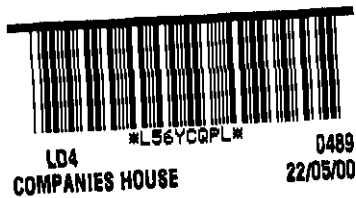


EATON SQUARE PROPERTIES LIMITED

Registered No: 417751

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

YEAR ENDED 31 DECEMBER 1999



EATON SQUARE PROPERTIES LIMITED

DIRECTORS' REPORT

The directors submit their annual report together with the financial statements for the year ended 31 December 1999.

PRINCIPAL ACTIVITIES

The principal activity of the company is investment in leasehold property in the United Kingdom.

RESULTS AND DIVIDEND

The results of the company for the year are shown on page 4. The profit on ordinary activities before taxation was £11,095,599 (1998 - £10,894,299). The directors do not anticipate any significant changes in the activities of the company and its profitability. The directors paid an interim dividend on the ordinary shares of £2,498,775 (1998 - £2,266,775) and a dividend on the cumulative preference shares of £1,225 (1998 - £1,225) to the parent company.

The directors do not recommend payment of a final dividend (1998 - £nil).

DIRECTORS

The directors of the company at 31 December 1999, all of whom were directors throughout the year, except as noted below, were:

C J Redman
R C Williams
J G Wright
J R Milne
L McConnachie
O B K Fenn-Smith (appointed 1 October 1999)

DIRECTORS' INTERESTS

None of the company's directors had any interests in the shares or loan capital of the company, its ultimate parent company, Grosvenor Group Holdings Limited, or any of its fellow subsidiary undertakings required to be disclosed under the Companies Act 1985.

DIRECTORS' RESPONSIBILITIES

The directors have responsibility for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss for the year.

In preparing the financial statements, the directors are required to ensure that suitable accounting policies are selected and consistently applied, that the judgements and estimates made are reasonable and prudent, and that applicable accounting standards are followed.

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

The directors have adopted the going concern basis in preparing the financial statements.

EATON SQUARE PROPERTIES LIMITED

DIRECTORS' REPORT

YEAR 2000

The directors continue to be alert to the potential risks and uncertainties surrounding the Year 2000 issue. As at the date of this report, the directors are not aware of any significant factors which have arisen, or that may arise, which will affect activities of the business, although the situation is being monitored.

The cost to date of achieving Year 2000 compliance has been borne by Grosvenor Estate Holdings, an intermediate parent company, and, therefore, it has not been reflected in these financial statements. Any future costs associated with this issue cannot be quantified but are not anticipated to be significant.

AUDITORS

Pursuant to S386 of the Companies Act 1985 (as amended by the Companies Act 1989) an elective resolution has been passed to dispense with the requirement to reappoint auditors annually.

By Order of the Board



C M Tolhurst
Secretary

10 March 2000

EATON SQUARE PROPERTIES LIMITED**AUDITORS' REPORT TO THE MEMBERS OF THE COMPANY**

We have audited the financial statements on pages 4 to 13 which have been prepared under the accounting policies set out on page 6.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the directors' report on page 1, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

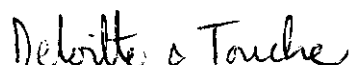
BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 1999 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche
Chartered Accountants and
Registered Auditors
Hill House
1 Little New Street
London EC4A 3TR

13 March 2000

EATON SQUARE PROPERTIES LIMITED**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED****31 DECEMBER 1999**

	<u>Note</u>	<u>1999</u> £	<u>1998</u> £
<u>Results of continuing operations:</u>			
Turnover	2	4,577,515	4,028,637
Cost of sales		(939,725)	(913,143)
<u>Gross profit</u>		3,637,790	3,115,494
Administrative expenses		(871,406)	(1,009,994)
<u>Operating profit</u>	3	2,766,384	2,105,500
Profit on sale of investment properties		2,751,282	3,393,033
Net interest receivable	4	5,577,933	5,395,766
<u>Profit on ordinary activities before taxation</u>		11,095,599	10,894,299
Tax on profit on ordinary activities	5	(2,705,092)	(3,507,090)
<u>Profit on ordinary activities after taxation</u>		8,390,507	7,387,209
Dividends paid:			
Cumulative preference		(1,225)	(1,225)
Ordinary-interim		(2,498,775)	(2,266,775)
		(2,500,000)	(2,268,000)
<u>Retained profit for the year</u>	14	5,890,507	5,119,209

