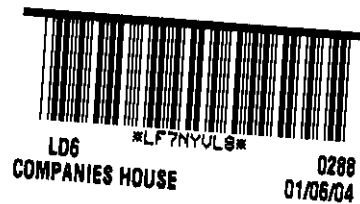


EATON SQUARE PROPERTIES LIMITED

COMPANY REGISTRATION NUMBER 417751

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

YEAR ENDED 31 DECEMBER 2003



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 2003.

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 £9,783,039 (2002 - £8,919,831).

The directors have recommended the following dividends:

	2003 £	2002 £
Proposed dividends on ordinary shares	47,867,893	8,918,606
Proposed dividends on preference shares	1,225	1,225
	<u>47,869,118</u>	<u>8,919,831</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

None of the directors in office at 31 December 2003 had any interests in the securities of the company, Grosvenor Group Limited (formerly Grosvenor Group Holdings Limited), its ultimate parent undertaking, or any of its fellow subsidiary undertakings which are required to be disclosed under the Companies Act 1985.

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 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, the system of internal control and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

On 1 August 2003 Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. 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

- 5 MAR 2004

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
EATON SQUARE PROPERTIES LIMITED
YEAR ENDED 31 DECEMBER 2003

We have audited the financial statements of Eaton Square Properties Limited for the year ended 31 December 2003 which comprise the profit and loss account, the statement of total recognised gains and losses, the note of historical cost profits, the balance sheet and the related notes 1 to 17. 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 United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view 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.

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 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 2003 *(continued)*

OPINION

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte and Touche LLP
Chartered Accountants and Registered Auditors
London

- 5 MAR 2004
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EATON SQUARE PROPERTIES LIMITED**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2003**

	Note	2003 £	2002 £
Turnover	2	6,702,445	6,734,892
Cost of sales		(5,398,040)	(3,709,316)
Gross profit		1,304,405	3,025,576
Administrative expenses		(173,634)	(102,042)
Operating profit		1,130,771	2,923,534
Profit on disposal of investment properties	4	8,647,234	5,974,702
		9,778,005	8,898,236
Interest receivable		5,034	21,595
Profit on ordinary activities before taxation		9,783,039	8,919,831
Tax on profit on ordinary activities		—	—
Profit on ordinary activities after taxation		9,783,039	8,919,831
Dividends	6	(47,869,118)	(8,919,831)
Retained loss for the financial year		<u>(38,086,079)</u>	<u>—</u>

All results are derived from continuing operations.

EATON SQUARE PROPERTIES LIMITED**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**
FOR THE YEAR ENDED 31 DECEMBER 2003

	2003 £	2002 £
Profit for the financial year attributable to the shareholders	9,783,039	8,919,831
Unrealised gain on revaluation of investment properties	8,591,691	22,940,353
Total recognised gains and losses	<u>18,374,730</u>	<u>31,860,184</u>

NOTE OF HISTORICAL COST PROFITS


	2003 £	2002 £
Reported profit on ordinary activities before taxation	9,783,039	8,919,831
Realisation of gains recognised in previous periods	5,485,799	24,952,163
Historical cost profit on ordinary activities before taxation	<u>15,268,838</u>	<u>33,871,994</u>
Historical cost (loss)/profit for the year retained after taxation and dividends	<u>(32,600,280)</u>	<u>24,952,163</u>

EATON SQUARE PROPERTIES LIMITED
BALANCE SHEET AS AT 31 DECEMBER 2003


	Note	2003 £	2002 £
Tangible fixed assets			
Investment properties	7	283,430,251	278,912,769
Investments	8	1	1
		<u>283,430,252</u>	<u>278,912,770</u>
Current assets			
Debtors	9	49,003,693	43,078,426
Creditors: amounts falling due within one year	10	(52,402,362)	(12,465,225)
Net current (liabilities)/assets		<u>(3,398,669)</u>	<u>30,613,201</u>
Total assets less current liabilities		<u>280,031,583</u>	<u>309,525,971</u>
Capital and reserves			
Called up share capital	13	342,100	342,100
Revaluation reserve	14	274,203,684	271,097,792
Profit and loss account	15	5,485,799	38,086,079
Shareholders' funds including non-equity interests	16	<u>280,031,583</u>	<u>309,525,971</u>

- 5 MAR 2004

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 accounting standards. The accounting policies adopted are consistent with the previous year.

(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

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.

(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 permanent diminution in value below original cost arises it is taken 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.

(f) Pension costs

Pension costs are charged to the profit and loss account on a systematic basis over the period that the company is expected to benefit from the service of the employees concerned.

(g) 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.

EATON SQUARE PROPERTIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES *(continued)*

(h) Investments

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

2. TURNOVER

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

3. PARTICULARS OF EMPLOYEES

The average number of employees by business:

	2003 No.	2002 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:

	2003 £	2002 £
Wages and salaries	19,508	14,038
Social security costs	1,964	1,116
Other pension costs	—	1,460
	<u>21,472</u>	<u>16,614</u>

No remuneration was paid to the directors for their services as directors of the company in the current or preceding year.

