

HQCB PROPERTIES (HQ3) LIMITED
Registered Number: 4525220

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

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HQCB PROPERTIES (HQ3) LIMITED

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HQCB PROPERTIES (HQ3) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

The directors present their report with the audited financial statements for the year ended 31 December 2010

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The company is a wholly owned subsidiary of Canary Wharf Group plc and its ultimate parent undertaking is Songbird Estates plc

The principal activity of the company is property investment. All activities take place within the United Kingdom. The directors are not aware, at the date of this report, of any likely major changes in the company's activities in the coming year.

As shown in the company's profit and loss account, the company's loss after tax for the year was £4,421 (2009 profit of £146,398)

The balance sheet shows the company's financial position at the year end and indicates that net assets were £2,053,657 (2009 £2,058,078)

The Canary Wharf Group (comprising Canary Wharf Group plc and its subsidiaries) manages its operations on a unified basis. For this reason, the company's directors believe that key performance indicators specific to the company are not necessary or appropriate for an understanding of the development, performance or position of its business. The performance of the Canary Wharf Group, which includes the company, is discussed in the Annual Report of Canary Wharf Group plc, which does not form part of this report.

There have been no significant events since the balance sheet date.

DIVIDENDS AND RESERVES

The profit and loss account for the year ended 31 December 2010 is set out on page 7. No dividends have been paid or proposed (2009 £Nil) and the retained loss of £4,421 (2009 profit of £146,398) has been transferred from reserves.

GOING CONCERN

The company's business activities, together with the factors likely to affect its future development, performance and position (including the principal risks and uncertainties), are set out in this Directors' Report. The finances of the company and its liquidity position and borrowings are, where appropriate, also described in this report.

The company is in a net asset position at the year end. The company has the benefit of leases which provide an income stream which the directors forecast will enable it to meet its obligations as they fall due for a period of not less than 12 months from the signing date of the financial statements. In addition, as a member of the Canary Wharf Group, the company has access to considerable resources.

Having made the requisite enquiries, the directors have a reasonable expectation that the company will have adequate resources to continue its operations for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the financial statements.

HQCB PROPERTIES (HQ3) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

DIRECTORS

The directors of the company throughout the year ended 31 December 2010 were

A P Anderson II
G Iacobescu
R J J Lyons

The company provides an indemnity to all directors (to the extent permitted by law) in respect of liabilities incurred as a result of their office. The company also has in place liability insurance covering the directors and officers of the company. Both the indemnity and insurance were in force during the year ended 31 December 2010 and at the time of the approval of this Directors' Report. Neither the indemnity nor the insurance provide cover in the event that the director is proven to have acted dishonestly or fraudulently.

PRINCIPAL RISKS AND UNCERTAINTIES

As a member of the Canary Wharf Group the key risks facing the company include the cyclical nature of the property market, financing risk and concentration risk.

Cyclical Nature of the Property Market

The valuation of Canary Wharf Group's assets is subject to many external economic and market factors. The turmoil in the financial markets during 2008 and 2009 was reflected in the property market by such factors as the oversupply of available space in the office market, a significant decline in tenant demand for space in London and a change in the market perception of property as an investment resulting in a negative impact on property valuations in general. In the latter half of 2009 and during the course of 2010 there were signs of a tightening of supply which has resulted in an increase in valuations and a compression of yields. Changes in financial and property markets are kept under constant review so that the company can react appropriately. The impact of the ongoing uncertainty in the financial and property markets continues to be closely monitored.

Financing Risk

The broader economic cycle inevitably leads to movements in inflation, interest rates and bond yields. The company finances its operations largely through surplus cash and intercompany finance. The ongoing uncertainty in financial markets continues to significantly limit the availability of funding. In common with other UK property companies, lack of financing facilities may have an impact on the business of Canary Wharf Group if the lending markets remain limited for the foreseeable future.

