

CANARY WHARF INVESTMENTS (THREE)
Registered number 2455786

DIRECTORS' REPORT AND ACCOUNTS
FOR THE PERIOD FROM 6 MAY 1995 TO 30 JUNE 1996



CANARY WHARF INVESTMENTS (THREE)

DIRECTORS' REPORT FOR THE PERIOD ENDED 30 JUNE 1996

Since the previous statutory accounts the company has changed its year end to 30 June 1996 to bring it in line with its parent. The directors therefore present herewith the audited accounts for the period from 6 May 1995 to 30 June 1996.

ULTIMATE PARENT UNDERTAKING

The company's immediate parent undertaking is Canary Wharf Investments (Two) Limited, a company registered in England. The company's ultimate parent undertaking until 27 December 1995 was Sylvester Investments Limited (SIL), a company controlled by a certain of the former lenders to the Canary Wharf Group comprising Canary Wharf Holdings Limited (CWHL) and its subsidiaries (together, the CWHL Group). Upon the sale by SIL on 27 December 1995 of its interest in the CWHL Group, the company's ultimate parent undertaking became C.W. Investments Limited Partnership, a Cayman Islands undertaking, and its ultimate UK parent became CWI Holdings plc.

PRINCIPAL ACTIVITY AND REVIEW OF BUSINESS

The principal activity of the company is property investment. At present the company's property investments are concentrated on the Canary Wharf development in London's Docklands. During the year the company transferred its interest in certain property to a fellow subsidiary undertaking. Movements in the company's investment property interests are shown in Note 9 to the accounts.

During the year the CWHL Group was significantly restructured, involving, inter alia, the repayment of elements of the CWHL Group's existing bank debt, the provision of new borrowing facilities and an injection of share capital. Further details of this restructuring are set out in Note 1.

DIVIDENDS AND RESERVES

The profit and loss account for the period is set out on page 5. During the period the company recorded a profit on ordinary activities before taxation of £10,236,499, which compares with a profit of £6,261,977 for the year ended 5 May 1995.

The directors recommend the payment of a final dividend of £14,393,826 (year ended 5 May 1995: £2,104,650). The final dividend will be funded in part from distributable reserves brought forward.

DIRECTORS

The directors of the company during the period to 30 June 1996 were:

A P Anderson	(appointed 22 December 1995)
P F Garner	(resigned 22 December 1995)
G Iacobescu	(resigned 22 December 1995, reappointed 6 February 1996)
Sir Peter Levene, KBE	(resigned 22 December 1995)
G Rothman	(appointed 6 February 1996)
C Young	(appointed 1 April 1996)

CANARY WHARF INVESTMENTS (THREE)

DIRECTORS' REPORT FOR THE PERIOD ENDED 30 JUNE 1996 (CONTINUED)

DIRECTORS' INTERESTS

No director had any beneficial interest in the shares of the company, CWI Holdings plc or in any of its United Kingdom subsidiaries at 30 June 1996 or at any time during 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.

AUDITORS

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

BY ORDER OF THE BOARD



.....) Company Secretary
MD Precious

19 December 1996

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

CANARY WHARF INVESTMENTS (THREE)

STATEMENT OF 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 profit for that period. 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 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.

CANARY WHARF INVESTMENTS (THREE)

AUDITORS' REPORT TO THE MEMBERS OF CANARY WHARF INVESTMENTS (THREE)

We have audited the accounts on pages 5 to 15 which have been prepared under the historical cost convention, as modified by the revaluation of investment properties, and the accounting policies set out on pages 9 and 10.

Respective responsibilities of directors and auditors

As described on page 3, 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 1996 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

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

19 December 1996

CANARY WHARF INVESTMENTS (THREE)**PROFIT AND LOSS ACCOUNT FOR THE PERIOD FROM 6 MAY 1995 TO 30 JUNE 1996**

	<u>Notes</u>	<u>Period to 30 June 1996</u>	<u>Year to 5 May 1995</u>
		£	£
Turnover - rental income		11,538,776	7,014,375
Cost of sales - rent payable		<u>(998,407)</u>	<u>(664,666)</u>
GROSS PROFIT - Continuing operations		10,540,369	6,349,709
Administrative expenses	3/5/6	<u>(1,122,427)</u>	<u>(724,763)</u>
OPERATING PROFIT - Continuing operations		9,417,942	5,624,946
Loss on transfer of property interest	9	(88,050)	-
Interest receivable	4	938,528	637,056
Interest payable to parent undertakings		<u>(31,921)</u>	<u>(25)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		10,236,499	6,261,977
Tax on profit on ordinary activities	7	<u>-</u>	<u>-</u>
PROFIT FOR THE FINANCIAL PERIOD		10,236,499	6,261,977
Dividends	8	(14,393,826)	(2,104,650)
TRANSFERRED TO RESERVES	14	<u><u>(4,157,327)</u></u>	<u><u>4,157,327</u></u>

Movements in reserves are shown in Note 14 to these accounts.