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 1999

		<u>1999</u> £	<u>1998</u> £
Profit on ordinary activities after taxation		8,390,507	7,387,209
Unrealised surplus on revaluation of investment properties	12	10,320,692	22,861,799
Tax charged to reserve	5	(947,770)	(1,493,280)
Total recognised gains for the year		17,763,429	28,755,728

NOTE OF HISTORICAL COST PROFITS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 1999

		<u>1999</u> £	<u>1998</u> £
Reported profit on ordinary activities before taxation		11,095,599	10,894,299
Realisation of property revaluation gains of previous years		5,444,761	5,146,674
Historical cost profit on ordinary activities before taxation		16,540,360	16,040,973
Historical cost retained profit for the year – after taxation and dividends		10,387,498	8,772,603

EATON SQUARE PROPERTIES LIMITED
BALANCE SHEET AT 31 DECEMBER 1999

	<u>Notes</u>	<u>1999</u>	<u>1998</u>
		£	£
<u>Tangible fixed assets</u>			
Investment properties	6	200,524,385	195,714,657
Investments	7	662,413	662,413
		<u>201,186,798</u>	<u>196,377,070</u>
<u>Current assets</u>			
Debtors	8	72,649,727	65,321,563
<u>Creditors: amounts falling due within one year</u>	9	(6,672,847)	(9,813,723)
<u>Net current assets</u>		<u>65,976,880</u>	<u>55,507,840</u>
<u>Total assets less current liabilities</u>		267,163,678	251,884,910
<u>Creditors: amounts falling due after more than one year</u>	10	(15,339)	-
<u>Net assets</u>		<u>267,148,339</u>	<u>251,884,910</u>
<u>Capital and reserves</u>			
Called up share capital	11	342,100	342,100
Revaluation reserve	12	214,854,838	209,978,907
Other non distributable reserve	13	37,247,235	30,830,962
Profit and loss account	14	14,704,166	10,732,941
<u>Shareholder's funds including non-equity interests</u>	15	<u>267,148,339</u>	<u>251,884,910</u>

Approved by the Board on 17 March 2000



.....
R C Williams
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, as modified by the revaluation of investment properties, and in accordance with accounting standards applicable in the UK. The company's principal accounting policies are unchanged compared with the year ended 31 December 1998.

The company is a wholly owned subsidiary of Grosvenor Group Holdings Limited, its ultimate parent undertaking, which is registered in England and Wales and prepares consolidated financial statements. Consequently, the company is required neither to prepare consolidated financial statements nor present a cash flow statement.

(b) Turnover

Turnover comprises gross income net of VAT including rents and service charges receivable.

(c) Investment properties

Investment properties are valued annually at open market value, by independent valuers every three years, and in intervening years by the directors. Any surplus or deficit on revaluation is transferred to the revaluation reserve, except that any permanent diminution in value below original cost is taken to the profit and loss account. Investment properties under development are stated at the lower of cost and net realisable value. Profits and losses on the disposal of investment properties are calculated by reference to book value and are included in the profit and loss account.

(d) Depreciation

In accordance with SSAP 19 (Revised) "Accounting for investment properties" no depreciation is provided on freehold properties or on leasehold investment 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 identified or quantified separately.

Other fixed assets are depreciated on a reducing balance basis to spread their cost over their expected useful lives at 25%.

(e) Deferred taxation

Deferred taxation is accounted for in respect of timing differences between the recognition of income and expenditure for accounting and taxation purposes and in respect of unrealised revaluation surpluses to the extent that it is considered probable that a tax liability or asset will crystallise in the foreseeable future.

(f) Investments

Investments are held at cost less provision for permanent diminution in value.

EATON SQUARE PROPERTIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)**

2.	<u>TURNOVER</u>	<u>1999</u>	<u>1998</u>
		£	£
	Rents receivable	4,496,304	3,993,273
	Service and other charges	81,211	35,364
		<u>4,577,515</u>	<u>4,028,637</u>

Turnover and profit before taxation are generated from investment property activities in the United Kingdom.

3. **OPERATING PROFIT**

Operating profit is stated after charging:-

	<u>1999</u>	<u>1998</u>
	£	£
Staff costs:		
Wages and salaries	10,012	9,623
Social security costs	698	673
Other pension costs	1,051	1,038
	<u>11,761</u>	<u>11,334</u>
Depreciation of tangible fixed assets	14,657	4,885
Provision for permanent diminution in value of investments	-	425,339
Directors' remuneration	-	-
	<u>-</u>	<u>-</u>

Auditors' remuneration is borne by a fellow subsidiary undertaking.

