Approved
9 July 2002

£531,189,000*
HOTELoC plc

(incorporated with limited liability in England and Wales)

per pro SFM Directors Limited,
as Director

James G. S. Macdonald
Director

Commercial Mortgage Backed Floating Rate Notes due 2007

Application has been made to the Irish Stock Exchange Limited (the "Irish Stock Exchange") for the £240,000,000 Class A Commercial Mortgage Backed Floating Rate Notes due 2007 (the "Class A Notes"), the £100,000,000 Class B Commercial Mortgage Backed Floating Rate Notes due 2007 (the "Class B Notes"), the £43,000,000 Class C Commercial Mortgage Backed Floating Rate Notes due 2007 (the "Class C Notes"), the £33,000,000 Class D Commercial Mortgage Backed Floating Rate Notes due 2007 (the "Class D Notes"), the £15,000,000 Class B1 Commercial Mortgage Backed Floating Rate Notes due 2007 (the "Class B1 Notes"), the £3,000,000 Class B2 Commercial Mortgage Backed Floating Rate Notes due 2007 (the "Class B2 Notes") and the U.S.$26,557,000 Class B3 Commercial Mortgage Backed Floating Rate Notes due 2007 (the "Class B3 Notes" and, together with the Class B1 Notes and the Class B2 Notes, the "Class B Notes" and, the Class B Notes together with the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes, the "Notes") of HOTELoC plc (the "Issuer") to be admitted to the Official List of the Irish Stock Exchange. A copy of this Offering Circular, which comprises approved listing particulars with regard to the Issuer and the Notes in accordance with requirements of the European Communities (Stock Exchange) Regulations, 1984 (as amended) of Ireland (the "Regulations"), has been delivered to the Registrar of Companies in Ireland in accordance with the Regulations.

Interest on the Notes will be payable quarterly in arrear in pounds sterling on the 10th day of February, May, August and November in each year, subject to adjustment for non-business days as described herein (each an "Interest Payment Date"). The first Interest Payment Date will be 12th August, 2002. The interest rate applicable to the Notes from time to time will be determined by reference to the London Interbank Offered Rate ("LIBOR") for three-month sterling deposits (or, in the case of the Class B3 Notes, three-month dollar deposits) (save, in the case of the first Interest Period, when the applicable interest rate will be determined by reference to LIBOR for one-month sterling or dollar deposits, as the case may be) plus a margin which will be different for each class of Notes, as set out under "Margin over LIBOR" below.

The Class A Notes, Class B Notes, Class C Notes, Class D Notes and Class B Notes are expected on issue to be assigned the ratings set out opposite the relevant class in the table below by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") and Moody's Investors Service, Inc. ("Moody's" and, together with S&P, the "Rating Agencies"). A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by one or more of the organisations assigning such ratings. The ratings from the Rating Agencies only address the likelihood of timely receipt by any Noteholder of interest on the Notes and the likelihood of receipt by any Noteholder of principal of the Notes by the Maturity Date and do not address the likelihood of receipt by any Noteholder of principal prior to the Maturity Date.

Expected Ratings

Class	S&P	Moody's	Initial Principal Amount	Margin over LIBOR	Estimated Average Life	Expected Final Interest Payment Date	Maturity Date	Issue Price [1]
A	AAA	Aaa	£240,000,000	0.43 per cent.	2.5 years	10th May, 2005	10th May, 2007	100%
B	AAA	Aa2	£100,000,000	0.52 per cent.	2.5 years	10th May, 2005	10th May, 2007	100%
C	A	A2	£43,000,000	1.05 per cent.	2.5 years	10th May, 2005	10th May, 2007	100%
D	BBB	Baa2	£33,000,000	2.03 per cent.	2.5 years	10th May, 2005	10th May, 2007	100%
B1	BB	Ba1	£15,000,000	2.50 per cent.	2.5 years	10th May, 2005	10th May, 2007	100%
B2	BB	Ba2	£3,000,000	6.00 per cent.	2.5 years	10th May, 2005	10th May, 2007	100%
B3	BB	Ba2	U.S.$26,557,000	2.50 per cent.	2.5 years	10th May, 2005	10th May, 2007	100%

[1] Plus accrued interest, if any.