The notes on pages 8 to 15 form part of these accounts.

CANARY WHARF INVESTMENTS (THREE)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE PERIOD FROM 6 MAY 1995 TO 30 JUNE 1996

	Period ended 30 June 1996	Year ended 5 May 1995
	£	£
Profit for the financial period	10,236,499	6,261,977
Unrealised surplus on revaluation of properties	25,041,250	-
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE FINANCIAL PERIOD	<u>35,277,749</u>	<u>6,261,977</u>

The notes on pages 8 to 15 form part of these accounts

CANARY WHARF INVESTMENTS (THREE)

BALANCE SHEET AT 30 JUNE 1996

	Notes	30 June 1996 £	5 May 1995 £
FIXED ASSETS			
Tangible fixed assets	9	131,500,000	117,696,800
CURRENT ASSETS			
Debtors: Amounts due after one year	10	4,884,717	6,506,237
Debtors: Amounts due within one year	10	28,418,681	7,352,852
Cash at bank and in hand		6,312,966	5,863,296
		39,616,364	19,722,385
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	11	(16,691,937)	(3,878,681)
NET CURRENT ASSETS		22,924,427	15,843,704
NET ASSETS		154,424,427	133,540,504
CAPITAL AND RESERVES			
Called up share capital	13	117,660,000	117,660,000
Revaluation	14	25,041,250	-
Profit and loss account	14	11,723,177	15,880,504
		154,424,427	133,540,504

The notes on pages 8 to 15 form part of these accounts.

APPROVED BY THE BOARD ON 19 DECEMBER 1996 AND SIGNED ON ITS BEHALF BY:



G ROTHMAN
DIRECTOR

CANARY WHARF INVESTMENTS (THREE)

NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 30 JUNE 1996

1 RESTRUCTURING OF THE GROUP AND BASIS OF PREPARATION

On 27 December 1995 arrangements were finalised for the sale of the CWHL Group to CWI Holdings plc. These arrangements included the following:

- (1) The injection of share capital totalling £405 million by way of a subscription for preferred redeemable shares in the company's parent, CWHL.
- (2) The provision to CWHL of a new interim borrowing facility in the principal amount of £220 million (the Bridge Loan) for the purposes of repaying in part certain existing indebtedness of the CWHL Group, as well as providing working capital to the companies in the CWHL Group. On 27 December 1995 £130 million was drawn down from this facility and a further £35 million was drawn down during the six months to 30 June 1996. Subsequent to the year end, £42.7 million of the facility was cancelled following the arrangement of alternative facilities. The remaining facility of £12.3 million is available to draw down until 27 December 1996 at which date the facility reduces to £100 million. This residual facility is available, subject to certain conditions, for a term of up to four years. Earlier repayment on the basis of an agreed repayment schedule is triggered in the event of refinancings being put in place within the four year term. The Bridge Loan carries interest at a margin over LIBOR and is secured by:
 - (a) guarantees from the members of the CWHL Group (being all members of the CWHL Group other than the EIB Guarantors referred to in Note 1(4) below (the Bridge Loan Guarantors));
 - (b) a first ranking fixed charge over the properties at Canary Wharf, other than those properties charged to European Investment Bank (EIB) (see Note 1(4) below) and those subject to the charge to London Underground Limited (LUL) in respect of the CWHL Group's contributions to the Jubilee Line Extension, which are subject to second ranking charges to secure the Bridge Loan;
 - (c) fixed charges over certain assets of the Bridge Loan Guarantors; and
 - (d) floating charges over all assets of the Bridge Loan Guarantors.
- (3) The early prepayment of certain elements of the CWHL Group's indebtedness as at 27 December 1995.
- (4) The amendment and restatement of existing facilities made available by EIB relating to the funding of the Docklands Light Railway and the Jubilee Line Extension in an aggregate amount of £188.7 million. The restated EIB debt was assumed by the company's parent undertaking, CWE SPV HCo Limited (HCo), and its obligations thereunder were guaranteed, inter alia, by CWHL, by CWE SPV Super HCo Limited, the immediate parent company of HCo, and by HCo's subsidiaries (together 'the EIB Guarantors'). The restated EIB debt carries a stepped coupon, equivalent to 7%,

CANARY WHARF INVESTMENTS (THREE)

NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 30 JUNE 1996 (CONTINUED)

1 RESTRUCTURING OF THE GROUP AND BASIS OF PREPARATION (Continued)

and is secured by first ranking charges over certain specified properties within the Canary Wharf development, over the subsidiaries within the CWHL Group holding these interests (including the company) and by second ranking fixed and floating charges over the other assets of the CWHL Group.

