

**CANARY WHARF LIMITED**  
**Registered Number: 1971312**

**DIRECTORS' REPORT AND ACCOUNTS**  
**FOR THE YEAR ENDED 30 JUNE 1998**



**DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 1998**

The directors present herewith the audited accounts for the year ended 30 June 1998.

**ULTIMATE PARENT UNDERTAKING**

The company's immediate parent undertaking is Canary Wharf Holdings Limited (CWHL), a company registered in England. The company's ultimate UK parent is Canary Wharf Group Plc (formerly CWI Holdings plc) and its ultimate parent undertaking is C.W. Investments Limited Partnership, a Cayman Islands undertaking.

**PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS**

The principal activities of the company are property development and trading. These activities are concentrated on the Canary Wharf development in London's Docklands.

Construction work continued on a 560,000 square foot headquarters building for Citibank which was begun in the first quarter of 1997 and was topped out in May 1998. In January 1998 construction commenced on a 275,000 square foot building which upon completion will be sold to CSFB and will provide expansion space for their existing headquarters at Canary Wharf. In May 1998 the company commenced construction of a 189,000 square foot building which was subsequently let in its entirety to CSFB. The above buildings are expected to be completed in the last quarter of 1999.

In April 1998 the company commenced construction of the Canada Square retail centre which will provide 65,000 square feet of retail space and a further 900 parking spaces. Negotiations for the pre-letting of this facility have begun with completion of construction expected in the spring of 2000.

Subsequent to the year end the company entered into an agreement for the sale upon completion of a new 1.1 million square foot building for the HSBC Group. Construction will commence in January 1999 with the completion forecast for April 2002. The company has also commenced construction of a building which will, when completed in the summer of 2000, provide approximately 200,000 square feet of office space. Construction of further properties will commence as and when market conditions allow.

During the year the company disposed of its interest in various properties at Canary Wharf, as a result of which it recorded a profit of £24.3 million. During the previous year the company sold its interest in the Riverside site at Canary Wharf to a joint venture in which a fellow Group company acquired a 20% equity interest. The company also completed the sale of a building at Canary Wharf and as a result of these transactions the company recorded a loss of £16.0 million.

The company recorded a gross profit for the year to 30 June 1998 of £27.9 million (year ended 30 June 1997 - loss £24.8 million). After allowing for administrative expenses, other operating income and exceptional operating items, including the release of general provisions against work in progress, investments in subsidiaries and leasehold properties of £224.4 million (year ended 30 June 1997 - £68.1 million), the operating profit for the year was £234.7 million (year ended 30 June 1997 - profit of £31.7 million). After interest and finance charges, the profit on ordinary activities for the year was £203.8 million (year ended 30 June 1997 - profit of £3.1 million).

## **CANARY WHARF LIMITED**

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### **DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 1998 (CONTINUED)**

#### **PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS (Continued)**

The basis of the valuation of the company's development work in progress is set out in Note 11 to the accounts. At 30 June 1998 work in progress was stated net of a general provision of £82.9 million (30 June 1997 - £302.9 million). The release of £220.0 million from the general provision has been treated as an exceptional item in the profit and loss account for the year ended 30 June 1998.

#### **DIVIDENDS AND RESERVES**

The profit and loss account for the year ended 30 June 1998 is set out on page 6. The directors do not recommend the payment of a dividend (30 June 1997 - £Nil) and the loss for the year is to be transferred to reserves.

#### **DIRECTORS**

The directors of the company during the year ended 30 June 1998 were:

A P Anderson  
G Iacobescu  
P Reichmann  
G Rothman  
C Young (resigned 27 January 1998)

#### **DIRECTORS' INTERESTS**

During the year certain of the directors were granted options to subscribe for ordinary shares in Canary Wharf Group Plc. Details of options to subscribe for shares are given in the accounts of that company.

Canary Wharf Group Plc is controlled by a limited partnership in which P Reichmann and his family hold an interest of approximately 5%.

Other than the above, no director had any beneficial interest in the shares of the company, its parent undertaking or any of its United Kingdom subsidiaries at 30 June 1998 or at any time throughout the year then ended.

#### **POLICY ON PAYMENT OF CREDITORS**

In respect of the company's suppliers it is the company's policy to:

- settle the terms of payment with those suppliers when agreeing the terms of each transaction;
- ensure that those suppliers are made aware of the terms of payment; and
- abide by the terms of payment.

