

CANARY WHARF FINANCE PLC
Registered Number: 3416151

DIRECTORS' REPORT AND ACCOUNTS
FOR THE YEAR ENDED 30 JUNE 1999



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OPERATING AND FINANCIAL REVIEW

The company is engaged in the provision of finance to the Canary Wharf Holdings Limited Group, comprising Canary Wharf Holdings Limited (CWHL) and its subsidiaries (together, the CWHL Group). CWHL is itself a wholly owned subsidiary of Canary Wharf Group plc (CWG). In December 1997 the company launched an issue of debentures quoted on the London Stock Exchange, secured on certain property interests of the CWHL Group and the future rental income stream therefrom. On the same date, the company entered into an inter-company loan agreement to lend to its subsidiary undertaking, CW Lending Limited, the proceeds of the issue of securitised debt.

Operating results

During the year ended 30 June 1999 the company earned interest receivable of £42,026,278 (period to 30 June 1998: £24,856,455). Interest payable totalled £41,141,830 (period to 30 June 1998: £24,314,660) and after administrative expenses the company recorded a profit on ordinary activities of £836,948 (period to 30 June 1998: £516,795).

No provision for corporation tax was required in respect of the year ended 30 June 1999 as a result of the availability of group relief.

Balance sheet

After retained profits the company's net assets at 30 June 1999 totalled £1,403,743 (30 June 1998: £566,795). Borrowings at that date totalled £567.0 million, of which £555.0 million was listed on the London Stock Exchange and £12.0 million represented a loan from the company's subsidiary undertaking (30 June 1998: £567.0 million). Debtors totalled £567.3 million (30 June 1998: £564.6 million), comprising loans (plus accrued interest) to its subsidiary. The company also had cash deposits of £13.3 million held as cash collateral for its borrowings (30 June 1998: £12.4 million).

Treasury objectives

The company's financial instruments comprise borrowings, cash and liquid resources, and various items such as loans to or from other members of Canary Wharf Group plc that arise directly from its operations. The company does not engage in trading of financial instruments.

The company enters into derivative transactions (currently confined to an interest cap) in order to manage the interest rate risk arising from its operations and its sources of finance.

The company's parent reviews and agrees policies for managing the risks associated with the group's financial instruments and these policies are summarised below:

Interest rate risk

The company borrows in sterling at both fixed and floating rates of interest and then uses interest rate caps to generate the desired interest profile and to manage the company's exposure to interest rate fluctuations. The group's policy is to keep the majority of its borrowings at fixed rates. The actual proportion of the company's borrowings at fixed rates at 30 June 1999 and 30 June 1998 was 84.7%.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Liquidity risk

As regards liquidity, the company's policy is to ensure that the maturity of loans to members of the CWHL Group match the maturing of its securitised debt. At the year end the weighted average maturity of the company's debt was 16.7 years (30 June 1998: 17.7 years).

CANARY WHARF FINANCE PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 1999

The directors present herewith the audited accounts for the year ended 30 June 1999.

ULTIMATE PARENT UNDERTAKING

The company's immediate parent undertaking and its ultimate UK parent is CWG and until 6 April 1999 its ultimate parent undertaking was C.W. Investments Limited Partnership, a Cayman Islands undertaking. The limited partnership was dissolved on 6 April 1999 following the shares of CWG being admitted for listing on the London Stock Exchange on 1 April 1999.

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS

The principal activity of the company is to act as a finance company. The Operating and Financial Review on pages 1 and 2 should be read in conjunction with this report.

DIVIDENDS AND RESERVES

The profit and loss account for the year ended 30 June 1999 is set out on page 7. The directors do not recommend the payment of a dividend (period ended 30 June 1998: Nil) and the retained profit of £836,948 is to be transferred to reserves.

GOING CONCERN

The directors are required to prepare the accounts for each financial year on a going concern basis, unless to do so would not be appropriate. Having made requisite enquiries, the directors have a reasonable expectation that the company has adequate resources to continue its operations for the foreseeable future and hence the amounts have been prepared on that basis.

DIRECTORS

The directors of the company during the year ended 30 June 1999 were:

A P Anderson
S H Honeyman
G Iacobescu
G Rothman

DIRECTORS' INTERESTS

The directors, other than S H Honeyman, have been granted options to subscribe for ordinary shares in CWG. Details of such options are disclosed in the accounts of CWG. Since approval of the accounts of CWG, on 1 October 1999, AP Anderson exercised options over 250,000 ordinary shares at an option price of 79.5p per share. On the same day the ordinary shares arising on the exercise of such options were all sold at a price of 352p per share.

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 1999 or at any time throughout the year then ended.