The Notes and interest thereon will not be obligations or responsibilities of any person other than the Issuer. In particular, the Notes will not be obligations or responsibilities of, or be guaranteed by, Morgan Stanley Dean Witter Bank Limited ("MSDW Bank") or any associated body of MSDW Bank, or of or by the Managers, the Servicer, the Special Servicer, the Cash Manager, the Trustee, the Security Trustee, the Corporate Services Provider, the Share Trustee, the Principal Paying Agent, the Agent Bank, the Registrar, the Liquidity Facility Provider, the Swap Provider, the Swap Guarantor, the Depositary, the Exchange Agent or the Operating Bank (each as defined herein) or any company in the same group of companies as the Managers, the Servicer, the Special Servicer, the Cash Manager, the Trustee, the Security Trustee, the Corporate Services Provider, the Share Trustee, the Principal Paying Agent, the Agent Bank, the Registrar, the Liquidity Facility Provider, the Swap Provider, the Swap Guarantor, the Depositary, the Exchange Agent or the Operating Bank and none of such persons accepts any liability whatsoever in respect of any failure by the Issuer to make payment of any amount due on the Notes.

The Notes will be issued simultaneously on the Closing Date. All Notes will be secured by the same security, subject to the priority described herein. Notes of each class will rank pari passu with and without priority over other Notes of the same class. Prior to redemption on the Interest Payment Date falling in May 2007 (the "Maturity Date"), the Notes will be subject to mandatory or optional redemption in certain circumstances. See "Terms and Conditions of the Notes — Redemption and Cancellation".

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAW AND UNLESS SO REGISTERED MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND THE APPLICABLE STATE LAWS.

THE NOTES ARE BEING OFFERED AND SOLD ONLY TO (A) "QUALIFIED INSTITUTIONAL BUYERS" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) AND (B) PERSONS (OTHER THAN U.S. PERSONS) OUTSIDE THE UNITED STATES PURSUANT TO REGULATION S UNDER THE SECURITIES ACT. FOR A DESCRIPTION OF CERTAIN RESTRICTIONS ON RESALES OR TRANSFERS, SEE "TRANSFER RESTRICTIONS". ACCORDINGLY, THE NOTES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, AND NEITHER THIS DOCUMENT NOR ANY PART HEREOF NOR ANY OTHER OFFERING CIRCULAR, PROSPECTUS, FORM OF APPLICATION, ADVERTISEMENT, OTHER OFFERING MATERIAL OR OTHER INFORMATION MAY BE ISSUED, DISTRIBUTED OR PUBLISHED IN ANY JURISDICTION (INCLUDING THE UNITED KINGDOM), EXCEPT IN CIRCUMSTANCES THAT WILL RESULT IN COMPLIANCE WITH ALL APPLICABLE LAWS, ORDERS, RULES AND REGULATIONS.

If any withholding or deduction for or on account of tax is applicable to payments of interest or principal on the Notes, such payments will be made subject to such withholding or deduction without the Issuer being obliged to pay any additional amounts as a consequence.

The Notes are expected to settle in book entry form through the facilities of DTC, Euroclear and Clearstream, Luxembourg (each as defined herein) on or about 12th July, 2002 (the "Closing Date") against payments therefor in immediately available funds. The Class B Notes are expected to trade in the Private Offerings, Resales and Trading through Automatic Linkages Market, also known as the PORTAL Market.

See "Risk Factors" for a discussion of certain factors to be considered in connection with an investment in the Notes.