The number of days of purchases outstanding at 30 June 1998 was 26 (1997 - 54).

**CANARY WHARF LIMITED**

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**DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 1998 (CONTINUED)**


**CHARITABLE DONATIONS**

The company made charitable donations of £149,861 (year ended 30 June 1996 - £86,582). There were no political donations in either period.

**AUDITORS**

The company's incumbent auditors, Arthur Andersen, have indicated their willingness to continue in office and a resolution confirming their re-appointment will be submitted at the Annual General Meeting.

BY ORDER OF THE BOARD

  
..... Joint Company Secretary  
M D Precious

13 November 1998

Registered office:  
One Canada Square  
Canary Wharf  
London E14 5AB

**STATEMENT OF THE DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS**

The directors are required by the Companies Act 1985 to prepare accounts for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the results of the company for the period then ended. In preparing those accounts, 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 accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors have responsibility for ensuring that the company keeps 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 accounts comply with the Companies Act 1985.

The directors have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

London

**AUDITORS' REPORT TO THE MEMBERS OF  
CANARY WHARF LIMITED**

We have audited the accounts on pages 6 to 19 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 to 10.

**Respective responsibilities of directors and auditors**

As described on page 4 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

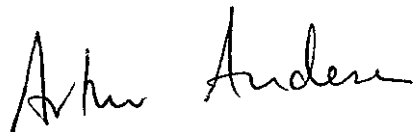
**Basis of opinion**

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

**Opinion**

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 30 June 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen  
Chartered Accountants  
and Registered Auditors  
1 Surrey Street  
LONDON WC2R 2PS

13 November 1998

# CANARY WHARF LIMITED

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 1998

	Notes	Year ended 30 June 1998 £m	Year ended 30 June 1997 £m
Turnover	2	339.3	80.0
Cost of sales			
- exceptional item: lease surrenders	3	-	(6.5)
- other		(311.4)	(98.3)
<b>GROSS PROFIT/(LOSS) – continuing operations</b>		<b>27.9</b>	<b>(24.8)</b>
Administrative expenses before exceptional items	3	(19.1)	(12.4)
Exceptional items:			
Release of general provision against work in progress	11	220.0	57.1
Release of general provision against leasehold properties	3	-	11.0
Release of provision against investment in subsidiary undertakings	10	4.4	-
Other operating income		1.5	0.8
<b>OPERATING PROFIT – continuing operations</b>		<b>234.7</b>	<b>31.7</b>
Interest receivable and similar income	4	34.0	11.1
Interest payable and similar charges before exceptional item	5	(53.0)	(39.7)
Exceptional item: financing costs	5	(11.9)	-
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>203.8</b>	<b>3.1</b>
Tax on profit on ordinary activities	6	-	-
<b>PROFIT FOR THE FINANCIAL YEAR</b>	<b>18</b>	<b>203.8</b>	<b>3.1</b>

Movements in reserves are shown in Note 18 to these accounts.

All gains and losses have been recognised in the profit and loss account for the financial year.

The notes on pages 8 to 19 form part of these accounts.

# CANARY WHARF LIMITED

## BALANCE SHEET AT 30 JUNE 1998

	Notes	30 June 1998 £m	30 June 1997 £m
<b>FIXED ASSETS</b>			
Tangible assets	9	0.1	0.1
Investments	10	98.0	93.7
		<u>98.1</u>	<u>93.8</u>
<b>CURRENT ASSETS</b>			
Work in progress	11	623.8	537.0
Debtors: Amounts due within one year	12	667.6	148.8
Debtors: Amounts due after one year	12	1,904.7	1,865.0
Cash at bank and in hand	13	85.9	48.8
		<u>3,282.0</u>	<u>2,599.6</u>
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	14	<u>(1,028.0)</u>	<u>(313.3)</u>
<b>NET CURRENT ASSETS</b>		<u>2,254.0</u>	<u>2,286.3</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>2,352.1</u>	<u>2,380.1</u>
<b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>	15	(1,817.4)	(2,049.2)
Provisions for liabilities and charges	16	(4.0)	(4.0)
<b>NET ASSETS</b>		<u>530.7</u>	<u>326.9</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital - equity	17	510.0	510.0
- non equity	17	1,421.3	1,421.3
Profit and loss account - equity	18	(1,400.6)	(1,604.4)
		<u>530.7</u>	<u>326.9</u>

The notes on pages 8 to 19 form part of these accounts.