CANARY WHARF FINANCE PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 1999 (CONTINUED)

YEAR 2000 COMPLIANCE

The group has assessed the impact of the year 2000 issue on its reporting systems and operations and on the basis of this assessment has formulated an action plan for dealing with the issues associated with the date change which is intended to rectify any Year 2000 problem before 2000 and minimise the impact of third parties' lack of Year 2000 compliance. Work has been completed on the core financial system, is progressing according to plan in respect of other business information and operational systems and is expected to be completed prior to the year end. Any costs are taken to the profit and loss account for the period in which they are incurred.

After allowing for recoveries, costs incurred in upgrading the group's systems during the year were not significant. Moreover, the financial cost to be borne by the group in ensuring compliance with the remaining Year 2000 issues is not expected to be significant to the group during the subsequent accounting period.

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 and abide by the terms of payment. There were no external trade creditors at either 30 June 1998 or 30 June 1999.

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



..... Company Secretary
J R Garwood

2 November 1999

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 year 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 year 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.

ARTHUR ANDERSEN

AUDITORS' REPORT TO THE MEMBERS OF CANARY WHARF FINANCE PLC

London

We have audited the accounts on pages 7 to 14 which have been prepared under the historical cost convention and the accounting policies set out on page 9.

Respective responsibilities of directors and auditors

As described on page 5 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 1999 and of its profit for the year 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

2 November 1999

CANARY WHARF FINANCE PLC

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 1999

| | Notes | Year ended 30 June 1999 £ | Period ended 30 June 1998 £ |
|--|-------|------------------------------------|--------------------------------------|
| Turnover - Interest receivable | 3 | 42,026,278 | 24,856,455 |
| Cost of sales - Interest payable and similar charges | 4 | (41,141,830) | (24,314,660) |
| GROSS PROFIT | | 884,448 | 541,795 |
| Administrative expenses | | (47,500) | (25,000) |
| PROFIT FOR THE FINANCIAL YEAR | 2 | 836,948 | 516,795 |

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

All amounts relate to continuing activities.

There were no recognised gains or losses for 1999 or 1998 other than those included in the profit and loss account.

The notes on pages 9 to 14 form part of these accounts.

CANARY WHARF FINANCE PLC

BALANCE SHEET AT 30 JUNE 1999

| | Notes | 30 June 1999 £ | 30 June 1998 £ |
|--|-------|----------------------|----------------------|
| FIXED ASSETS | | | |
| Investment | 6 | 2 | 2 |
| CURRENT ASSETS | | | |
| Debtors | | | |
| Amounts due after one year | 7 | 555,000,000 | 555,000,000 |
| Amounts due within one year | 7 | 12,326,142 | 9,613,871 |
| Cash at bank and in hand | 8 | 13,331,415 | 12,406,804 |
| | | 580,657,557 | 577,020,675 |
| CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR | 9 | (12,253,816) | (9,453,882) |
| NET CURRENT ASSETS | | 568,403,741 | 567,566,793 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 568,403,743 | 567,566,795 |
| CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR | 10 | (567,000,000) | (567,000,000) |
| NET ASSETS | | 1,403,743 | 566,795 |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 12 | 50,000 | 50,000 |
| Profit and loss account | 13 | 1,353,743 | 516,795 |
| SHAREHOLDERS' FUNDS - EQUITY | 14 | 1,403,743 | 566,795 |

The notes on pages 9 to 14 form part of these accounts.

APPROVED BY THE BOARD ON 2 NOVEMBER 1999 AND SIGNED ON ITS BEHALF BY:



A P ANDERSON
DIRECTOR

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 1999

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 period, is set out below.

Accounting convention

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

The company has adapted the standard profit and loss account format to reflect the nature of its business and in particular to show interest receivable and payable as components within gross profit.

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 is included in the accounts of CWG.

Investments in subsidiary undertakings

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

Debt

Debt instruments are stated initially 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 the payments made in respect of the debt in that period. Finance costs are charged to the profit and loss account.

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.

Interest receivable and interest payable

Interest receivable and payable is recognised in the period in which it falls due.

CANARY WHARF FINANCE PLC

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 1999 (CONTINUED)

2 OPERATING PROFIT

| | Year ended 30 June 1999 | Period ended 30 June 1998 |
|--|-------------------------------|---------------------------------|
| The operating profit is stated after charging: | £ | £ |
| Remuneration of the auditors: | | |
| Audit fees | 5,000 | 2,500 |

S Honeyman received a fee of £2,500 in respect of his services as a director of the company for the year ended 30 June 1999. Emoluments paid to the other directors in respect of their services to CWG and its subsidiaries, including the company, are paid by Canary Wharf Limited or a parent company and in respect of those directors in common are disclosed in the financial statements of CWG.

No staff were employed by the company other than the directors.

