CANARY WHARF
GROUP PLC

CANARY WHARF (FS TWO) LIMITED

Registered number: 7321433

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

CANARY WHARF (FS TWO) LIMITED

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CANARY WHARF (FS TWO) LIMITED

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their report and the financial statements for the year ended 31 December 2017.

In preparing this report, the directors have taken advantage of the small companies exemptions.

PRINCIPAL ACTIVITY

The principal activity of the company is to invest in the 20 Fenchurch Street development in London.

BUSINESS REVIEW

On 24th August 2017 the company disposed of its interests in 20 Fenchurch Street (GP) Limited and Canary Wharf FS Unit Trust resulting in a realised gain on disposal of £1,081,614.

On the same day, the company subscribed for 984,823 B redeemable shares for £1 each in 20 Fenchurch Street Developer Limited. The company also acquired 500 A ordinary shares for a consideration of £1 and the legal interest in 984,823 A redeemable shares for a consideration of £1 (see Note 7 & 8).

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £879,417 (2016 -£30,202).

Dividends of £2,385,143 have been paid in the year (2016 - £Nil).

DIRECTORS

The directors who served during the year were:

Sir George Iacobescu CBE
P Westermann
C Zhiwei
M Al-Hashmi
J Sun (alternate director to C Zhiwei)

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 2017 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.

DISCLOSURE OF INFORMATION TO AUDITOR

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This report was approved by the board on 19 June 2018 and signed on its behalf.

J R Garwood
Secretary

DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

The directors are responsible for preparing the Directors' 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 for the company's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent; 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CANARY WHARF (FS TWO) LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Canary Wharf (FS Two) Limited (the 'company') which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the cash flow statement; 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, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

BASIS OF OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CANARY WHARF (FS TWO) LIMITED

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

RESPONSIBILITIES OF THE DIRECTORS

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

USE OF OUR AUDIT REPORT

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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CANARY WHARF (FS TWO) LIMITED

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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; or
- the directors were not entitled to take advantage of the small companies' exemption in preparing the directors' report and from the requirement to prepare a strategic report.

We have nothing to report in respect of these matters.

Valerie Main

Valerie Main (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
19 June 2018

CANARY WHARF (FS TWO) LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £	2016 £
Administrative expenses		(11,613)	(6,202)
OPERATING LOSS		(11,613)	(6,202)
Income from fixed assets investments	7	1,081,614	9,621
Interest receivable and similar income	5	86,030	16
PROFIT BEFORE TAX		1,156,031	3,435
Tax on profit	6	(276,614)	26,767
PROFIT FOR THE FINANCIAL YEAR		879,417	30,202
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		879,417	30,202

The notes on pages 10 to 17 form part of these financial statements.

CANARY WHARF (FS TWO) LIMITED
REGISTERED NUMBER: 7321433

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	Note	2017 £	2016 £
FIXED ASSETS			
Investments	7	1	3,231,695
		1	3,231,695
CURRENT ASSETS			
Debtors: amounts falling due within one year	8	1,095,745	1,225
Cash at bank and in hand		874,356	2,363
		1,970,101	3,588
Creditors: amounts falling due within one year	9	(637,915)	(38,336)
NET CURRENT ASSETS/(LIABILITIES)		1,332,186	(34,748)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,332,187	3,196,947
Deferred tax	11	(14,607)	(373,641)
NET ASSETS		1,317,580	2,823,306
CAPITAL AND RESERVES			
Called up share capital	12	463,422	463,422
Retained earnings		854,158	2,359,884
		1,317,580	2,823,306

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

Sir George Iacobescu CBE
Director

Date: 19 June 2018
The notes on pages 10 to 17 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Called up share capital	Retained earnings	Total equity
	£	£	£
At 1 January 2017	463,422	2,359,884	2,823,306
COMPREHENSIVE INCOME FOR THE YEAR			
Profit for the year	-	879,417	879,417
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	879,417	879,417
Dividends: Equity capital	-	(2,385,143)	(2,385,143)
AT 31 DECEMBER 2017	463,422	854,158	1,317,580

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Called up share capital	Retained earnings	Total equity
	£	£	£
At 1 January 2016	463,422	2,329,682	2,793,104
COMPREHENSIVE INCOME FOR THE YEAR			
Profit for the year	-	30,202	30,202
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	30,202	30,202
AT 31 DECEMBER 2016	463,422	2,359,884	2,823,306