APPROVED BY THE BOARD ON 13 NOVEMBER 1998 AND SIGNED ON ITS BEHALF BY:



A PETER ANDERSON  
DIRECTOR

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 1998

1 PRINCIPAL ACCOUNTING POLICIES

A summary of the principal accounting policies of the company, all of which have been applied consistently throughout the year and the preceding year, is set out below.

(1) Accounting convention

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

In accordance with the provisions of Financial Reporting Standard (FRS) 1 (Revised), a cash flow statement has not been prepared as the company is a wholly-owned subsidiary of a body incorporated in the European Union. A consolidated cash flow statement will be included in the accounts of Canary Wharf Holdings Limited (CWHL).

(2) Profit and loss account

Turnover, which is stated net of VAT, includes property sales and rental income. Marketing and administrative costs which are not development expenses are charged to the profit and loss account when incurred.

Interest is charged to the profit and loss account, except in the case of development financings where interest and the related financing costs are treated as part of the cost of development. Interest on general corporate facilities is not capitalised.

Interest on the advance payments made to a fellow subsidiary for the design and construction of the phases subsequent to Phase I of Canary Wharf is added to the amount of the advance until construction work is undertaken. The advance is included within prepayments (see Note 12) and transfers (including interest) are made to development work in progress when construction work is undertaken by the fellow subsidiary.

(3) Tangible fixed assets

Tangible fixed assets are depreciated so as to write off the cost in equal annual instalments over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Computer equipment	33 $\frac{1}{3}$
Fixtures and fittings	25
Short leasehold improvements	25

(4) Work in progress

Work in progress is stated at the lower of cost and net realisable value. Cost includes construction costs and development expenditure directly related to the development, including interest in relation to development financings.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 1998 (CONTINUED)

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

Net realisable value is calculated as the amount estimated as recoverable from the development once development work has been completed and the development leased, less costs to complete (Note 11).

(5) Debt

Conventional debt instruments are stated immediately after issue at the amount of the net proceeds. The finance costs of such debt instruments are allocated to periods over the term of the debt at a constant rate on the carrying amount. The carrying amount is increased by the finance cost in respect of the reporting period and reduced by payments made in respect of the debt in that period. Finance costs are charged to the profit and loss account.

(6) Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated in the company's balance sheet at cost less provision for diminution in value.

(7) Leases

Operating lease rentals are charged to the profit and loss account in the period in which they are incurred.

Sale and leasebacks (where the lease is treated as a finance lease, as required by SSAP 21 and FRS 5), are recorded in the balance sheet as an asset and as an obligation to pay future rentals. Rentals payable are apportioned between the finance charge and a reduction in the outstanding obligation for future amounts payable.

The total finance charge, which includes the amortisation of deferred expenses relating to the finance lease, is allocated to accounting periods over the lease term so as to produce a constant periodic charge on the remaining balance of the obligation for each accounting period.

(8) Vacant leasehold property

Provision is made for the present value of the net commitments in relation to leasehold properties where there is a shortfall in the rental income receivable over the rent and other costs payable.

(9) Pensions

The company operates a defined contribution pension scheme. Pension contributions in respect of this scheme are accrued as they fall due.

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 1998 (CONTINUED)

## 1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(10) Deferred taxation

Taxation deferred or accelerated by the effect of timing differences is accounted for to the extent that it is probable that a liability or asset will crystallise.

(11) Related party transactions

Under the provisions of FRS 8, the company is exempt from the requirements to disclose related party transactions with other group company's as 90% of the voting rights are controlled within the group and the ultimate U.K. parent undertaking publishes consolidated financial statements that are publicly available.

