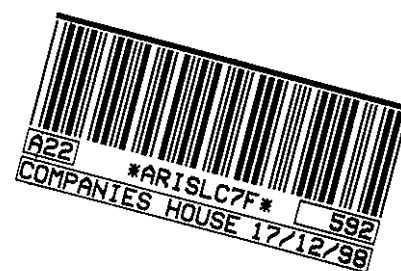


CANARY WHARF INVESTMENTS (THREE)
Registered No: 2455786

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



CANARY WHARF INVESTMENTS (THREE)

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 1998

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

ULTIMATE PARENT UNDERTAKING

The company's immediate parent undertaking is Canary Wharf Investments (Two) Limited, 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 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. Movements in the value of the company's investment property interests are shown in Note 8 to the accounts.

DIVIDENDS AND RESERVES

The profit and loss account for the year is set out on page 5. During the year the company recorded a profit on ordinary activities before taxation of £8,465,248, which compares with a profit of £10,265,654 for the year ended 30 June 1997.

The directors recommend the payment of a dividend of £8,465,248 (year ended 30 June 1997: £14,000,000).

DIRECTORS

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

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

DIRECTORS' INTERESTS

Other than share options, no director had any beneficial interest in the shares of the company, Canary Wharf Group Plc or in any of its United Kingdom subsidiaries at 30 June 1998 or at any time throughout the year then ended.

Details of options to subscribe for ordinary shares in Canary Wharf Group Plc, granted to the directors during the year, are disclosed in the consolidated accounts of that company.

CANARY WHARF INVESTMENTS (THREE)

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

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



M D Precious

..... Joint Company Secretary

13 November 1998

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

CANARY WHARF INVESTMENTS (THREE)

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 INVESTMENTS (THREE)**

We have audited the accounts on pages 5 to 13 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 8 and 9.

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.

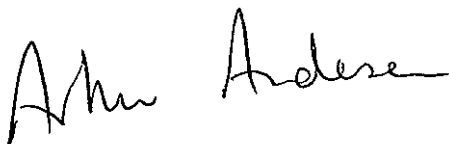
Basis of opinion

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 1998 and of its profit 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 INVESTMENTS (THREE)

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 1998

	Notes	Year ended 30 June 1998 £	Year ended 30 June 1997 £
TURNOVER - rental income		10,907,887	10,872,149
Cost of sales - rent payable		<u>(1,145,102)</u>	<u>(1,295,695)</u>
GROSS PROFIT - Continuing operations		9,762,785	9,576,454
Administrative expenses	2/4/5	<u>(1,056,037)</u>	<u>(1,027,181)</u>
OPERATING PROFIT - continuing operations		8,706,748	8,549,273
Interest receivable	3	1,954,261	1,777,989
Interest payable to parent undertakings		<u>(2,195,761)</u>	<u>(61,608)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		8,465,248	10,265,654
Tax on profit on ordinary activities	6	<u>-</u>	<u>-</u>
PROFIT FOR THE FINANCIAL YEAR		8,465,248	10,265,654
Dividends	7	<u>(8,465,248)</u>	<u>(14,000,000)</u>
TRANSFERRED TO RESERVES	13	<u><u>-</u></u>	<u><u>(3,734,346)</u></u>

Movements in reserves are shown in Note 13 to these accounts.

The notes on pages 8 to 13 form part of these accounts.

CANARY WHARF INVESTMENTS (THREE)

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED
30 JUNE 1998**

	Year ended 30 June 1998 <u>£</u>	Year ended 30 June 1997 <u>£</u>
Profit for the financial year before taxation and dividends	8,465,248	10,265,654
Unrealised surplus on revaluation of investment properties	22,100,000	-
TOTAL RECOGNISED GAINS RELATING TO THE FINANCIAL YEAR	<u>30,565,248</u>	<u>10,265,654</u>

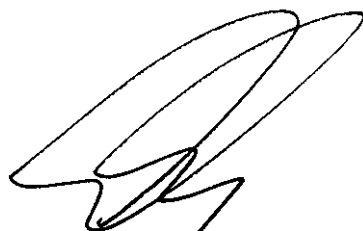
The notes on pages 8 to 13 form part of these accounts.

CANARY WHARF INVESTMENTS (THREE)**BALANCE SHEET AT 30 JUNE 1998**

	Notes	30 June 1998 £	30 June 1997 £
FIXED ASSETS			
Tangible fixed assets	8	155,500,000	131,500,000
CURRENT ASSETS			
Debtors: Amounts due after one year	9	-	4,884,717
Debtors: Amounts due within one year	9	35,997,215	39,038,123
Cash at bank and in hand		7,152,419	6,664,104
		43,149,634	50,586,944
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	10	(25,859,553)	(31,396,863)
NET CURRENT ASSETS		17,290,081	19,190,081
NET ASSETS		172,790,081	150,690,081
CAPITAL AND RESERVES			
Called up share capital	12	117,660,000	117,660,000
Revaluation	13	47,141,250	25,041,250
Profit and loss account	13	7,988,931	7,988,831
		172,790,081	150,690,081

The notes on pages 8 to 13 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

The principal accounting policies of the company, all of which have been applied consistently throughout the year and preceding year, 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 1(4) below.