3 INTEREST RECEIVABLE

| | Year ended 30 June 1999 | Period ended 30 June 1998 |
|---|-------------------------------|---------------------------------|
| | £ | £ |
| Interest receivable from group undertakings | 41,187,118 | 24,341,774 |
| Bank interest receivable | 839,160 | 514,681 |
| | <u>42,026,278</u> | <u>24,856,455</u> |

4 INTEREST PAYABLE AND SIMILAR CHARGES

| | Year ended 30 June 1999 | Period ended 30 June 1998 |
|--|-------------------------------|---------------------------------|
| | £ | £ |
| Interest payable on securitised debt (Note 11) | <u>41,141,830</u> | <u>24,314,660</u> |

5 TAXATION

No provision for taxation has been made since the profit for the year will be covered by group relief expected to be made available to the company by other companies in the group. No charge will be made by other group companies for the surrender of group relief.

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

6 INVESTMENTS

| | Shares in Group Undertakings |
|-------------------------------------|------------------------------------|
| | £ |
| Net Book Value | |
| At 30 June 1998 and at 30 June 1999 | <u>2</u> |

CANARY WHARF FINANCE PLC

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 1999 (CONTINUED)

At 30 June 1999 the company had one subsidiary undertaking as follows:

| <u>Name</u> | <u>Description of shares held</u> | <u>Principal activities</u> |
|--------------------|-----------------------------------|--|
| CW Lending Limited | Ordinary £1 shares | Provision of finance to the CWHL group |

The above is a wholly owned subsidiary 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 undertaking are included in the consolidated accounts of a larger group (Note 16).

The directors are of the opinion that the value of the company's investment at 30 June 1999 was not less than the amount shown in the company's balance sheet.

7 DEBTORS

| | 30 June 1999 | 30 June 1998 |
|---------------------------------------|--------------------|--------------------|
| | £ | £ |
| Due within one year: | | |
| Amount owed by subsidiary undertaking | 12,189,499 | 9,440,861 |
| Other debtors | 4,733 | - |
| Prepayments and accrued income | 131,910 | 173,010 |
| | <u>12,326,142</u> | <u>9,613,871</u> |
| Due in more than one year: | | |
| Loan to subsidiary undertaking | <u>555,000,000</u> | <u>555,000,000</u> |

The loan to the company's subsidiary undertaking is in tranches, the principal terms of which are:

| <u>Tranche</u> | <u>Amount</u> | <u>Interest</u> | <u>Repayment</u> |
|----------------|---------------|-----------------|------------------|
| | £m | | |
| A | 270 | 7.240% | By instalment |
| B | 80 | 7.435% | By instalment |
| C | 120 | Stepped | By instalment |
| D | 85 | Floating | By instalment |
| | <u>555</u> | | |

Interest on the Tranche C loan increases in steps from 5.01%, payable until October 1999, to 9.545%, payable from October 2006. Interest on the Tranche D loan is linked to LIBOR, not to exceed 8.5%.

Repayment of the loans is by instalment over the period 2004 – 2027.

8 FINANCIAL ASSETS

The company's financial assets comprise loans to the company's subsidiary undertaking and cash at bank. Cash at bank was £13,331,415 at 30 June 1999 (30 June 1998: £12,406,804), all of which was held as cash collateral for the company's borrowings.

CANARY WHARF FINANCE PLC

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 1999 (CONTINUED)

9 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 30 June 1999 | 30 June 1998 |
|--|-------------------|------------------|
| | £ | £ |
| Amount owed to fellow subsidiary undertaking | 66,775 | 17,042 |
| Accruals | 12,187,041 | 9,436,840 |
| | <u>12,253,816</u> | <u>9,453,882</u> |

10 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | 30 June 1999 | 30 June 1998 |
|-------------------------------------|--------------------|--------------------|
| | £ | £ |
| Securitised debt (note 11) | 555,000,000 | 555,000,000 |
| Loan owed to subsidiary undertaking | 12,000,000 | 12,000,000 |
| | <u>567,000,000</u> | <u>567,000,000</u> |

The loan from the company's subsidiary undertaking is interest free and is repayable by instalment between 2024 and 2027.

11 SECURITISED DEBT

The disclosures in this note should be read in conjunction with the disclosures in the Operating and Financial Review on pages 1 and 2.

In December 1997 the company issued £555m of first mortgage debentures, the principle terms of which are:

| Tranche | Amount | Interest | Repayment |
|---------|------------|----------|---------------|
| | £m | | |
| A | 270 | 7.230% | By instalment |
| B | 80 | 7.425% | By instalment |
| C | 120 | Stepped | By instalment |
| D | 85 | Floating | By instalment |
| | <u>555</u> | | |

The debentures are secured on certain property interests of the CWHL Group and the rental income stream therefrom.