## 2 TURNOVER

	Year ended 30 June 1998	Year ended 30 June 1997
	£m	£m
External sales of property	318.2	58.6
Sale of property to fellow subsidiaries	9.8	14.5
Rental income	11.3	6.9
	<u>339.3</u>	<u>80.0</u>

## 3 ADMINISTRATIVE EXPENSES

	Year ended 30 June 1998	Year ended 30 June 1997
	£000	£000
The profit is stated after charging:		
- Depreciation (Note 9)	57	78
- Directors' emoluments (Note 7)	2,671	1,693
- Remuneration of the auditors:		£000
Audit fees	55	55
Fees for other services	379	689

Operating lease rentals in relation to vacant leasehold properties totalling £0.9 million (1997 - £7.6 million) are included in cost of sales. For the year ended 30 June 1997, operating lease rentals include premiums of £6.5 million paid in connection with the surrender of the leases on two partially vacant properties. This has been shown as an exceptional item in the profit and loss account for that year. As a result of these surrenders a surplus provision in respect of partially vacant properties was released to the profit and loss account, shown as an exceptional item.

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 1998 (CONTINUED)

**4 INTEREST RECEIVABLE**

	Year ended 30 June 1998	Year ended 30 June 1997
	£m	£m
Interest receivable from Group undertakings	26.6	7.5
Other interest receivable	7.4	3.6
	<u>34.0</u>	<u>11.1</u>

**5 INTEREST PAYABLE**

	Year ended 30 June 1998	Year ended 30 June 1997
	£m	£m
Bank loans and overdrafts	1.7	3.5
Finance lease charges (Note 15)	22.6	17.5
Interest payable to Group undertakings	172.2	171.0
	<u>196.5</u>	<u>192.0</u>
Less: interest on development financings transferred to work in progress	-	(1.2)
Less: increase in contract prepayment	(143.5)	(151.1)
	<u>53.0</u>	<u>39.7</u>

During the year the Group established a financing subsidiary which issued £555 million of rated debentures which are quoted on the London Stock Exchange. The proceeds of the issue were used to refinance the Group's borrowings, including that of the company, and will provide funding for the company's future requirements. As the principal operating company within the Group the costs of the issue, totalling £11.9 million, have been charged to the company's profit and loss account and disclosed as an exceptional item.

In respect of the year ended 30 June 1997 interest payable on bank loans and overdrafts includes financing costs of £1.7 million in relation to a bank loan arranged during that year and repaid during the year ended 30 June 1998.

Interest on a facility arranged specifically to finance the completion of a property which was sold during the year ended 30 June 1997 was taken into account in calculating the profit on disposal.

**6 TAXATION**

No provision for taxation has been made in view of tax losses brought forward.

There is no unprovided deferred taxation. The company has substantial tax losses which may impact on the company's future tax charge.

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 1998 (CONTINUED)

## 7 DIRECTORS' REMUNERATION

Remuneration

Details of the remuneration of directors are disclosed in the accounts of the parent company, CWHL.

Share options

The aggregate emoluments disclosed in the accounts of CWHL do not include any amounts for the value of options to subscribe for ordinary shares in Canary Wharf Group Plc, the ultimate UK parent company, granted to certain of the directors during the year. Details of options to subscribe for ordinary shares are given in the accounts of that company.

## 8 EMPLOYEE INFORMATION

Staff costs of all employees including directors were:

	Year ended 30 June 1998	Year ended 30 June 1997
	£m	£m
Wages and salaries	6.7	4.0
Social Security costs	0.6	0.4
Other pension costs	0.6	0.2
	<u>7.9</u>	<u>4.6</u>

The amounts stated above include compensation for loss of office, the details of which are disclosed in the accounts of the parent company, CWHL. The average number of employees, including directors, of the company during the year ended 30 June 1998 was 90 (period ended 30 June 1997 - 69).

## 9 TANGIBLE FIXED ASSETS

	Short leasehold improvements £m	Fixtures and fittings £m	Computer equipment £m	Total £m
<b>Cost</b>				
30 June 1997	1.9	4.9	3.2	10.0
Additions	-	-	-	-
30 June 1998	<u>1.9</u>	<u>4.9</u>	<u>3.2</u>	<u>10.0</u>
<b>Depreciation</b>				
30 June 1997	(1.9)	(4.9)	(3.1)	(9.9)
Charge for the period	-	-	-	-
	<u>(1.9)</u>	<u>(4.9)</u>	<u>(3.1)</u>	<u>(9.9)</u>
<b>Net book amount</b>				
30 June 1998	<u>-</u>	<u>-</u>	<u>0.1</u>	<u>0.1</u>
30 June 1997	<u>-</u>	<u>-</u>	<u>0.1</u>	<u>0.1</u>

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 1998 (CONTINUED)

## 10 INVESTMENTS

Investment in subsidiaries:	£m
At 1 July 1997	93.7
Disposal during the year	(0.1)
Release of provision against investment in subsidiaries	4.4
At 30 June 1998	<u>98.0</u>
Historical cost	<u>105.1</u>

During the year, the company disposed of its interest in Cabot Place Limited for a consideration of £50,000, generating a profit on disposal of £49,999.

