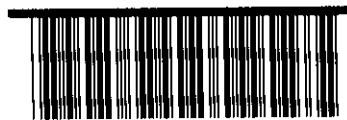


QUARRYVALE TWO LIMITED

COMPANY REGISTRATION NUMBER 3118887

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

YEAR ENDED 31 DECEMBER 2003



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QUARRYVALE TWO 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 property investment.

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 £2,463,056 (2002 - £1,632,714).

The directors have recommended the following dividends:

	2003 £	2002 £
Proposed dividends on ordinary shares	<u>2,480,433</u>	<u>4,000,000</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:

A Christie
R S Handley
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 to presume that the company will continue in business.

QUARRYVALE TWO LIMITED**DIRECTORS' REPORT** *(continued)***DIRECTORS' RESPONSIBILITIES** *(continued)*

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

- 4 MAR 2004

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
QUARRYVALE TWO LIMITED
YEAR ENDED 31 DECEMBER 2003

We have audited the financial statements of Quarryvale Two Limited for the year ended 31 December 2003 which comprise the profit and loss account, the statement of total recognised gains and losses, 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
QUARRYVALE TWO 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

04 MAR 2004
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QUARRYVALE TWO LIMITED**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2003**

	Note	2003 £	2002 £
Turnover	2	2,711,627	2,500,556
Cost of sales		(150,692)	(575,292)
Gross profit		2,560,935	1,925,264
Administrative expenses		(112,018)	(94,813)
Operating profit	3	2,448,917	1,830,451
Interest receivable		14,139	31,146
Interest payable and similar charges	6	—	(228,883)
Profit on ordinary activities before taxation		2,463,056	1,632,714
Tax on profit on ordinary activities		—	—
Profit on ordinary activities after taxation		2,463,056	1,632,714
Equity dividends	8	(2,480,433)	(4,000,000)
Retained loss for the financial year		(17,377)	(2,367,286)

All results are derived from continuing operations.


QUARRYVALE TWO 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	2,463,056	1,632,714
Unrealised gain on revaluation of investment properties	20,258,519	2,587,672
	22,721,575	4,220,386
Currency translation differences on foreign currency property valuation	3,430,591	2,428,704
Total recognised gains and losses	<u>26,152,166</u>	<u>6,649,090</u>

QUARRYVALE TWO LIMITED**BALANCE SHEET AS AT 31 DECEMBER 2003**

	Note	2003 £	2002 £
Tangible fixed assets			
Investment properties	9	<u>66,782,976</u>	<u>42,106,642</u>
Current assets			
Debtors	10	<u>11,356</u>	<u>39,980</u>
Cash at bank and in hand		<u>2,971,461</u>	<u>399,780</u>
		<u>2,982,817</u>	<u>439,760</u>
Creditors: amounts falling due within one year	11	<u>(15,772,884)</u>	<u>(12,225,226)</u>
Net current liabilities		<u>(12,790,067)</u>	<u>(11,785,466)</u>
Total assets less current liabilities		<u><u>53,992,909</u></u>	<u><u>30,321,176</u></u>
Capital and reserves			
Called up equity share capital	13	<u>2</u>	<u>2</u>
Revaluation reserve	14	<u>53,042,545</u>	<u>29,353,435</u>
Profit and loss account	15	<u>950,362</u>	<u>967,739</u>
Equity shareholders' funds	16	<u><u>53,992,909</u></u>	<u><u>30,321,176</u></u>

These financial statements were approved by the Board on the 4 MAR 2004 and are signed on its behalf by:


.....
Director


.....
Director

QUARRYVALE TWO 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 rents receivable in the year, excluding VAT.

(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) 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.

QUARRYVALE TWO LIMITED**NOTES TO THE FINANCIAL STATEMENTS****1. ACCOUNTING POLICIES** *(continued)***(g) Foreign currency translation**

Transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling on the date the transaction is recorded. Monetary assets and liabilities denominated in foreign currency are retranslated at the exchange rate ruling at the balance sheet date or if hedged, at the exchange rate under the related hedging transaction and the resultant exchange differences are dealt with in the profit and loss account. Non-monetary assets are reported at historical exchange rates.