Interest on the Tranche C loan increases in steps from 5% payable until October 1999 to 9.535% payable from October 2006. Interest on the Tranche D loan is payable at LIBOR plus 1.1% until January 2003 and thereafter 3.1%, but the company has entered into an interest rate cap arrangement so as to cap the portion of interest linked to LIBOR at 8.5%.

Repayment of the fixed rate debentures is by instalments over the period 2004 – 2027. Repayment of the floating rate debentures is by instalments over the period 2007 – 2020. The weighted average maturity of the debentures at 30 June 1999 was 16.7 years. The debentures may be redeemed at the option of the issuer in an aggregate amount of not less than £1 million on any interest payment date (or in the case of the class D debentures on any interest payment date in or after January 1999), subject to the current ratings of the debentures not being adversely affected and certain other conditions affecting the amount to be redeemed.

CANARY WHARF FINANCE PLC

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 1999 (CONTINUED)

The company's aggregate borrowings are repayable as follows:

| | 30 June 1999 | 30 June 1998 |
|-----------------------|-----------------|-----------------|
| | £ | £ |
| In five years or more | 567,000,000 | 567,000,000 |

The interest profile of the company's borrowings at 30 June 1999 was:

| | 30 June 1999 | 30 June 1998 |
|--|-----------------|-----------------|
| | £ | £ |
| Floating rate liabilities (capped) | 85,000,000 | 85,000,000 |
| Fixed rate liabilities | 470,000,000 | 470,000,000 |
| Financial liabilities on which no interest is paid | 12,000,000 | 12,000,000 |
| | 567,000,000 | 567,000,000 |

In respect of the company's fixed rate financial liabilities:

| | At 30 June 1999 | | At 30 June 1998 | |
|------------------|---|-------------------------------|---|-------------------------------|
| | Weighted average interest rate | Weighted average period | Weighted average interest rate | Weighted average period |
| | % | Years | % | Years |
| Securitised debt | 7.4 | 17.25 | 7.4 | 18.25 |

The fair value of the company's financial assets and liabilities as at 30 June 1999, excluding balances with other members of Canary Wharf Group Plc, in comparison with their book values was:

| | At 30 June 1999 | | At 30 June 1998 | |
|---|-----------------|---------------|-----------------|---------------|
| | Book Value | Fair Value | Book Value | Fair Value |
| | £000 | £000 | £000 | £000 |
| Primary financial instruments held to finance the company's operations: | | | | |
| Cash on deposit | 13,331 | 13,331 | 12,407 | 12,407 |
| Long term borrowings | (555,000) | (601,600) | (555,000) | (593,591) |
| Derivative financial instruments held to manage the interest rate profile | - | 2,239 | - | 1,209 |

The fair value of sterling denominated fixed rate debt at 30 June 1999 and the associated interest rate cap have been determined by reference to prices available on the markets on which they are traded.

Financing expenses incurred on the issue of first mortgage debentures have been borne by another Canary Wharf Group undertaking.

CANARY WHARF FINANCE PLC

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 JUNE 1999 (CONTINUED)

12 SHARE CAPITAL

| | 30 June 1999 | 30 June 1998 |
|---------------------------------|-----------------|-----------------|
| | £ | £ |
| Equity Shares | | |
| Ordinary shares of £1 each | | |
| Authorised | 50,000 | 50,000 |
| Issued, allotted and fully paid | 50,000 | 50,000 |

13 RESERVES

| | Profit and loss account |
|--|----------------------------|
| | £ |
| At 1 July 1998 | 516,795 |
| Retained profit for the financial year | 836,948 |
| At 30 June 1999 | 1,353,743 |

14 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | £ |
|--|-----------|
| Shareholders' funds as at 1 July 1998 | 566,795 |
| Profit for the financial year | 836,948 |
| Shareholders' funds as at 30 June 1999 | 1,403,743 |

15 FINANCIAL COMMITMENTS

As at 30 June 1999 the company had given fixed and floating charges over all its assets, including first fixed charges over its bank accounts, to secure the debentures referred to in Note 11.

16 RELATED PARTIES

The company's immediate parent undertaking and its ultimate UK parent is Canary Wharf Group plc and until 6 April 1999 its ultimate parent undertaking was C.W. Investments Limited Partnership, a Cayman Islands undertaking. The limited partnership was dissolved on 6 April 1999 following the shares of CWG being admitted for listing on the London Stock Exchange on 1 April 1999.

Copies of the consolidated accounts of CWG may be obtained from the Company Secretary, One Canada Square, Canary Wharf, London, E14 5AB.

The directors have taken advantage of the exemption in paragraph 3(c) of FRS8 allowing the company not to disclose related party transactions with respect to other group companies.