Concentration Risk

The majority of Canary Wharf Group's real estate assets, including the assets of the company, are currently located on or adjacent to the Canary Wharf Estate with tenants that are mainly linked to the financial services industry. Wherever possible steps are taken to mitigate or avoid material consequences arising from this concentration.

The principal risks facing the Canary Wharf Group are discussed in the Annual Report of Canary Wharf Group plc, which does not form part of this report.

HQCB PROPERTIES (HQ3) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

Each director holding office at the date of this report has taken all the steps that he ought to have taken as a director in order to make himself aware of relevant audit information and to establish that the company's auditors are aware of that information. As far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418(2) of the Companies Act 2006.

BY ORDER OF THE BOARD



J R Garwood

Company Secretary

27 June 2011

Registered office
30th Floor
One Canada Square
Canary Wharf
London
E14 5AB

Registered Number 4525220

HQCB PROPERTIES (HQ3) LIMITED

STATEMENT OF THE DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

HQCB PROPERTIES (HQ3) LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HQCB PROPERTIES (HQ3) LIMITED

We have audited the financial statements of HQCB Properties (HQ3) Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, Balance Sheet and the related Notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

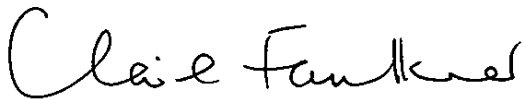
HQCB PROPERTIES (HQ3) LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HQCB PROPERTIES (HQ3) LIMITED

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Claire Faulkner (Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountant and Statutory Auditor
London, UK

27 June 2011

HQCB PROPERTIES (HQ3) LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2010

		Year Ended 31 December 2010 £	Year Ended 31 December 2009 £
	Note		
TURNOVER - RENTAL INCOME		24,404,904	24,608,430
Cost of sales		(23,873,378)	(24,788,228)
GROSS PROFIT/(LOSS)		531,526	(179,798)
Administrative expenses		(510,765)	200,909
OPERATING PROFIT	2	20,761	21,111
Interest receivable and similar income	3	2,130	1,849
Interest payable and similar charges	4	—	(20)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		22,891	22,940
Tax on profit on ordinary activities	5	(27,312)	123,458
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE YEAR	10	(4,421)	146,398

Movements in reserves are shown in Note 10 of these financial statements

All amounts relate to continuing activities in the United Kingdom

There were no recognised gains and losses for the year ended 31 December 2010 or the year ended 31 December 2009 other than those included in the profit and loss account

The Notes on pages 9 to 15 form an integral part of these financial statements

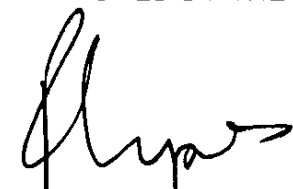
HQCB PROPERTIES (HQ3) LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2010

	Note	31 December 2010 £	31 December 2009 £
FIXED ASSETS			
Tangible assets	6	150,000	150,000
CURRENT ASSETS			
Debtors	7		
Amounts falling due after one year		3,059,984	5,230,502
Amounts falling due within one year		6,554,571	1,257,237
Cash at bank		4,578,412	2,591,776
		14,192,967	9,079,515
CREDITORS: Amounts falling due within one year	8	(12,289,310)	(7,171,437)
NET CURRENT ASSETS		1,903,657	1,908,078
TOTAL ASSETS LESS CURRENT LIABILITIES		2,053,657	2,058,078
NET ASSETS		2,053,657	2,058,078
CAPITAL AND RESERVES			
Called-up share capital	9	45,601,157	45,601,157
Profit and loss account	10	(43,547,500)	(43,543,079)
SHAREHOLDERS' FUNDS	11	2,053,657	2,058,078

The Notes on pages 9 to 15 form an integral part of these financial statements

APPROVED BY THE BOARD ON 27 JUNE 2011 AND SIGNED ON ITS BEHALF BY



R J J LYONS
DIRECTOR

HQCB PROPERTIES (HQ3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards. The financial statements have been prepared on the going concern basis as described in the Directors' Report.