2. TURNOVER

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

3. OPERATING PROFIT

Operating profit is stated after charging:

	2003 £	2002 £
Net loss on foreign currency translation	<u>24,943</u>	<u>25,170</u>

4. AUDITORS' REMUNERATION

Auditors' remuneration for Quarryvale Two Limited has been borne by a fellow subsidiary undertaking both in the current and preceding year.

5. PARTICULARS OF EMPLOYEES

No salaries or wages have been paid to employees, including the directors, during both the current and prior year.

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £	2002 £
Other similar charges	<u>-</u>	<u>228,883</u>

7. TAXATION

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

8. DIVIDENDS

	2003 £	2002 £
Proposed dividend on ordinary shares	<u>2,480,433</u>	<u>4,000,000</u>

QUARRYVALE TWO LIMITED
NOTES TO THE FINANCIAL STATEMENTS

9. INVESTMENT PROPERTIES

	Freehold £
Cost or valuation	
At 1 January 2003	42,106,642
Additions	987,224
Revaluation	20,258,519
Foreign currency translation gain	3,430,591
At 31 December 2003	<u>66,782,976</u>
Net book value	
At 31 December 2003	<u>66,782,976</u>
At 31 December 2002	<u>42,106,642</u>

Revaluation of fixed assets

Freehold 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 £13,740,431 (2002 - £12,753,207). 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 £15,474,622 (2002 - £8,484,149) none of which has been provided as deferred tax (2002 - £nil).

10. DEBTORS

	2003 £	2002 £
Trade debtors	3,944	33,132
Other debtors	7,412	6,848
	<u>11,356</u>	<u>39,980</u>

11. CREDITORS: amounts falling due within one year

	2003 £	2002 £
Trade creditors	—	39,542
Amounts owed to group undertakings	10,557,819	6,382,825
Other creditors	170,996	413,087
Accruals and deferred income	2,563,636	1,389,772
Dividends payable	2,480,433	4,000,000
	<u>15,772,884</u>	<u>12,225,226</u>

QUARRYVALE TWO LIMITED**NOTES TO THE FINANCIAL STATEMENTS****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.

13. SHARE CAPITAL**Authorised share capital:**

	2003	2002
	£	£
2 ordinary shares of £1.00 each	<u>2</u>	<u>2</u>

Allotted, called up and fully paid:

	2003	2002
	£	£
2 ordinary shares of £1.00 each	<u>2</u>	<u>2</u>

14. REVALUATION RESERVE

	2003	2002
	£	£
At 1 January	29,353,435	24,337,059
Revaluation of fixed assets	20,258,519	2,587,672
Translation of foreign currency valuation	<u>3,430,591</u>	<u>2,428,704</u>
At 31 December	<u>53,042,545</u>	<u>29,353,435</u>

15. PROFIT AND LOSS ACCOUNT

	2003	2002
	£	£
At 1 January	967,739	3,335,025
Retained loss for the financial year	<u>(17,377)</u>	<u>(2,367,286)</u>
At 31 December	<u>950,362</u>	<u>967,739</u>

QUARRYVALE TWO LIMITED**NOTES TO THE FINANCIAL STATEMENTS****16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	2003 £	2002 £
Profit for the financial year	2,463,056	1,632,714
Dividends	<u>(2,480,433)</u>	<u>(4,000,000)</u>
	(17,377)	(2,367,286)
Other net recognised gains and losses	<u>20,258,519</u>	<u>2,587,672</u>
	20,241,142	220,386
Other movements	<u>3,430,591</u>	<u>2,428,704</u>
Net addition to funds	23,671,733	2,649,090
Opening equity shareholders' funds	<u>30,321,176</u>	<u>27,672,086</u>
Closing equity shareholders' funds	<u>53,992,909</u>	<u>30,321,176</u>

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.