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

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.

(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.

CANARY WHARF INVESTMENTS (THREE)

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

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(5) 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 AUDITORS' REMUNERATION

The auditors' remuneration for the year was £2,500 (in the prior year auditors' remuneration was borne by another CWHL Group undertaking).

3 INTEREST RECEIVABLE

	Year ended 30 June 1998	Year ended 30 June 1997
	£	£
Bank interest receivable	488,315	351,666
Interest receivable from parent and fellow subsidiary undertakings	1,465,946	1,426,323
	<u>1,954,261</u>	<u>1,777,989</u>

4 DIRECTORS' EMOLUMENTS

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

5 EMPLOYEE INFORMATION

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

	Year ended 30 June 1998	Year ended 30 June 1997
	£	£
Wages and salaries	71,419	257,089
Social Security costs	6,048	2,795
Other pension costs (Note 15)	4,981	11,731
	<u>82,448</u>	<u>271,615</u>

The average number of employees, including directors, of the company during the year was 8 (year ended 30 June 1997 - 12). With effect from 31 May 1998 the employment contracts of the company's employees were transferred to certain other CWHL Group companies.

CANARY WHARF INVESTMENTS (THREE)

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

6 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 the company's future tax charge.

7 DIVIDENDS

	Year ended 30 June 1998 £	Year ended 30 June 1997 £
Dividend - proposed (7.2 pence per share (period ended 30 June 1997 - 11.9 pence per share))	8,465,248	14,000,000

8 TANGIBLE FIXED ASSETS

Tangible fixed assets comprise long leasehold investment properties:

	£
At 1 July 1997	131,500,000
Additions in the year	1,900,000
Revaluation	22,100,000
At 30 June 1998	155,500,000
Historical cost	108,358,750

On 4 December 1997 the company acquired from a fellow subsidiary undertaking a superior interest in one of the properties in which it holds an interest at Canary Wharf. The consideration for the acquisition was £1.9 million, determined on the basis of an external open market valuation.

The company's leasehold property interests were valued by the CWHL Group's external property advisers, Savills Commercial Limited, Chartered Surveyors, as at 30 June 1998 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. This resulted in a revaluation surplus of £22.1 million which has been transferred to the revaluation reserve.

CANARY WHARF INVESTMENTS (THREE)

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

9 DEBTORS

	Due within one year 30 June 1998	Due after one year 30 June 1998	Due within one year 30 June 1997	Due after one year 30 June 1997
	£	£	£	£
Loans to parent and fellow subsidiary undertakings	5,486,791	-	12,150,000	4,884,717
Amounts owed by fellow subsidiary undertakings	30,510,424	-	26,835,275	-
Prepayments and accrued income	-	-	52,848	-
	<u>35,997,215</u>	<u>-</u>	<u>39,038,123</u>	<u>4,884,717</u>

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

10 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	30 June 1998	30 June 1997
	£	£
Loans from parent and fellow subsidiary undertakings	13,800,141	1,000,000
Amounts due to parent and fellow subsidiary undertakings	11,050,815	30,393,401
Accruals and deferred income	1,008,597	3,462
	<u>25,859,553</u>	<u>31,396,863</u>

The loan from the company's parent undertaking is repayable on demand and carries interest at a rate linked to LIBOR.

11 DEFERRED TAXATION

No provision for deferred taxation is required as at 30 June 1998.

The full potential deferred taxation liability is as follows:

	30 June 1998	30 June 1997
	£	£
Accelerated capital allowances	<u>36,471,500</u>	<u>35,392,810</u>

CANARY WHARF INVESTMENTS (THREE)**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 1998 (CONTINUED)****12 CALLED UP SHARE CAPITAL**

	30 June 1998	30 June 1997
	£	£
Ordinary shares of £1 each 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>

13 RESERVES

	Revaluation reserve	Profit and loss account	Total
	£	£	£
As at 1 July 1997	25,041,250	7,988,831	33,030,081
Retained profit for the financial year	-	-	-
Revaluation surplus	<u>22,100,000</u>	<u>-</u>	<u>22,100,000</u>
As at 30 June 1998	<u>47,141,250</u>	<u>7,988,831</u>	<u>55,130,081</u>

14 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	£
Shareholders' funds as at 1 July 1997	150,690,081
Retained profit for the financial year	8,465,248
Revaluation surplus	<u>22,100,000</u>
Shareholders' funds as at 30 June 1998	<u>172,790,081</u>

15 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 £4,981 for the year ended 30 June 1998 (year ended 30 June 1997 - £11,731).

16 FINANCIAL COMMITMENTS

As at 30 June 1998 the company was party to an indemnity under the terms of which it has entered into a fixed first ranking charge over £7.2 million of its cash deposits.

As at 30 June 1998 the company had also given a guarantee and fixed and floating charges to secure the borrowings of other CWWHL Group companies.

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

17 ULTIMATE PARENT UNDERTAKING

The company's immediate parent undertaking is Canary Wharf Investments (Two) Limited, 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.

The smallest group into which the accounts of the company are consolidated is the consolidated accounts of CWHL. Copies of the accounts of CWHL 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 above address.