

QUARRYVALE TWO LIMITED

COMPANY REGISTRATION NUMBER 3118887

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

YEAR ENDED 31 DECEMBER 2002



QUARRYVALE TWO 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 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 £1,632,714 (2001 - £2,402,851).

The directors have recommended the following dividends:

	2002 £	2001 £
Proposed dividends on ordinary shares	<u>4,000,000</u>	<u>—</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	
S H R Musgrave	
R C Williams	
A Christie	(Appointed 25 September 2002)
S J Curtis	(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
- 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)*

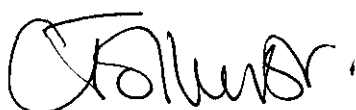
DIRECTORS' RESPONSIBILITIES *(continued)*

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

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', is written over the printed name and title.

C M Tolhurst
Company Secretary
06 MAR 2003

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
QUARRYVALE TWO 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, Balance Sheet and the related notes 1 to 18. 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
QUARRYVALE TWO 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

QUARRYVALE TWO LIMITED**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2002**

	Note	2002 £	2001 £
Turnover	3	2,500,556	2,315,395
Cost of sales		(575,292)	(52,576)
Gross profit		1,925,264	2,262,819
Administrative expenses		(94,813)	25,735
Operating profit	4	1,830,451	2,288,554
Interest receivable		31,146	114,308
Interest payable and similar charges	7	(228,883)	(11)
Profit on ordinary activities before taxation		1,632,714	2,402,851
Tax on profit on ordinary activities		—	—
Profit on ordinary activities after taxation		1,632,714	2,402,851
Dividends	9	(4,000,000)	—
(Retained loss)/retained profit for the financial year		<u>(2,367,286)</u>	<u>2,402,851</u>

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

QUARRYVALE TWO 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	1,632,714	2,402,851
Unrealised gain/(loss) on revaluation of investment properties	2,587,672	(954,869)
	<u>4,220,386</u>	<u>1,447,982</u>
Currency translation differences on foreign currency property valuation	2,428,704	(1,036,042)
Total gains and losses recognised since the last annual report	<u>6,649,090</u>	<u>411,940</u>


QUARRYVALE TWO LIMITED**BALANCE SHEET AS AT 31 DECEMBER 2002**

	Note	2002 £	2001 £
Tangible fixed assets			
Investment properties	10	<u>42,106,642</u>	<u>37,090,266</u>
Current assets			
Debtors	11	39,980	51,426
Cash at bank and in hand		<u>399,780</u>	<u>1,111,942</u>
		439,760	1,163,368
Creditors: Amounts falling due within one year	12	<u>(12,225,226)</u>	<u>(10,581,548)</u>
Net current liabilities		<u>(11,785,466)</u>	<u>(9,418,180)</u>
Total assets less current liabilities		<u>30,321,176</u>	<u>27,672,086</u>
Capital and reserves			
Called-up equity share capital	14	2	2
Revaluation reserve	15	29,353,435	24,337,059
Profit and loss account	16	<u>967,739</u>	<u>3,335,025</u>
Equity shareholders' funds	17	<u>30,321,176</u>	<u>27,672,086</u>

06 MAR 2003

These financial statements were approved by the Board on the 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 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 amounts invoiced during the year.

(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) 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.

(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.

QUARRYVALE TWO LIMITED**NOTES TO THE FINANCIAL STATEMENTS****2. BASIS OF PREPARATION**

The ultimate parent company has confirmed its intention to provide financial support as necessary and on this basis the directors are satisfied the going concern basis of preparation continues to be appropriate.

3. TURNOVER

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

4. OPERATING PROFIT

Operating profit is stated after charging/(crediting):

	2002 £	2001 £
Net loss/(profit) on foreign currency translation	<u>25,170</u>	<u>(111,527)</u>

5. AUDITORS' REMUNERATION

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

6. PARTICULARS OF EMPLOYEES

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

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £	2001 £
Interest payable on bank borrowing	—	11
Other similar charges	<u>228,883</u>	—
	<u>228,883</u>	<u>11</u>

8. TAXATION

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

9. DIVIDENDS

	2002 £	2001 £
Proposed dividend on ordinary shares	<u>4,000,000</u>	—

QUARRYVALE TWO LIMITED**NOTES TO THE FINANCIAL STATEMENTS****10. INVESTMENT PROPERTIES**

	Freehold £
Cost or valuation	
At 1 January 2002	37,090,266
Revaluation	2,587,672
Foreign currency translation gain	2,428,704
At 31 December 2002	<u>42,106,642</u>
Net book value	
At 31 December 2002	<u>42,106,642</u>
At 31 December 2001	<u>37,090,266</u>

Revaluation of fixed assets

Freehold 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 £12,753,207 (2001 - £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 £8,484,149 (2001 - £7,098,000) none of which has been provided as deferred tax (2001 - £nil).

11. DEBTORS

	2002 £	2001 £
Trade debtors	33,132	39,613
Other debtors	6,848	11,813
	<u>39,980</u>	<u>51,426</u>

12. CREDITORS: Amounts falling due within one year

	2002 £	2001 £
Trade creditors	39,542	—
Amounts owed to group undertakings	6,382,825	9,385,776
Other creditors	413,087	59,467
Accruals and deferred income	1,389,772	1,136,305
Dividends payable	4,000,000	—
	<u>12,225,226</u>	<u>10,581,548</u>

QUARRYVALE TWO LIMITED**NOTES TO THE FINANCIAL STATEMENTS****13. 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.

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

	2002 £	2001 £
2 Ordinary shares of £1.00 each	<u>2</u>	<u>2</u>

Allotted, called up and fully paid:

	2002 £	2001 £
Ordinary share capital	<u>2</u>	<u>2</u>

In addition to the above authorised share capital, in the prior year there were also 50,000,000 ordinary shares of 1 IEP each, none of which are issued. These were cancelled on 17 July 2002.

15. REVALUATION RESERVE

	2002 £	2001 £
At 1 January	24,337,059	26,327,970
Revaluation of fixed assets	2,587,672	(954,869)
Translation of foreign currency valuation	2,428,704	(1,036,042)
At 31 December	<u>29,353,435</u>	<u>24,337,059</u>

16. PROFIT AND LOSS ACCOUNT

	2002 £	2001 £
At 1 January	3,335,025	932,174
(Retained loss)/retained profit for the financial year	(2,367,286)	2,402,851
At 31 December	<u>967,739</u>	<u>3,335,025</u>

QUARRYVALE TWO LIMITED**NOTES TO THE FINANCIAL STATEMENTS****17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	2002 £	2001 £
Profit for the financial year	1,632,714	2,402,851
Dividends	(4,000,000)	—
	<u>(2,367,286)</u>	<u>2,402,851</u>
Other net recognised gains and losses	2,587,672	(954,869)
	<u>220,386</u>	<u>1,447,982</u>
Other movements	2,428,704	(1,036,042)
Net addition in funds	2,649,090	411,940
Opening equity shareholders' funds	27,672,086	27,260,146
Closing equity shareholders' funds	<u>30,321,176</u>	<u>27,672,086</u>

18. 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.