The notes on pages 10 to 17 form part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 £	2016 £
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the financial year	879,417	30,202
ADJUSTMENTS FOR:		
Interest received and income from investments	(1,081,722)	(9,637)
Taxation charge	276,614	(26,767)
Increase in debtors	(23,775)	(1,065)
Increase in amounts owed by joint ventures	(1,070,745)	-
(Decrease)/increase in creditors	(17,339)	171
(Decrease)/increase in amounts owed to group undertakings	(3,730)	971
Decrease in amounts owed to associates	(15,000)	-
NET CASH GENERATED FROM OPERATING ACTIVITIES	(1,056,280)	(6,125)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of shares in joint ventures	(1)	-
Sale of share in joint ventures	43,274	-
Sale of units in Unit Trust	4,270,035	-
Interest received	108	16
NET CASH FROM INVESTING ACTIVITIES	4,313,416	16
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(2,385,143)	-
NET CASH USED IN FINANCING ACTIVITIES	(2,385,143)	-
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	871,993	(6,109)
Cash and cash equivalents at beginning of year	2,363	8,472
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	874,356	2,363
CASH AND CASH EQUIVALENTS AT THE END OF YEAR COMPRISE:		
Cash at bank and in hand	874,356	2,363
	874,356	2,363

The notes on pages 10 to 17 form part of these financial statements.

1. GENERAL INFORMATION

Canary Wharf (FS Two) Limited is an English Limited Company registered at One Canada Square, Canary Wharf, London, E14 5AB.

The nature of the company's operations and its principal activities are set out in the Director's Report.

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value and in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice, including FRS 102 "the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland").

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies (see Note 2).

The principal accounting policies are summarised below:

1.2 Going concern

At the year end, the company is in a net asset position.

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

1.3 Investments

Investments in unit trusts are stated at fair value, with changes recognised in other comprehensive income unless the carrying amount of the investment falls below its original cost, after which the deficit is recognised in the income statement.

Other investments are stated at cost less any provision for impairment.

Income from investments is recognised as the company becomes entitled to receive payment. Dividend income from investments in companies is recognised when received or irrevocably declared. Revenue profits and losses in unit trusts are recognised on an accruals basis.

1.4 Financial instruments

Trade and other receivables

Trade and other receivables 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 payables

Trade and other creditors are stated at cost.

Investment loans

The redeemable shares in related parties are treated as investment loans and carried at fair value.

1.5 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.

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. Timing differences are differences between the company's taxable profits and its results as stated in financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, 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 measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of timing difference. Deferred tax relating to investment property is measured using the tax rates and allowances that apply to the sale of the asset.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expenses or income.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Valuation of investment loans

The redeemable shares in related parties are carried at fair value. Upon redemption the shares are entitled to the profits and losses within the related party. The directors have valued the investment loans at the share of the retained earnings shown in the related party's financial statements.

3. AUDITOR'S REMUNERATION

	2017 £	2016 £
Fees payable to the company's auditor for the audit of the company's annual accounts	837	817

4. EMPLOYEES

The Company has no employees other than the directors, who did not receive any remuneration (2016 - £NIL).

5. INTEREST RECEIVABLE

	2017 £	2016 £
Fair value adjustment on redeemable shares	85,922	-
Bank interest receivable	108	16
	86,030	16

6. TAXATION

	2017 £	2016 £
CORPORATION TAX		
Current tax on profits for the year	635,648	-
TOTAL CURRENT TAX	635,648	-
DEFERRED TAX		
Origination and reversal of timing differences	(359,034)	(26,767)
TOTAL DEFERRED TAX	(359,034)	(26,767)
TAXATION ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES	276,614	(26,767)

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is different to the standard rate of corporation tax in the UK of 19.25% (2016 - 20%). The differences are explained below:

	2017 £	2016 £
Profit on ordinary activities before tax	1,156,031	3,435
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 -20%)	222,536	687
EFFECTS OF:		
Expenses not deductible for tax purposes	1,252	-
Adjustments to tax charge in respect of prior periods	5,308	(5,992)
Non-taxable income	-	(15)
Changes in the rates of tax	47,518	(21,447)
TOTAL TAX CHARGE FOR THE YEAR	276,614	(26,767)

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

The tax rate of 19.25% has been calculated by reference to the current corporation tax rate of 19% which was in effect for the final three quarters of the year and the previous rate of 20% which was in effect for the first quarter of the year.