- (5) As a condition for providing the new borrowing facility referred to in (2) and the amendment and restatement of the EIB loans referred to in (4), the restructuring of the CWHL Group's property interests in order to ring fence the security available to the respective lenders. This restructuring entailed the disposal by the company of certain of its property interests to a fellow subsidiary undertaking (Note 9).

The company has guaranteed the borrowings of HCo, and has provided security over its assets to the CWHL Group's lenders. Amongst the secured obligations is a facility which is required to be reduced to a specified level by 27 December 1996. CWHL is in the process of refinancing so as to do so. The directors consider it appropriate for the accounts to be prepared on a going concern basis.

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies of the company, all of which have been applied consistently throughout the year and the preceding period, are set out below.

(1) Accounting convention

The accounts have been prepared under the historical cost convention, as modified by the revaluation of investment properties, and in accordance with applicable accounting standards. Compliance with SSAP 19 'Accounting for Investment Properties' requires departure from the requirements of Companies Act 1985 relating to depreciation and an explanation of this departure is given in Note 2(4) below.

In accordance with the provisions of Financial Reporting Standard (FRS) 1, 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 CWHL.

(2) Profit and loss account

Rental income and rent payable are stated net of VAT. Rent payable comprises ground rents and other associated property costs. Administrative expenses comprise service charges and management fees.

(3) 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.

CANARY WHARF INVESTMENTS (THREE)

NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 30 JUNE 1996 (CONTINUED)

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(4) Tangible fixed assets

Tangible fixed assets include long leasehold property interests held for investment. In accordance with SSAP 19 investment properties are revalued annually and the aggregate surplus or deficit transferred to revaluation reserve.

No provision is made for depreciation of long leasehold properties. This departure from the requirements of the Companies Act 1985, which requires all properties to be depreciated, is, in the opinion of the directors, necessary for the accounts to show a true and fair view in accordance with applicable accounting standards. Depreciation or amortisation is only one of the factors reflected in the annual valuation and the amount attributable to this factor cannot be separately identified or quantified. Surpluses or deficits on individual investment properties are transferred to the revaluation reserve, unless a deficit is expected to be permanent, in which case it is charged to the profit and loss account.

3 AUDITORS' REMUNERATION

The auditors' remuneration for both accounting periods was borne by another CWHL Group undertaking.

4 INTEREST RECEIVABLE

	Period to 30 June 1996	Year to 5 May 1995
	£	£
Bank interest receivable	455,398	268,684
Interest receivable from parent undertaking and fellow subsidiary undertakings	483,130	368,372
	<u>938,528</u>	<u>637,056</u>

5 DIRECTORS' EMOLUMENTS

None of the directors received any emoluments in respect of their services to the company during the period.

6 EMPLOYEE INFORMATION

With effect from 1 April 1996 the employment contracts of certain employees of other CWHL Group companies were transferred to the company. The company had no employees during the previous period.

CANARY WHARF INVESTMENTS (THREE)

NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 30 JUNE 1996 (CONTINUED)

6 EMPLOYEE INFORMATION (Continued)

Staff costs of all employees of the company from the date of transfer were:

	Period ended 30 June 1996 £m
Wages and salaries	75,406
Social Security costs	6,759
Other pension costs (Note 16)	2,959
	<u>85,124</u>

The average number of employees, including directors, of the company during the period from transfer to 30 June 1996 was 12 (year ended 5 May 1995 - Nil).

7 TAXATION

No provision for taxation has been made in view of the availability of group relief expected to be available for surrender by other companies within the CWHL Group. No charge will be made by other group companies for the surrender of group relief.

The CWHL Group has substantial tax losses which may impact on the company's future tax charge.