4. PROFIT ON DISPOSAL OF INVESTMENT PROPERTIES

	2003 £	2002 £
Profit on disposal of investment properties	8,647,234	5,974,702
	<u>8,647,234</u>	<u>5,974,702</u>

5. TAXATION

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

6. DIVIDENDS

	2003 £	2002 £
Proposed equity dividend on ordinary shares	47,867,893	8,918,606
Proposed non-equity dividend on cumulative preference shares	1,225	1,225
	<u>47,869,118</u>	<u>8,919,831</u>

EATON SQUARE PROPERTIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS****7. INVESTMENT PROPERTIES**

	Long leasehold £
Cost or valuation	
At 1 January 2003	278,912,769
Additions	9,510,080
Disposals	(13,584,289)
Revaluation	8,591,691
At 31 December 2003	<u>283,430,251</u>
Net book value	
At 31 December 2003	<u>283,430,251</u>
At 31 December 2002	<u>278,912,769</u>

Revaluation of fixed assets

Long leasehold investment properties were valued at 31 December 2003 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 £9,226,567 (2002 - £6,134,989).

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 valuation, is estimated to be approximately £81,815,000 (2002 - £81,450,000).

8. INVESTMENTS**Subsidiary Undertakings**

	£
Cost:	
At 1 January 2003 and 31 December 2003	<u>1</u>
Net book value:	
At 31 December 2003	<u>1</u>
At 31 December 2002	<u>1</u>

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 is in the process of being liquidated.

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****9. DEBTORS**

	2003 £	2002 £
Trade debtors	808,791	1,048,029
Amounts owed by group undertakings	32,870,801	38,228,939
Other debtors	1,419,105	1,145,740
Prepayments and accrued income	13,904,996	2,655,718
	<u>49,003,693</u>	<u>43,078,426</u>

10. CREDITORS: amounts falling due within one year

	2003 £	2002 £
Trade creditors	1,131,695	846,692
Other taxation and social security	19,335	4,680
Other creditors	1,426,934	1,068,620
Accruals and deferred income	1,955,280	1,625,402
Dividends payable	47,869,118	8,919,831
	<u>52,402,362</u>	<u>12,465,225</u>

11. PENSIONS

In the prior year, the employee was a member of the principal pension scheme, the Grosvenor Estate Money Purchase Scheme (GEMPS), a defined contribution scheme. Eaton Square Properties Limited only contributed to GEMPS. The scheme is administered by independent trustees. In the current year, the employee is not a member of this scheme.

The company's contributions to the defined contribution scheme were £nil (2002 - £1,460).

12. RELATED PARTY TRANSACTIONS

The company has applied the exemption granted by FRS8 'Related party disclosures' not to disclose transactions with Grosvenor Group Limited (formerly Grosvenor Group Holdings 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****13. SHARE CAPITAL****Authorised, allotted, called up and fully paid:**

	2003 £	2002 £
<u>Equity interests</u>		
153,550 ordinary shares of £1.00 each	153,550	153,550
<u>Non-equity interests</u>		
35,000 3.5% cumulative preference shares of £1.00 each	35,000	35,000
153,550 deferred ordinary shares of £1.00 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.

14. REVALUATION RESERVE

	2003 £	2002 £
At 1 January	271,097,792	273,109,602
Revaluation of fixed assets	8,591,691	22,940,353
Transfer to the profit and loss account on realisation	(5,485,799)	(24,952,163)
At 31 December	<u>274,203,684</u>	<u>271,097,792</u>

15. PROFIT AND LOSS ACCOUNT

	2003 £	2002 £
At 1 January	38,086,079	13,133,916
Retained loss for the financial year	(38,086,079)	—
Transfer from revaluation reserve	5,485,799	24,952,163
At 31 December	<u>5,485,799</u>	<u>38,086,079</u>

EATON SQUARE PROPERTIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS****16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS****EQUITY SHAREHOLDERS' FUNDS**

	2003 £	2002 £
Profit for the financial year	9,783,039	8,919,831
Dividends	(47,869,118)	(8,919,831)
	(38,086,079)	—
Other net recognised gains and losses	8,591,691	22,940,353
Net (reduction)/addition to funds	(29,494,388)	22,940,353
Opening equity shareholders' funds	309,337,421	286,397,068
Closing equity shareholders' funds	<u>279,843,033</u>	<u>309,337,421</u>

NON-EQUITY SHAREHOLDERS' FUNDS

Opening and closing non-equity shareholders' funds	<u>188,550</u>	<u>188,550</u>
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TOTAL SHAREHOLDERS' FUNDS	<u>280,031,583</u>	<u>309,525,971</u>
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As detailed in the share capital note, on a return of the company's assets a further payment of 10 pence is due in respect of each preference share paid up. Therefore, an additional £3,500 would be attributable to non-equity shareholders giving a total non-equity shareholders' funds of £192,050 (2002 - £192,050) and total equity shareholders' funds of £279,839,533 (2002 - £309,333,921).

17. ULTIMATE PARENT COMPANY

The company's ultimate parent undertaking is Grosvenor Group Limited (formerly Grosvenor Group Holdings 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.

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