Enacted in the Finance Act (No.2) 2015 is a reduction in the corporation tax rate to 17.0% on 1 April 2020.

7. FIXED ASSET INVESTMENTS

	Investment in Jersey Property Unit Trust £	Investment in joint ventures £	Total £
COST OR VALUATION			
At 1 January 2017	3,231,195	500	3,231,695
Additions	-	1	1
Disposals	(4,270,035)	(43,274)	(4,313,309)
Realised gain on disposal	1,038,840	42,774	1,081,614
At 31 December 2017	-	1	1
NET BOOK VALUE			
At 31 December 2017	-	1	1
At 31 December 2016	3,231,195	500	3,231,695

On 24th August 2017 the company disposed of its 1% interest in the Canary Wharf FS Unit Trust, a Jersey Property Unit Trust, comprising 462,770 £1 units, and its 50% interest in 20 Fenchurch Street (GP) Limited, comprising 500 ordinary £1 shares. As a result of these sales, the company recorded a realised gain of £1,081,614.

On the same day it acquired 500 A ordinary shares in 20 Fenchurch Street Developer Limited, representing 50% of the ordinary share capital, for a consideration of £1. The other 50% is owned by Canary Wharf Developments Limited, a subsidiary of Canary Wharf Group plc.

The company also acquired the legal interest in 984,823 A redeemable shares for £1 in 20 Fenchurch Street Developer Limited. The beneficial title to the A redeemable shares is held by LS Fenchurch Development Management Limited. As the holder of the legal interest in the A redeemable shares no value has been recognised for such shares.

8. DEBTORS

	2017 £	2016 £
Redeemable B shares in Fenchurch Street Developer Limited	1,070,745	-
Amounts owed by Canary Wharf (FS Holdings) Limited Partnership	25,000	-
Prepayments and accrued income	-	1,225
	1,095,745	1,225

On 24th August 2017, the company subscribed for 984,823 B redeemable £1 shares in 20 Fenchurch Street Developer Limited at par. The shares are repayable following the completion of the development works at 20 Fenchurch Street, which is expected within the year.

On redemption of the B redeemable shares, the company will receive an amount calculated as the lower of:

i) £2,500,000; or

ii) an amount equal to 50% of the available profits of 20 Fenchurch Street Developer Limited.

The shares are therefore treated as a non-standard loan and held at fair value.

9. CREDITORS: Amounts falling due within one year

	2017 £	2016 £
Amounts owed to Canary Wharf Limited	-	3,731
Amounts owed to Canary Wharf FS Unit Trust	-	15,000
Corporation tax	635,649	-
Amounts owed to Canary Wharf (FS Holdings) Limited Partnership	-	17,400
Accruals and deferred income	2,266	2,205
	637,915	38,336

The amounts due to related parties are repayable on demand and interest free.

10. FINANCIAL INSTRUMENTS

	2017 £	2016 £
FINANCIAL ASSETS		
Bank current accounts	874,356	2,363
Financial assets that are debt instruments measured at amortised cost	25,000	1,225
Financial assets that are equity instruments measured at fair value	1,070,745	-
	1,970,101	3,588
FINANCIAL LIABILITIES		
Financial liabilities measured at amortised cost	(637,915)	(38,336)
	(637,915)	(38,336)

11. DEFERRED TAXATION

	2017 £
At beginning of year	(373,641)
Released to profit or loss	359,034
AT END OF YEAR	(14,607)

The provision for deferred taxation is made up as follows:

	2017 £	2016 £
Accelerated capital allowances	-	20,085
Tax losses carried forward	-	101,757
Revaluation surplus on investment in JPUT	-	(495,483)
Revaluation of investment in preference shares	(14,607)	-
	(14,607)	(373,641)

12. SHARE CAPITAL

	2017	2016
	£	£
Allotted, called up and fully paid		
139,026 A Ordinary shares of £1 each	139,026	139,026
108,132 B Ordinary shares of £1 each	108,132	108,132
108,132 C Ordinary shares of £1 each	108,132	108,132
108,132 D Ordinary shares of £1 each	108,132	108,132
	463,422	463,422

All classes of shares rank pari passu in all respects.

13. RELATED PARTY TRANSACTIONS

During the year the company was billed £Nil (2016 - £3,675) by Canary Wharf (FS Invest) Limited for administrative services in relation to the 20 Fenchurch Street development. Other amounts outstanding at year end are disclosed in Note 9. Amounts due to the company at the year end are disclosed in Note 8.