In accordance with the provisions of FRS 1 (Revised) the company is exempt from the requirements to prepare a cash flow statement, as it is a wholly-owned subsidiary of Canary Wharf Group plc, which has prepared a consolidated cash flow statement.

Turnover

Turnover represents rents receivable net of VAT and is recognised on an accruals basis in the period in which the rents become due.

Interest receivable and interest payable

Interest receivable and payable are recognised on an accruals basis in the period in which they fall due.

Investment properties

Investment properties are revalued annually and in accordance with SSAP 19 (Accounting for Investment Properties) no provision is made for depreciation. This departure from the requirements of the statutory accounting rules, 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. Depreciation is only one of the factors reflected in the annual valuation and the amount attributable to this factor is not capable of being separately identified or quantified. Surpluses or deficits are transferred to the revaluation reserve, unless a deficit exceeds previous surpluses recognised on the same property, in which case the excess is charged to the profit and loss account.

Lease incentives

Lease incentives include rent free periods and other incentives given to lessees on entering into lease agreements. Under UITF 28 the aggregate cost of lease incentives is recognised as an adjustment to rental income, allocated evenly over the lease term or the term to the first open market rent review if earlier. The cost of lease incentives is included within debtors due in more than one year and spread on a straight line basis over a similar period.

HQCB PROPERTIES (HQ3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Leases

Rentals payable under operating leases are charged to the profit and loss account in the period in which the rents become due

Where lease incentives, including rent free periods, are received upon entering into the lease, the benefit is recognised as an adjustment to rents payable allocated evenly over the lease term or the term to the first open market rent review if earlier

Trade and other debtors

Debtors are recognised initially at fair value. A provision for impairment is established where there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the debtor concerned

Trade and other creditors

Trade and other creditors are stated at cost

Taxation

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. The company is part of a UK group for group relief purposes and accordingly may take advantage of the group relief provisions whereby current taxable profits can be offset by current tax losses arising in other companies in that group. The group's policy is that no payment will be made for tax losses surrendered under the group relief provisions

Deferred tax assets and liabilities arise from timing differences between the recognition of gains and losses in the financial statements and their recognition in the corporation tax return

Under FRS 19 deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements

Deferred tax is measured on a discounted basis to reflect the time value of money over the period between the balance sheet date and the dates on which it is estimated that the timing differences will reverse, or where the timing differences are not expected to reverse, a period not exceeding 50 years. Discount rates of 0.4% to 2.5% have been adopted reflecting the post-tax yield to maturity that can be obtained on government bonds with similar maturity dates and currencies to those of the deferred tax assets or liabilities

HQCB PROPERTIES (HQ3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

2. OPERATING PROFIT

Operating profit is stated after charging

	Year Ended 31 December 2010 £	Year Ended 31 December 2009 £
Remuneration of the auditors		
Audit fees for the audit of the company	3,000	3,000

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

No staff were employed by the company during the year or the prior year

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year Ended 31 December 2010 £	Year Ended 31 December 2009 £
Bank interest receivable	2,130	1,849

4. INTEREST PAYABLE AND SIMILAR CHARGES

	Year Ended 31 December 2010 £	Year Ended 31 December 2009 £
Bank interest payable	—	20

HQCB PROPERTIES (HQ3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

5. TAXATION

	Year Ended 31 December 2010 £	Year Ended 31 December 2009 £
Current tax		
UK Corporation tax (see below)	<u>—</u>	<u>—</u>
Deferred tax		
Net effect of discount	558	(1,361)
Origination and reversal of timing differences	<u>26,754</u>	<u>(122,097)</u>
Total deferred tax (Note 7)	<u>27,312</u>	<u>(123,458)</u>
Tax reconciliation		
Profit on ordinary activities before tax	<u>22,891</u>	<u>22,940</u>
Tax on profit on ordinary activities at UK corporation tax rate of 28%	6,409	6,423
Effects of		
Expenses not deductible for tax purposes	112,373	—
Other timing differences	<u>(118,782)</u>	<u>(6,423)</u>
Current tax charge for the year	<u>—</u>	<u>—</u>

No provision for corporation tax has been made since the profit for the year will be covered by the 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. It is anticipated that group relief and other tax reliefs will impact on future tax charges. There is no unprovided deferred taxation.