The average number of persons employed by the company during the year was 1 (1998 – 1).

4.	<u>NET INTEREST RECEIVABLE</u>	<u>1999</u>	<u>1998</u>
		£	£
	Interest payable on trust service charge accounts	(1,049)	(597)
	Receivable on loan to group undertaking	5,565,970	5,381,225
	Other interest receivable	13,012	15,138
		<u>5,577,933</u>	<u>5,395,766</u>

EATON SQUARE PROPERTIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)**

5.

<u>TAX ON PROFIT ON ORDINARY ACTIVITIES</u>	<u>1999</u>	<u>1998</u>
	£	£
<u>Tax on profit on ordinary activities</u>		
UK Corporation Tax at 30.25% (1998 - 31%)	3,376,000	3,516,000
Adjustments for prior years:		
Corporation tax	(670,908)	(8,910)
	<u>2,705,092</u>	<u>3,507,090</u>
<u>Taxation charged to reserves</u>		
Tax on profit on sale of investment properties relating to revaluation gains recognised in prior years (Note 12)	1,114,000	1,300,000
Adjustment for prior years:	(166,230)	193,280
	<u>947,770</u>	<u>1,493,280</u>

6.

	<u>Long leasehold properties</u>	<u>Plant and equipment</u>	<u>Total</u>
<u>Cost or valuation</u>	£	£	£
At 1 January 1999	195,700,000	578,603	196,278,603
Additions	459,982	-	459,982
Disposals	(5,956,289)	-	(5,956,289)
Surplus transferred to revaluation reserve (Note 12)	10,320,692	-	10,320,692
At 31 December 1999	<u>200,524,385</u>	<u>578,603</u>	<u>201,102,988</u>
<u>Depreciation</u>			
At 1 January 1999	-	563,946	563,946
Charge for the year	-	14,657	14,657
At 31 December 1999	<u>-</u>	<u>578,603</u>	<u>578,603</u>
<u>Net book value</u>			
At 31 December 1999	<u>200,524,385</u>	<u>-</u>	<u>200,524,385</u>
At 31 December 1998	195,700,000	14,657	195,714,657

Long leasehold investment properties were valued as at 31 December 1999 by the directors, 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 at valuation was £NIL (1998 - £NIL).

The taxation on capital gains which would be payable on the surplus arising on the revaluation of fixed assets, in the event of their sale at their valuation, is estimated to be approximately £59,100,000 (1998 - £59,000,000).

EATON SQUARE PROPERTIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****7. FIXED ASSETS INVESTMENTS:
SUBSIDIARY UNDERTAKINGS**

£

Cost

At 1 January and 31 December 1999

1,087,752

Provision

At 1 January and 31 December 1999

425,339

Net Book Value

At 31 December 1999 and 1998

662,413

The following companies, were wholly owned subsidiaries of the company at 31 December 1999:

Nature of Business

Suttonridge Pty Limited (Incorporated in Australia)

Investment

Bulls Run Property Limited (Incorporated in Australia)

Investment

Grosvenor Hong Kong Limited (Incorporated in Hong Kong)

Loans to related companies

- (a) Bulls Run Property Limited is a wholly owned subsidiary of Suttonridge Pty Limited.
- (b) The directors consider the value of the shares in the subsidiaries is not less than the amount at which the investments are included in the balance sheet.

8. DEBTORS1999

£

1998

£

Trade debtors

1,119,149

880,494

Loan to group undertaking

64,927,293

63,498,187

Amounts owed by other group undertakings

348,536

167,706

Other debtors

668,719

534,313

Other taxation

40,000

24,001

Prepayments and accrued income

5,546,030

216,862

72,649,727

65,321,563

EATON SQUARE PROPERTIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)**

9.	<u>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</u>	<u>1999</u>	<u>1998</u>
		£	£
	Trade creditors	446,641	528,480
	Other creditors	676,667	527,119
	Corporation tax	4,489,393	7,455,379
	Accruals and deferred income	1,060,146	1,302,745
		<u>6,672,847</u>	<u>9,813,723</u>
10.	<u>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</u>	<u>1999</u>	<u>1998</u>
		£	£
	Accruals and deferred income	<u>15,339</u>	<u>-</u>
11.	<u>SHARE CAPITAL</u>	<u>1999</u>	<u>1998</u>
		£	£
	<u>Authorised, allotted, called up and fully paid</u>		
	<u>Equity interests</u>		
	153,550 ordinary shares of £1 each	153,550	153,550
	<u>Non-equity interests</u>		
	5% (now 3.5% plus tax credit)		
	35,000 cumulative preference shares of £1 each	35,000	35,000
	153,550 deferred ordinary shares of £1 each	153,550	153,550
		<u>342,100</u>	<u>342,100</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. 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.