At 30 June 1998 the company's subsidiary undertakings were as follows:

<u>Name</u>	<u>Description of shares held</u>	<u>Principal activities</u>
Canary Cannon Limited	Ordinary £1 shares	Property trading
Canary Wharf Management Limited	Ordinary £1 shares	Property management
Hazelway Limited	Ordinary £1 shares	Property investment
Seven Westferry Circus (No 2) Limited	Ordinary £1 shares	Property trading
CWR SPV Co	Ordinary £1 shares	Investment company
CWR SPV Co No 2	Ordinary £1 shares	Investment company
CWR SPV Co No 3	Ordinary £1 shares	Investment company

The above are wholly owned subsidiary undertakings registered in England

Financial information is only presented in these accounts about the company as an individual undertaking and not about its group because the company and its subsidiary undertakings are included in the consolidated accounts of a larger group (Note 24).

## 11 WORK IN PROGRESS

	30 June 1998	30 June 1997
	£m	£m
Work in progress at cost	706.7	839.9
General provision	(82.9)	(302.9)
	<u>623.8</u>	<u>537.0</u>

Movement in the carrying value of work in progress during the year:

	£m	£m
At 1 July 1997		537.0
Additions	87.0	
Premia payable in consideration for variation to headleases	83.5	
Transfers relating to property sales	(303.7)	
		(133.2)
Release of general provision		220.0
At 30 June 1998		<u>623.8</u>

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 1998 (CONTINUED)

## 11 WORK IN PROGRESS (Continued)

During the year ended 30 June 1998 the terms of the company's leasehold interests in certain property at Canary Wharf were varied in consideration for the payment by the company of premia totalling £83.5 million. During the year the company also disposed of its interest in various properties at Canary Wharf. The consideration for these transactions was determined on the basis of external open market valuations, as a result of which the company recorded a profit on disposal of £24.3 million.

During the previous year, the company sold its interest in the first phase of the Riverside site at Canary Wharf to a joint venture in which a fellow subsidiary has a 20% equity interest. The company also sold a completed property at Canary Wharf to a third party and certain other property interests were transferred to other Group undertakings. The resulting loss on disposal of these property interests was £16.0 million.

Work in progress is stated at cost less a reduction to net realisable value. In assessing the estimated net realisable value of development properties as at 30 June 1998 the directors consulted with the company's external property advisers, FPD Savills, Chartered Surveyors, and CB Hillier Parker, Chartered Surveyors, as regards completed buildings awaiting disposal, properties in the course of development and land held for development. As a result of this assessment, the general provision against work in progress was reduced by a further £220 million.

## 12 DEBTORS

	30 June 1998	30 June 1997
	£m	£m
Due within one year:		
Trade debtors	1.2	0.4
Loans to group undertakings:		
Parent and fellow subsidiary undertakings	584.7	82.0
Subsidiary undertakings	1.4	1.4
Amounts owed by group undertakings:		
Parent and fellow subsidiary undertakings	67.2	47.1
Subsidiary undertakings	-	1.9
Other debtors	0.1	3.2
Prepayments and accrued income	13.0	12.8
	<u>667.6</u>	<u>148.8</u>
Due in more than one year:		
Loans to fellow subsidiary undertakings	60.6	125.4
Prepayments and accrued income	1,844.1	1,739.6
	<u>1,904.7</u>	<u>1,865.0</u>

Loans to group undertakings carry interest at a rate linked to LIBOR and are repayable on demand.

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 1998 (CONTINUED)

## 13 FINANCIAL ASSETS

The company's financial assets comprise short term debtors and cash at bank. Cash at bank was £85.9 million at 30 June 1998 (30 June 1997 - £48.8 million), of which £21.3 million (1997 - £26.4 million) was held as collateral for the company's borrowings.