8 DIVIDENDS

	Period to 30 June 1996 £	Year to 5 May 1995 £
Dividend - proposed	<u>14,393,826</u>	<u>2,104,650</u>

9 TANGIBLE FIXED ASSETS

Tangible fixed assets comprise long leasehold investment properties:

	£
At 5 May 1995	117,696,800
Transferred to fellow subsidiary undertaking at open market valuation on 22 December 1995	(12,238,050)
Variation to rights conferred under long leasehold interest on 22 December 1995	1,000,000
Revaluation at 30 June 1996	<u>25,041,250</u>
As at 30 June 1996	<u>131,500,000</u>
Historical cost	<u>106,458,750</u>

CANARY WHARF INVESTMENTS (THREE)

NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 30 JUNE 1996 (CONTINUED)

9 TANGIBLE FIXED ASSETS (Continued)

On 22 December 1995 the company transferred its interest in certain of its property holdings to a fellow subsidiary undertaking in connection with the reorganisation referred to in Note 1. The consideration for the transfer, £12,150,000, was established on the basis of an external open market valuation of the company's property interests, and the disposal generated a loss of £88,050. On the same date, the rights conferred under the lease of one of the company's other property interests was varied in consideration for the payment of a premium of £1,000,000.

The company's remaining leasehold property interests were valued by the CWHL Group's external property advisers, Savills Commercial Limited, Chartered Surveyors, as at 30 June 1996 on the basis of Open Market Value in accordance with the Statements of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors. No allowance has been made for any expenses of realisation nor for any taxation which might arise in the event of disposal. The valuation resulted in a revaluation surplus of £25,041,250.

10 DEBTORS

	Due within one year 30 June 1996	Due after one year 30 June 1996	Due within one year 5 May 19 95	Due after one year 5 May 19 95
	£	£	£	£
Loans to parent undertaking and fellow subsidiary undertakings	12,150,000	4,884,717	7,314,984	6,506,237
Amounts owed by fellow subsidiary undertakings	16,267,200	-	-	-
Prepayments and accrued income	1,481	-	37,868	-
	<u>28,418,681</u>	<u>4,884,717</u>	<u>7,352,852</u>	<u>6,506,237</u>

- The loan to a fellow subsidiary undertaking of £12,150,000 is repayable on demand and carries interest at a rate linked to LIBOR. The loan to the parent undertaking of £4,884,717 is repayable in full on 1 November 2007 and carries interest at a rate linked to LIBOR.

CANARY WHARF INVESTMENTS (THREE)

NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 30 JUNE 1996 (CONTINUED)

11 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<u>Period to</u> <u>30 June 1996</u>	<u>Year to</u> <u>5 May 1995</u>
	£	£
Other creditors	-	36,338
Amounts due to parent and fellow subsidiary undertakings	16,691,937	2,688,938
Accruals and deferred income	-	1,153,405
	<u>16,691,937</u>	<u>3,878,681</u>

12 DEFERRED TAXATION

No provision for deferred taxation is required as at 30 June 1996 (5 May 1995 - £Nil).

The full potential deferred taxation liability is as follows:

	<u>30 June</u> <u>1996</u>	<u>5 May</u> <u>1995</u>
	£	£
Accelerated capital allowances	<u>27,805,873</u>	<u>28,083,931</u>

13 CALLED UP SHARE CAPITAL

Ordinary shares of £1 each:

	<u>30 June</u> <u>1996</u>	<u>5 May</u> <u>1995</u>
	£	£
Authorised	<u>500,000,000</u>	<u>500,000,000</u>
Issued, allotted and fully paid	<u>117,660,000</u>	<u>117,660,000</u>

CANARY WHARF INVESTMENTS (THREE)

NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 30 JUNE 1996 (CONTINUED)

14 RESERVES

	Revaluation reserve	Profit and loss account	Total
	£	£	£
As at 6 May 1995	-	15,880,504	15,880,504
Retained loss for period	-	(4,157,327)	(4,157,327)
Revaluation surplus	25,041,250	-	25,041,250
As at 5 May 1996	<u>25,041,250</u>	<u>11,723,177</u>	<u>36,764,427</u>

15 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	£
Shareholders' funds as at 6 May 1995	133,540,504
Revaluation surplus	25,041,250
Retained loss for the period	(4,157,327)
Shareholders' funds at 30 June 1996	<u>154,424,427</u>

16 COMPANY PENSION SCHEME

Certain employees of the company are members of a defined contribution pension scheme operated by its fellow subsidiary undertaking, Canary Wharf Management Limited. The assets of this scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund amounting to £2,959 for the period ended 30 June 1996 (year ended 5 May 1995 - £Nil).

17 FINANCIAL COMMITMENTS

As at 30 June 1996 the company was party to an indemnity under the terms of which it has entered into a fixed first ranking charge over £6.3 million of its cash deposits.

As at 30 June 1996 the company had also given a guarantee and fixed and floating charges to secure the borrowings referred to in Notes 1(2) and 1(4).