

HQCB PROPERTIES (HQ3) LIMITED
Registered Number: 4525220

DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR FROM 1 JULY 2003 TO 30 JUNE 2004



HQCB PROPERTIES (HQ3) LIMITED

FINANCIAL STATEMENTS

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HQCB PROPERTIES (HQ3) LIMITED

THE DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2004

The directors present their report with the audited financial statements for the year ended 30 June 2004.

ULTIMATE PARENT UNDERTAKING

The company's immediate parent undertaking is CWCB Holdings Limited, a company registered in England and Wales. On 21 May 2004, Songbird Acquisition Limited declared its offer for Canary Wharf Group plc ('CWG'), the company's previous ultimate parent undertaking, wholly unconditional. As a result of this announcement, Songbird Estates plc is now the ultimate parent company.

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS

The principal activity of the company is property investment. At present this activity is concentrated on the Canary Wharf development in London's Docklands.

FUTURE DEVELOPMENTS

The company is expected to continue with its principal activity for the foreseeable future.

DIVIDENDS AND RESERVES

The profit and loss account for the year ended 30 June 2004 is set out on page 6. The directors do not recommend the payment of a dividend (2003 :£Nil) and the retained loss of £40,000,000 is to be transferred to reserves.

DIRECTORS

The directors of the company throughout the year ended 30 June 2004 were:

A P Anderson II
G Iacobescu
R Lyons

DIRECTORS' INTERESTS

The directors have been granted options to subscribe for ordinary shares in CWG. Details of interests and options to subscribe for shares in CWG are disclosed as appropriate in the financial statements of either of the intermediate parent companies, Canary Wharf Estate Limited or CWG.

Subsequent to the year end, options have also been granted to subscribe for ordinary shares in Songbird Estates plc, the ultimate parent company and such details are disclosed in the financial statements of Canary Wharf Estate Limited, an intermediate parent undertaking.

Other than the above, no director had any beneficial interest in the shares of the company, its parent undertakings or any of its subsidiaries at 30 June 2004 or at any time throughout the year then ended.

HQCB PROPERTIES (HQ3) LIMITED

THE DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2004

FINANCIAL POSITION

The company is in a net liability position at the year end. Canary Wharf Holdings Limited, an intermediate parent undertaking, has agreed to provide or procure adequate financial resources to allow the company to continue its operations, and has also agreed to make available any funds that may be required for the company to meet its obligations as they fall due, for a period of not less than 12 months from the date of the financial statements.

AUDITORS

Elective resolutions to dispense with holding annual general meetings, the laying of financial statements before the company in general meeting and the appointment of auditors annually are currently in force. The auditors, Deloitte & Touche LLP, will therefore be deemed to have been reappointed at the end of the period of 28 days, beginning the day on which copies of this report and financial statements are sent to members unless a resolution is passed under section 393 of the Companies Act 1985 to the effect that their appointment be brought to an end.

BY ORDER OF THE BOARD



.....
A M Holland

Joint Secretary

21 December 2004

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

HQCB PROPERTIES (HQ3) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are required by the Companies Act 1985 to prepare financial statements 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 year and of the results for the year then ended. In preparing these financial statements, the directors are required to:

- select suitable accounting policies, as described on page 8, 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 financial statements; 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 which 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 1985. They are also responsible 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.

HQCB PROPERTIES (HQ3) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the financial statements of HQCB Properties (HQ3) Limited for the year ended 30 June 2004 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 14. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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 auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company, 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 financial statements 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 financial statements.

HQCB PROPERTIES (HQ3) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Opinion

In our opinion the financial statements give a true and fair view of the company's affairs as at 30 June 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

21 December 2004

HQCB PROPERTIES (HQ3) LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2004

		Year ended 30 June 2004 £	Period ending 30 June 2003 £
	Note		
TURNOVER - RENTAL INCOME		7,469,744	—
GROSS PROFIT		7,469,744	—
Administrative expenses before exceptional items		(3,000)	(1,000)
Exceptional item:			
Provision against leasehold property	6	(40,000,000)	—
OPERATING LOSS	2	(32,533,256)	(1,000)
Interest receivable and similar income	3	2,721,250	11,342,465
Interest payable and similar charges	4	(10,187,994)	(11,321,917)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(40,000,000)	19,548
Tax on (loss)/profit on ordinary activities	5	—	—
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		(40,000,000)	19,548
RETAINED (LOSS)/PROFIT FOR THE FINANCIAL YEAR TRANSFERRED TO RESERVES	11	(40,000,000)	19,548

Movements in reserves are shown in Note 11 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 30 June 2004 or the period ended 30 June 2003 other than those included in the profit and loss account.

The notes on pages 8 to 12 form an integral part of these financial statements.

HQCB PROPERTIES (HQ3) LIMITED

BALANCE SHEET AS AT 30 JUNE 2004

	Note	30 June 2004 £	30 June 2003 £
FIXED ASSETS			
Tangible assets	6	<u>271,000,000</u>	<u>311,000,000</u>
CURRENT ASSETS			
Debtors	7	2,788,976	54,425,001
CREDITORS: Amounts falling due within one year	8	<u>(2,769,427)</u>	<u>(54,405,452)</u>
NET CURRENT ASSETS		<u>19,549</u>	<u>19,549</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>271,019,549</u>	<u>311,019,549</u>
CREDITORS: Amounts falling due after more than one year	9	<u>(311,000,000)</u>	<u>(311,000,000)</u>
NET (LIABILITIES)/ASSETS		<u>(39,980,451)</u>	<u>19,549</u>
CAPITAL AND RESERVES			
Called-up equity share capital	10	1	1
Profit and loss account	11	<u>(39,980,452)</u>	<u>19,548</u>
SHAREHOLDERS' (DEFICIT)/FUNDS - EQUITY	12	<u>(39,980,451)</u>	<u>19,549</u>

The notes on pages 8 to 12 form an integral part of these financial statements.

