CREDITORS: amounts falling due after more than one year

	2005 £	2004 £
35,000 authorised, allotted, called up and fully paid 3.5% preference shares of £1.00 each	<u>35,000</u>	<u>35,000</u>

16. RELATED PARTY TRANSACTIONS

The company has applied the exemption granted by FRS8 'Related party disclosures' not to disclose transactions with Grosvenor Group Limited, fellow subsidiaries of Grosvenor Group Limited, or any undertaking in which any member of the group holds an investment which would otherwise qualify as related parties.

Accordingly, during the period under review there were no transactions or balances with related parties which require disclosure in these financial statements.

EATON SQUARE PROPERTIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS****17. CALLED UP SHARE CAPITAL****Authorised, allotted, called up and fully paid:**

	2005 £	2004 £
153,550 ordinary shares of £1.00 each	153,550	153,550
153,550 deferred ordinary shares of £1.00 each	153,550	153,550
	<u>307,100</u>	<u>307,100</u>

The profits which the company determines to distribute are to be applied first in paying a fixed cumulative dividend of 3.5% per annum on the amounts paid up on the 3.5% cumulative preference shares, classified as debt in other creditors above. The balance of profits for distribution are payable to the holders of the ordinary shares.

On a return of the company's assets to shareholders the assets are to be applied first in repaying to the holders of the 3.5% cumulative preference shares the amounts paid up on their shares, secondly in repaying to the holders of the ordinary shares the amounts paid up on their shares, thirdly amongst the holders of the 3.5% cumulative preference shares and the ordinary shares *pari passu* until a further payment of 10 pence has been made in respect of each preference share paid up, fourthly by a maximum of £100 million amongst the holders of the ordinary shares and lastly in repaying to the holders of the deferred shares the amounts paid up on their shares. The balance of the assets is payable to the holders of the ordinary shares in proportion to the amounts paid up on their shares.

The ordinary shares confer voting rights upon the holder. The deferred shares have no voting rights.

18. REVALUATION RESERVE

	2005 £	2004 £
At 1 January	312,645,489	274,203,684
Revaluation of fixed assets	26,107,924	60,973,903
Transfer to the profit and loss account on realisation	(20,107,872)	(22,532,098)
At 31 December	<u>318,645,541</u>	<u>312,645,489</u>

19. PROFIT AND LOSS ACCOUNT

	2005 £	2004 £ Restated
Original balance at 1 January	28,017,897	5,485,799
Prior year adjustment (note 10)	7,296,246	47,867,893
Restated balance at 1 January	35,314,143	53,353,692
Retained profit/(loss) for the financial year	3,135,252	(40,571,647)
Transfer from revaluation reserve	20,107,872	22,532,098
At 31 December	<u>58,557,267</u>	<u>35,314,143</u>

EATON SQUARE PROPERTIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS****20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS****SHAREHOLDERS' FUNDS**

	2005 £	2004 £ Restated
Profit for the financial year	10,431,498	7,296,246
Dividends	(7,296,246)	(47,867,893)
	<u>3,135,252</u>	<u>(40,571,647)</u>
Other net recognised gains and losses	26,107,924	60,973,903
Net addition to funds	29,243,176	20,402,256
Opening ordinary shareholders' funds as previously stated	340,816,936	279,843,033
Prior year adjustment (see note 10)	7,296,246	47,867,893
Opening ordinary shareholders' funds as restated	<u>348,113,182</u>	<u>327,710,926</u>
Closing ordinary shareholders' funds	<u>377,356,358</u>	<u>348,113,182</u>

DEFERRED SHAREHOLDERS' FUNDS

Opening and closing deferred shareholders' funds	<u>153,550</u>	<u>153,550</u>
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TOTAL SHAREHOLDERS' FUNDS	<u>377,509,908</u>	<u>348,266,732</u>
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21. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The company's ultimate parent undertaking is Grosvenor Group Limited, a company incorporated in Great Britain and registered in England and Wales which is wholly owned by trusts and members of the Grosvenor family, headed by the Duke of Westminster.

The ultimate parent undertaking heads the largest group of undertakings of which the company is a member and for which group accounts are prepared. Grosvenor Limited, an intermediate holding company, heads the smallest group of undertakings of which the company is a member and for which group accounts are prepared. Grosvenor Limited is the immediate holding company.

Copies of the consolidated financial statements of Grosvenor Group Limited and Grosvenor Limited can be obtained from Companies House, 3 Crown Way, Maindy, Cardiff, CF14 3UZ.