HQCB PROPERTIES (HQ3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

6. TANGIBLE FIXED ASSETS

	Leasehold Investment Property £
VALUATION	
At 1 January 2010 and 31 December 2010	<u>150,000</u>
NET BOOK VALUE	
At 31 December 2010	<u>150,000</u>
At 31 December 2009	<u>150,000</u>

As at 31 December 2010 the company's leasehold property interest was valued by the group's external property advisers, CB Richard Ellis Limited, Surveyors and Valuers, on the basis of Market Value in accordance with the Appraisal and Valuation Manual published by the Royal Institution of Chartered Surveyors. No allowance was made for any expenses of realisation nor for any taxation which might arise in the event of disposal.

7. DEBTORS

	31 December 2010 £	31 December 2009 £
Due within one year		
Trade debtors	35,984	1,316
Amount owed by parent undertaking	1	1
Amounts owed by fellow subsidiary undertakings	5,547,536	172,497
Other debtors	559,900	981,489
Deferred tax	62,486	89,798
Prepayments and accrued income	348,664	12,136
	<u>6,554,571</u>	<u>1,257,237</u>
Due in more than one year		
Lease incentives	<u>3,059,984</u>	<u>5,230,502</u>

At 31 December 2010 the company had a deferred tax asset of £95,314 (2009 asset of £134,054), net of a discount of £32,828 (2009 £44,256)

HQCB PROPERTIES (HQ3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

8. CREDITORS: Amounts falling due within one year

	31 December 2010 £	31 December 2009 £
Trade creditors	181,805	12,257
Amount owed to fellow subsidiary undertaking	6,817,005	60,960
Other creditors	1,697,774	1,613,655
Accruals and deferred income	3,592,726	5,484,565
	<u>12,289,310</u>	<u>7,171,437</u>

9. CALLED-UP SHARE CAPITAL

Allotted, called up and fully paid.

	31 December 2010 £	31 December 2009 £
45,601,157 Ordinary shares of £1 each	<u>45,601,157</u>	<u>45,601,157</u>

10. RESERVES

	Profit and loss account £
At 1 January 2010	(43,543,079)
Loss for the year	(4,421)
At 31 December 2010	<u>(43,547,500)</u>

11. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	31 December 2010 £	31 December 2009 £
Opening shareholders' funds	2,058,078	1,911,680
(Loss)/profit for the year	(4,421)	146,398
Closing shareholders' funds	<u>2,053,657</u>	<u>2,058,078</u>

12. CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS

As at 31 December 2010 and 31 December 2009 the company had given fixed and floating charges over substantially all its assets to secure the commitments of certain other group undertakings

The company has annual commitments in respect of operating leases on land and buildings equal to 99.9% of its net rents receivable expiring after more than five years

HQCB PROPERTIES (HQ3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

13. ULTIMATE PARENT UNDERTAKING AND RELATED PARTY TRANSACTIONS

The company's immediate parent undertaking is HQCB Properties (HQ5(2)) Limited

As at 31 December 2010, the smallest group of which the company is a member and for which group financial statements are drawn up is the consolidated financial statements of Canary Wharf Group plc. The largest group of which the company is a member for which group financial statements are drawn up is the consolidated financial statements of Songbird Estates plc, the ultimate parent undertaking and controlling party. Copies of the financial statements of both companies 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 FRS 8 allowing the company not to disclose related party transactions with respect to other group companies.