APPROVED BY THE BOARD ON 21 DECEMBER 2004 AND SIGNED ON ITS BEHALF BY:



R LYONS
DIRECTOR

HQCB PROPERTIES (HQ3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

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.

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 financial statements of CWG.

Interest receivable and interest payable

Interest receivable and payable are recognised in the period in which they fall due.

Turnover

Turnover, representing rents receivable, is recognised net of VAT in the period in which the rents become due

Tangible fixed assets

Tangible fixed assets, comprising leasehold 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 is expected to be permanent and exceeds previous surpluses recognised on the same property, in which case the excess is charged to the profit and loss account.

2. OPERATING LOSS

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

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

Auditors' remuneration has been borne by another group undertaking.

HQCB PROPERTIES (HQ3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 30 June 2004 £	Period ending 30 June 2003 £
Bank interest receivable	2,721,250	—
Interest receivable from group undertakings	—	11,342,465
	<u>2,721,250</u>	<u>11,342,465</u>

4. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 30 June 2004 £	Period ending 30 June 2003 £
Interest payable to group undertakings	10,187,994	11,321,917

5. TAXATION

	Year ended 30 June 2004 £	Period ending 30 June 2003 £
Current tax:		
UK Corporation tax (see below)	—	—
Tax reconciliation:		
(Loss)/profit on ordinary activities before tax	(40,000,000)	19,548
Tax on profit on ordinary activities at UK corporation tax rate of 30%	(12,000,000)	5,864
Effects of:		
Expenses not deductible for tax purposes	12,000,000	—
Tax losses and other timing differences	—	(5,864)
Current tax charge for the year	—	—

No charge for taxation has been made since the company recorded neither a profit or a loss, for tax purposes, for the year. It is anticipated that group relief and other 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 30 JUNE 2004

6. TANGIBLE FIXED ASSETS

	Leasehold Property £
COST OR VALUATION	
At 1 July 2003 and 30 June 2004	<u>311,000,000</u>
PROVISION	
Charge for the year	<u>40,000,000</u>
At 30 June 2004	<u>40,000,000</u>
NET BOOK VALUE	
At 30 June 2004	<u>271,000,000</u>
At 30 June 2003	<u>311,000,000</u>

As at 30 June 2004 the company's leasehold property interest was valued by the group's external property advisers, FPD Savills, Chartered Surveyors, 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. The external valuation resulted in a provision for diminution in value of £40,000,000 which has been taken to the profit and loss account and treated as an exceptional item. This item did not give rise to deferred tax.

7. DEBTORS

	30 June 2004 £	30 June 2003 £
Trade debtors	33,536	–
Amount owed by parent undertaking	1	1
Amount owed by fellow subsidiary undertaking	34,782	–
Other debtors	–	54,425,000
Prepayments and accrued income	2,720,657	–
	<u>2,788,976</u>	<u>54,425,001</u>

HQCB PROPERTIES (HQ3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

8. CREDITORS: Amounts falling due within one year

	30 June 2004 £	30 June 2003 £
Amount owed to fellow subsidiary undertaking	2,759,313	54,405,452
VAT	7,114	—
Accruals	3,000	—
	<u>2,769,427</u>	<u>54,405,452</u>

9. CREDITORS: Amounts falling due after more than one year

	30 June 2004 £	30 June 2003 £
Loans from fellow subsidiary undertakings	<u>311,000,000</u>	<u>311,000,000</u>

The loan from a fellow subsidiary undertaking bears an interest rate of 8%, subject to certain caps, and is repayable in full on 22 April 2038.

10. CALLED-UP SHARE CAPITAL

Authorised share capital:

	30 June 2004 £	30 June 2003 £
100 Ordinary shares of £1 each	<u>100</u>	<u>100</u>

Allotted, called up and fully paid:

	30 June 2004 £	30 June 2003 £
1 Ordinary shares of £1 each	<u>1</u>	<u>1</u>

11. RESERVES

	Profit and loss account £
At 1 July 2003	19,548
Loss for the financial year	(40,000,000)
At 30 June 2004	<u>(39,980,452)</u>

HQCB PROPERTIES (HQ3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

12. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	£
Shareholders funds as at 1 July 2003	19,549
Loss for the financial year	(40,000,000)
Shareholders' deficit as at 30 June 2004	<u>(39,980,451)</u>

13. CAPITAL COMMITMENTS

As of 30 June 2004 the company had given fixed and floating charges over substantially all its assets to secure the commitments of certain other group undertakings.

14. RELATED PARTIES

The company's immediate parent undertaking is CWCB Holdings Limited, a company registered in England and Wales. On 21 May 2004, Songbird Acquisition Limited declared its offer for Canary Wharf Group plc, the company's previous ultimate parent undertaking, wholly unconditional. As a result of this announcement, Songbird Estates plc is now the ultimate parent company and will have its first financial statements drawn up to the period ending 31 December 2004.

As at 30 June 2004, Canary Wharf Group plc is the parent undertaking of the largest and smallest group of which the company is a member and for which group financial statements are drawn up. Copies of the financial statements of Canary Wharf Group plc may be obtained from the Company Secretary, 30th Floor, 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.