** Approximately, calculated using an exchange rate of £1 = U.S.$1.545*

MORGAN STANLEY

HSBC **NIB Capital Bank N.V.**

The date of this Offering Circular is 9th July, 2002

OFFERING CIRCULAR

£531,189,000*
HOTELoC plc

(incorporated with limited liability in England and Wales)

Commercial Mortgage Backed Floating Rate Notes due 2007

Application has been made to the Irish Stock Exchange Limited (the "Irish Stock Exchange") for the £240,000,000 Class A Commercial Mortgage Backed Floating Rate Notes due 2007 (the "Class A Notes"), the £100,000,000 Class B Commercial Mortgage Backed Floating Rate Notes due 2007 (the "Class B Notes"), the £43,000,000 Class C Commercial Mortgage Backed Floating Rate Notes due 2007 (the "Class C Notes"), the £88,000,000 Class D Commercial Mortgage Backed Floating Rate Notes due 2007 (the "Class D Notes"), the £35,000,000 Class E1 Commercial Mortgage Backed Floating Rate Notes due 2007 (the "Class E1 Notes"), the £8,000,000 Class E2 Commercial Mortgage Backed Floating Rate Notes due 2007 (the "Class E2 Notes") and the U.S.$26,557,000 Class E3 Commercial Mortgage Backed Floating Rate Notes due 2007 (the "Class E3 Notes" and, together with the Class E1 Notes and the Class E2 Notes, the "Class E Notes" and, the Class E Notes together with the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes, the "Notes") of HOTELoC plc (the "Issuer") to be admitted to the Official List of the Irish Stock Exchange. A copy of this Offering Circular, which comprises approved listing particulars with regard to the Issuer and the Notes in accordance with requirements of the European Communities (Stock Exchange) Regulations, 1984 (as amended) of Ireland (the "Regulations"), has been delivered to the Registrar of Companies in Ireland in accordance with the Regulations.

Interest on the Notes will be payable quarterly in arrear in pounds sterling on the 10th day of February, May, August and November in each year, subject to adjustment for non-business days as described herein (each an "Interest Payment Date"). The first Interest Payment Date will be 10th August, 2002. The interest rate applicable to the Notes from time to time will be determined by reference to the London Interbank Offered Rate ("LIBOR") for three-month sterling deposits (or, in the case of the Class E3 Notes, three-month dollar deposits) (save, in the case of the first Interest Period, when the applicable interest rate will be determined by reference to LIBOR for one-month sterling or dollar deposits, as the case may be) plus a margin which will be different for each class of Notes, as set out under "Margin over LIBOR" below.

The Class A Notes, Class B Notes, Class C Notes, Class D Notes and Class E Notes are expected on issue to be assigned the ratings set out opposite the relevant class in the table below by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") and Moody's Investors Service, Inc. ("Moody's" and, together with S&P, the "Rating Agencies"). A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by one or more of the organisations assigning such ratings. The ratings from the Rating Agencies only address the likelihood of timely receipt by any Noteholder of interest on the Notes and the likelihood of receipt by any Noteholder of principal of the Notes by the Maturity Date and do not address the likelihood of receipt by any Noteholder of principal prior to the Maturity Date.

	Expected Ratings							
Class	S&P	Moody's	Initial Principal Amount	Margin over LIBOR	Estimated Average Life	Expected Final Interest Payment Date	Maturity Date	Issue Price [1]
A	AAA	Aaa	£240,000,000	0.43 per cent.	2.8 years	10th May, 2005	10th May, 2007	100%
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C	A	A2	£43,000,000	1.05 per cent.	2.8 years	10th May, 2005	10th May, 2007	100%
D	BBB	Baa2	£88,000,000	2.05 per cent.	2.8 years	10th May, 2005	10th May, 2007	100%
E1	BB	Ba3	£35,000,000	2.50 per cent.	2.8 years	10th May, 2005	10th May, 2007	100%
E2	BB	Ba3	£8,000,000	6.00 per cent.	2.8 years	10th May, 2005	10th May, 2007	100%
E3	BB	Ba3	U.S.$26,557,000	2.50 per cent.	2.8 years	10th May, 2005	10th May, 2007	100%