## 14 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	30 June 1998	30 June 1997
	£m	£m
Bank loans	30.0	30.0
Trade creditors	7.8	10.3
Loans owed to parent and fellow subsidiary undertakings	766.6	191.6
Amounts owed to group undertakings:		
Parent and fellow subsidiary undertakings	97.0	43.4
Subsidiary undertakings	-	16.9
Taxation and social security costs	0.2	0.1
Accruals	23.8	19.8
Deferred income	102.6	1.2
	<u>1,028.0</u>	<u>313.3</u>

At 30 June 1998 deferred income included £99.1 million in connection with agreements for the sale, upon completion, of buildings presently under construction at Canary Wharf. The income deferred will be recognised upon completion of the buildings.

In accordance with the arrangements agreed for the sale of the CWHL Group of the ultimate UK parent undertaking in December 1995, elements of the CWHL Group's then existing indebtedness were prepaid early. A further deferred payment in relation to this indebtedness will be made from funds set aside for this purpose once certain conditions have been satisfied. At 30 June 1998 and 30 June 1997 the total accrued in respect of the deferred payment was £30.0 million.

Loans due to parent and fellow subsidiary undertakings are repayable either on demand or at set dates within one year and carry interest at market rates which are linked either to LIBOR or to the rates payable on an issue of publicly quoted debentures by a subsidiary of Canary Wharf Group Plc.

## 15 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	30 June 1998	30 June 1997
	£m	£m
Bank loan	-	76.0
Finance lease obligations	217.6	207.0
Loans from parent and fellow subsidiary undertakings	1,599.8	1,766.2
	<u>1,817.4</u>	<u>2,049.2</u>

The bank loan, which carried interest at a margin over LIBOR, was repaid during the year ended 30 June 1998.

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 1998 (CONTINUED)

**15 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (Continued)**

Loans owed to Group undertakings carry interest at rates linked to LIBOR.

The amount at which finance lease obligations are stated comprises:

	£m	£m
At inception of lease	207.0	196.5
Deferred financing expenses	0.2	(3.8)
Finance charge (including amortisation of expenses)	10.4	14.3
	<u>217.6</u>	<u>207.0</u>

The finance lease obligations fall due as follows:

	30 June 1998	30 June 1997
	£m	£m
In more than one year but not less than two years	-	-
In more than two years but not more than five years	-	-
After more than five years	217.6	207.0
	<u>217.6</u>	<u>207.0</u>

The company's obligations under finance leases are secured by first ranking fixed and floating charges over the property which is the subject of the finance leases and over certain cash deposits held by the company (Note 13) and its subsidiary undertakings. The company may be called upon to make further cash deposits of up to £22.7 million. At 30 June 1998 the weighted average rate of interest implicit in the Group's finance leases was 9.9%.

**16 PROVISION FOR LIABILITIES AND CHARGES**

	£m
Provision for amounts payable in relation to vacant leasehold properties:	
As at 30 June 1997 and 30 June 1998	<u>4.0</u>

**17 CALLED UP SHARE CAPITAL**

	Equity	Non-equity Deferred	Non-equity Preferred	
	Ordinary Shares of £1 each	Ordinary Shares of £1 each	redeemable ordinary shares of £1 each	Total £
Authorised	<u>1,000,000,000</u>	<u>1,016,278,674</u>	<u>500,000,000</u>	<u>2,516,278,674</u>
Issued, allotted and fully paid:				
At 1 July 1997 and 30 June 1998	<u>510,000,000</u>	<u>1,016,278,674</u>	<u>405,000,000</u>	<u>1,931,278,674</u>

The redeemable preferred ordinary shares are redeemable at par on 21 December 2010 but the company may, at any time before that date, redeem all or 100,000 multiples of the shares by serving notice to the holders. On a return of capital, the assets of the company available for distribution to the shareholders are applied in

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 1998 (CONTINUED)

**17 CALLED UP SHARE CAPITAL (Continued)**

paying to the holders of the redeemable preferred ordinary shares in priority to any payment to the holders of any other class of shares the nominal amount paid up.

Subject to the above, the redeemable preferred ordinary shares rank pari passu with the ordinary shares.

The holders of the deferred ordinary shares are entitled to a restricted participation in the profits or assets of the company and do not have any right to attend and vote at any general meeting.