EATON SQUARE PROPERTIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****12. REVALUATION RESERVE**

	<u>1999</u> £	<u>1998</u> £
At 1 January	209,978,907	192,263,782
Adjustment for taxation on premiums in prior years	166,230	(193,280)
Corporation tax on disposals recognised in 1999 (Note 5)	(1,114,000)	(1,300,000)
Surplus arising on revaluation of investment properties (Note 6)	10,320,692	22,861,799
Transfer of realised surplus to other reserve (net of tax) (Note 13)	(4,496,991)	(3,653,394)
At 31 December	<u>214,854,838</u>	<u>209,978,907</u>

The revaluation reserve represents the excess of the valuation over the historical cost of investment properties held at 31 December 1999.

Where full historical cost information is not available, the earliest available values have been used to determine the amount of revaluation surplus to be transferred to other reserves on the disposal of investment properties.

13. OTHER NON DISTRIBUTABLE RESERVE

	<u>1999</u> £	<u>1998</u> £
At 1 January	30,830,962	24,836,535
Transfer from profit and loss account (Note 14)	1,919,282	2,341,033
Transfer from revaluation reserve (Note 12)	4,496,991	3,653,394
At 31 December	<u>37,247,235</u>	<u>30,830,962</u>

The other reserves represent realised profits (net of tax) on the disposal of investment properties.

14. PROFIT AND LOSS ACCOUNT

	<u>1999</u> £	<u>1998</u> £
At 1 January	10,732,941	7,954,765
Retained profit for the year	5,890,507	5,119,209
Transfer of realised profit on sale of investment properties to other reserves (net of tax) (Note 13)	(1,919,282)	(2,341,033)
At 31 December	<u>14,704,166</u>	<u>10,732,941</u>

EATON SQUARE PROPERTIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****15. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	<u>1999</u> £	<u>1998</u> £
Profit for the financial year	8,390,507	7,387,209
Dividend	(2,500,000)	(2,268,000)
	<hr/> 5,890,507	<hr/> 5,119,209
Other recognised gains and losses relating to the year (net)	<hr/> 9,372,922	<hr/> 21,368,519
Net increase to shareholders' funds	15,263,429	26,487,728
Opening shareholders' funds	<hr/> 251,884,910	<hr/> 225,397,182
Closing shareholders' funds	<hr/> <hr/> 267,148,339	<hr/> <hr/> 251,884,910
Attributable to:-		
Equity shareholders	266,956,289	251,692,860
Non-equity shareholders	192,050	192,050
	<hr/> <hr/> 267,148,339	<hr/> <hr/> 251,884,910

16. PENSION SCHEMES

The company participates in a pension scheme in the Grosvenor Estates Pension Scheme, a defined benefit scheme, and the Grosvenor Estate Money Purchase, a defined contribution scheme. Both schemes are sponsored by the company's ultimate parent undertaking, Grosvenor Group Holdings Limited, and are administered by independent trustees. The Grosvenor Estates Pension Scheme is funded in accordance with the advice of independent qualified actuaries. Details of the most recent actuarial valuation are included in the Annual Report of Grosvenor Group Holdings Limited for the year ended 31 December 1999.

17. ULTIMATE PARENT UNDERTAKING

The company's ultimate parent undertaking and controlling entity is Grosvenor Group Holdings Limited, a company 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, is the smallest group of undertakings of which the company is a member and for which group accounts are prepared.

Copies of the consolidated financial statements of Grosvenor Group Holdings Limited can be obtained from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.

EATON SQUARE PROPERTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. **RELATED PARTY TRANSACTIONS**

Last year Eaton Square Properties Limited managed the refurbishment of a property now let to the Chairman of Grosvenor Group Holdings Limited, the ultimate parent company, on an arm's length basis. Costs of £86,000 were reimbursed by the Chairman.