

EATON SQUARE PROPERTIES LIMITED

COMPANY REGISTRATION NUMBER 417751

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

YEAR ENDED 31 DECEMBER 2002



EATON SQUARE PROPERTIES LIMITED**DIRECTORS' REPORT**

The directors submit their annual report together with the financial statements of the company for the year ended 31 December 2002.

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 £8,919,831 (2001 - £11,735,483).

The directors have recommended the following dividends:

	2002 £	2001 £
Proposed dividends on ordinary shares	8,918,606	24,998,775
Proposed dividends on preference shares	1,225	1,225
	<u>8,919,831</u>	<u>25,000,000</u>

THE DIRECTORS AND THEIR INTERESTS IN SHARES OF THE COMPANY

The directors who served the company during the year were as follows:

R S Handley

J R Milne

S H R Musgrave

R C Williams

S J Curtis

(Appointed 13 September 2002)

O B K Fenn-Smith

(Resigned 13 September 2002)

None of the directors in office at 31 December 2002 had any interests in the securities of the company, 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, as described on page 8, 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

EATON SQUARE PROPERTIES LIMITED

DIRECTORS' REPORT *(continued)*

DIRECTORS' RESPONSIBILITIES (continued)

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

Pursuant to S386 of the Companies Act 1985 an elective resolution has been passed to dispense with the requirement to reappoint auditors annually.

Signed by order of the Board

A handwritten signature in black ink, appearing to read 'C M Tolhurst', written in a cursive style.

C M Tolhurst
Company Secretary

06 MAR 2003

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
EATON SQUARE PROPERTIES LIMITED
YEAR ENDED 31 DECEMBER 2002

We have audited the financial statements which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Note of Historical Cost Profit, 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 THE DIRECTORS AND THE AUDITORS

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and Accounting Standards are set out in the Statement of Directors' Responsibilities.

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 to you 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 within it. 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 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 2002 *(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 2002 and of the profit of the company for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants & Registered Auditors
London

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06 MAR 2003

EATON SQUARE PROPERTIES LIMITED**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2002**

	Note	2002 £	2001 £
Turnover	2	6,734,892	5,372,891
Cost of sales		(3,709,316)	(2,723,122)
Gross profit		3,025,576	2,649,769
Administrative expenses		(102,042)	(102,430)
Operating profit		2,923,534	2,547,339
Profit on disposal of investment properties	4	5,974,702	7,622,947
		8,898,236	10,170,286
Income from shares in group undertakings		—	2,170,970
Interest receivable		21,595	56,639
Amounts provided against investments		—	(662,412)
Profit on ordinary activities before taxation		8,919,831	11,735,483
Tax on profit on ordinary activities		—	—
Profit on ordinary activities after taxation		8,919,831	11,735,483
Dividends (including non-equity)	6	(8,919,831)	(25,000,000)
Retained loss for the financial year		—	(13,264,517)

All of the activities of the company are classed as continuing.

EATON SQUARE PROPERTIES LIMITED**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**
FOR THE YEAR ENDED 31 DECEMBER 2002

	2002 £	2001 £
Profit for the financial year attributable to the shareholders	8,919,831	11,735,483
Unrealised gain on revaluation of investment properties	22,940,353	55,147,369
Total gains and losses recognised since the last annual report	<u>31,860,184</u>	<u>66,882,852</u>

NOTE OF HISTORICAL COST PROFITS

	2002 £	2001 £
Reported profit on ordinary activities before taxation	8,919,831	11,735,483
Realisation of gains recognised in previous periods	24,952,163	26,339,588
Historical cost profit on ordinary activities before taxation	<u>33,871,994</u>	<u>38,075,071</u>
Historical cost profit for the year retained after taxation and dividends	<u>24,952,163</u>	<u>13,075,071</u>


EATON SQUARE PROPERTIES LIMITED**BALANCE SHEET AS AT 31 DECEMBER 2002**

	Note	2002 £	2001 £
Tangible fixed assets			
Investment properties	7	278,912,769	273,109,600
Investments	8	1	1
		<u>278,912,770</u>	<u>273,109,601</u>
Current assets			
Debtors	9	43,078,426	42,005,768
Creditors: Amounts falling due within one year	10	(12,465,225)	(28,529,751)
Net current assets		<u>30,613,201</u>	<u>13,476,017</u>
Total assets less current liabilities		<u>309,525,971</u>	<u>286,585,618</u>
Capital and reserves			
Called-up share capital	13	342,100	342,100
Revaluation reserve	14	271,097,792	273,109,602
Profit and loss account	15	38,086,079	13,133,916
Shareholders' funds including non-equity interests	16	<u>309,525,971</u>	<u>286,585,618</u>

06 MAR 2003

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


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Director


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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 accounting standards.