**18 PROFIT AND LOSS ACCOUNT**

	£m
At 1 July 1997	(1,604.4)
Profit for the financial year	203.8
At 30 June 1998	(1,400.6)

**19 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	£m
Shareholders' funds as at 1 July 1997	326.9
Profit for the financial year	203.8
Shareholders' funds as at 30 June 1998	530.7

**20 OPERATING LEASE COMMITMENTS**

Commitments of the company for the next financial year in respect of operating leases are analysed as follows:

	<u>Land and buildings</u>	
	30 June 1998	30 June 1997
	£m	£m
Leases for which the commitment expires:		
Between two and five years	0.7	0.7
After more than five years	0.2	0.1

**21 PENSION SCHEMES**

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge, which amounted to £560,687 for the year (1997 - £238,407), represents contributions payable by the company to the scheme.

**22 CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS**

In October 1993 the company granted a charge over the future phases of Canary Wharf to London Underground Limited (LUL) as security for the payment of contributions totalling £300.5 million towards the construction and operation of the Jubilee Line Extension. During the year contributions totalling £2.8 million were paid in connection with the release from charge of certain land. The amounts paid were

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 1998 (CONTINUED)

**22 CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS (Continued)**

computed by reference to the net present value of the contributions secured on the charged land computed at the contracted discount rate.

The remaining contributions totalling £253.8 million are payable on an annual basis over a 24 year period commencing one year after construction of the Jubilee Line is complete and operation has commenced. The company has the right and it may, in certain circumstances, such as insolvency, default or development of the future phases of Canary Wharf, be obliged to prepay a portion or all of the subsequent payments at their net present value computed at the contracted discount rate. The net present value of the contributions at 30 June 1998 (assuming the extension became operational on 1 November 1998, which was not the case) was £101.2 million (30 June 1997 - £97.5 million). Adopting the operational date most recently announced by LUL, namely 1 November 1999, would produce a net present value at 30 June 1998 of £92.6 million. In assessing the carrying value of the sites held for development the directors have had regard to the net present value of the commitment to LUL.

In December 1996 the company entered into an agreement for the construction of a headquarters building for Citibank. In connection with this agreement the company has agreed to indemnify Citibank in relation to its existing leases if the new building has not been completed (otherwise than due to Citibank's delay) by a specified date. In addition liquidated damages are payable by the company from another specified date (as extended by force majeure and Citibank's delay) until completion of the building. The directors believe that on the basis of the current building programme no liability to Citibank will arise under the above provisions.

A writ has been issued against the company and five senior executives by WPP Group Plc and Ogilvy and Mather Ltd for damages for fraudulent misrepresentation, conspiracy to defraud and unlawful interference with business interests, arising out of abortive negotiations for the surrender of the Plaintiff's existing lease and the grant of a lease of new premises. The defendants are defending the claim which, advised by their solicitors and counsel, they believe to be without merit. The claim has not been fully quantified but appears to be in the region of £10 million to £17 million.

Commitments of the company for future expenditure:

	30 June 1998	30 June 1997
	£m	£m
Under contract	299.5	182.2

The commitments for future expenditure relate to the completion of development properties where construction was in progress at the year end.

**23 POST BALANCE SHEET EVENTS**

On 19 October 1998 the company entered into an agreement to construct a 1.1 million square foot headquarters building for HSBC Group. Construction of this building will commence in January 1999 with completion scheduled for early 2002.

**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 1998 (CONTINUED)**

**24 ULTIMATE PARENT UNDERTAKING AND RELATED PARTY TRANSACTIONS**

The company's immediate parent undertaking is CWHL, a company registered in England. The company's ultimate UK parent is Canary Wharf Group Plc and its ultimate parent undertaking is C.W. Investments Limited Partnership, a Cayman Islands undertaking.

The smallest group into which the accounts of the company are consolidated for the year ended 30 June 1998 are the consolidated accounts of CWHL. Copies of these accounts may be obtained from the Joint Company Secretary, One Canada Square, Canary Wharf, London E14 5AB. The largest group into which the accounts of the company will be consolidated will be the accounts of Canary Wharf Group Plc. Copies of these accounts may be obtained from the same address.

The ultimate parent undertaking is controlled by a consortium of investors, and approximately 5% of the undertaking is held by entities controlled by Mr P Reichmann, a director of the company, and his family. Mr P Reichmann received a stipend of £30,000 in respect of his services to the company (year ended 30 June 1997 - £60,000).