(b) Cash flow statement

The directors have taken advantage of the exemption in FRS1 (revised) '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 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 included in the profit and loss account.

(f) 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 staff employed by the company during the financial year amounted to:

	2002	2001
	No.	No.
Number of property investment staff	<u>1</u>	<u>1</u>

EATON SQUARE PROPERTIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS****3. PARTICULARS OF EMPLOYEES *(continued)***

The aggregate payroll costs of the above were:

	2002	2001
	£	£
Wages and salaries	14,038	12,750
Social security costs	1,116	987
Other pension costs	1,460	1,339
	<u>16,614</u>	<u>15,076</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

	2002	2001
	£	£
Profit on disposal of investment properties	<u>5,974,702</u>	<u>7,622,947</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

	2002	2001
	£	£
Proposed dividend on ordinary shares	8,918,606	24,998,775
Proposed dividend on cumulative preference shares	1,225	1,225
	<u>8,919,831</u>	<u>25,000,000</u>

7. INVESTMENT PROPERTIES

	Long Leasehold £
Cost or valuation	
At 1 January 2002	273,109,600
Additions	1,157,875
Disposals	(18,295,059)
Revaluation	22,940,353
At 31 December 2002	<u>278,912,769</u>
Net book value	
At 31 December 2002	<u>278,912,769</u>
At 31 December 2001	<u>273,109,600</u>

EATON SQUARE PROPERTIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS****7. INVESTMENT PROPERTIES** *(continued)***Revaluation of fixed assets**

Long leasehold investment properties were valued at 31 December 2002 by Insignia 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 £6,134,989 (2001 - £17,047,310).

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 £81,450,000 (2001 - £80,000,000).

8. INVESTMENTS**Subsidiary Undertakings**

	£
Cost:	
At 1 January 2002 and 31 December 2002	<u>1</u>
Net book value:	
At 31 December 2002	<u>1</u>
At 31 December 2001	<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.

9. DEBTORS

	2002 £	2001 £
Trade debtors	1,048,029	1,051,828
Amounts owed by group undertakings	38,228,939	36,630,262
Other debtors	1,145,740	670,282
Prepayments and accrued income	2,655,718	3,653,396
	<u>43,078,426</u>	<u>42,005,768</u>

10. CREDITORS: Amounts falling due within one year

	2002 £	2001 £
Trade creditors	846,692	1,004,869
Other taxation and social security	4,680	95,000
Other creditors	1,068,620	686,712
Accruals and deferred income	1,625,402	1,743,170
Dividends payable	8,919,831	25,000,000
	<u>12,465,225</u>	<u>28,529,751</u>

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

The principal pension scheme is the Grosvenor Estate Money Purchase Scheme (GEMPS), a defined contribution scheme. Eaton Square Properties Limited only contributes to GEMPS. The scheme is administered by independent trustees.

The company's contributions to the defined contribution scheme were £1,460 (2001 - £1,339).

12. RELATED PARTY TRANSACTIONS

The company has applied the exemption granted by FRS8 'Related party disclosures' not to disclose transactions with Grosvenor Group Holdings Limited, fellow subsidiaries of Grosvenor Group Holdings 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.

13. SHARE CAPITAL**Authorised, allotted, called up and fully paid:**

	2002 £	2001 £
<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.

EATON SQUARE PROPERTIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS****14. REVALUATION RESERVE**

	2002 £	2001 £
At 1 January	273,109,602	244,301,821
Revaluation of fixed assets	22,940,353	55,147,369
Transfer to the profit and loss account on realisation	(24,952,163)	(26,339,588)
At 31 December	<u>271,097,792</u>	<u>273,109,602</u>

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.

15. PROFIT AND LOSS ACCOUNT

	2002 £	2001 £
At 1 January	13,133,916	58,845
Retained loss for the financial year	-	(13,264,517)
Transfer from revaluation reserve	24,952,163	26,339,588
At 31 December	<u>38,086,079</u>	<u>13,133,916</u>

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**EQUITY SHAREHOLDERS' FUNDS**

	2002 £	2001 £
Profit for the financial year	8,919,831	11,735,483
Dividends	(8,919,831)	(25,000,000)
	-	(13,264,517)
Other net recognised gains and losses	22,940,353	55,147,369
Net addition in funds	22,940,353	41,882,852
Opening equity shareholders' funds	286,397,068	244,514,216
Closing equity shareholders' funds	<u>309,337,421</u>	<u>286,397,068</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>309,525,971</u>	<u>286,585,618</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 (2001 - £192,050) and total equity shareholders' funds of £309,333,921 (2001 - £286,393,568).

EATON SQUARE PROPERTIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

17. ULTIMATE PARENT COMPANY

The company's ultimate parent undertaking 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, 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 Holdings Limited and Grosvenor Limited can be obtained from Companies House, Crown Way, Maindy, Cardiff, CF14 3UZ.