[1] *Plus accrued interest, if any.*

The Notes and interest thereon will not be obligations or responsibilities of any person other than the Issuer. In particular, the Notes will not be obligations or responsibilities of, or be guaranteed by, Morgan Stanley Dean Witter Bank Limited ("MSDW Bank") or any associated body of MSDW Bank, or of or by the Managers, the Servicer, the Special Servicer, the Cash Manager, the Trustee, the Security Trustee, the Corporate Services Provider, the Share Trustee, the Principal Paying Agent, the Agent Bank, the Registrar, the Liquidity Facility Provider, the Swap Provider, the Swap Guarantor, the Depository, the Exchange Agent or the Operating Bank (each as defined herein) or any company in the same group of companies as the Managers, the Servicer, the Special Servicer, the Cash Manager, the Trustee, the Security Trustee, the Corporate Services Provider, the Share Trustee, the Principal Paying Agent, the Agent Bank, the Registrar, the Liquidity Facility Provider, the Swap Provider, the Swap Guarantor, the Depository, the Exchange Agent or the Operating Bank and none of such persons accepts any liability whatsoever in respect of any failure by the Issuer to make payment of any amount due on the Notes.

The Notes will be issued simultaneously on the Closing Date. All Notes will be secured by the same security, subject to the priority described herein. Notes of each class will rank pari passu with and without priority over other Notes of the same class. Prior to redemption on the Interest Payment Date falling in May 2007 (the "Maturity Date"), the Notes will be subject to mandatory or optional redemption in certain circumstances. See "Terms and Conditions of the Notes — Redemption and Cancellation".

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAW AND UNLESS SO REGISTERED MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND THE APPLICABLE STATE LAWS.

THE NOTES ARE BEING OFFERED AND SOLD ONLY TO (A) "QUALIFIED INSTITUTIONAL BUYERS" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) AND (B) PERSONS (OTHER THAN U.S. PERSONS) OUTSIDE THE UNITED STATES PURSUANT TO REGULATION S UNDER THE SECURITIES ACT. FOR A DESCRIPTION OF CERTAIN RESTRICTIONS ON RESALES OR TRANSFERS, SEE "TRANSFER RESTRICTIONS". ACCORDINGLY, THE NOTES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, AND NEITHER THIS DOCUMENT NOR ANY PART HEREOF NOR ANY OTHER OFFERING CIRCULAR, PROSPECTUS, FORM OF APPLICATION, ADVERTISEMENT, OTHER OFFERING MATERIAL OR OTHER INFORMATION MAY BE ISSUED, DISTRIBUTED OR PUBLISHED IN ANY JURISDICTION (INCLUDING THE UNITED KINGDOM), EXCEPT IN CIRCUMSTANCES THAT WILL RESULT IN COMPLIANCE WITH ALL APPLICABLE LAWS, ORDERS, RULES AND REGULATIONS.

If any withholding or deduction for or on account of tax is applicable to payments of interest or principal on the Notes, such payments will be made subject to such withholding or deduction without the Issuer being obliged to pay any additional amounts as a consequence.

The Notes are expected to settle in book entry form through the facilities of DTC, Euroclear and Clearstream, Luxembourg (each as defined herein) on or about 11th July, 2002 (the "Closing Date") against payments therefor in immediately available funds. The Class E Notes are expected to trade in the Private Offerings, Resales and Trading through Automatic Linkages Market, also known as the PORTAL Market.

See "Risk Factors" for a discussion of certain factors to be considered in connection with an investment in the Notes.

** Approximately, calculated using an exchange rate of £1 = U.S.$1.545*

MORGAN STANLEY

HSBC **NIB Capital Bank N.V.**

The date of this Offering Circular is 9th July, 2002

IMPORTANT NOTICE

The Notes of each class sold in reliance upon Rule 144A under the Securities Act ("**Rule 144A**") will on issue be represented by two global notes in bearer form for each such class of Notes (each a **"Rule 144A Global Note**" and together the "**Rule 144A Global Notes**"). The Notes of each class sold in offshore transactions in reliance on Regulation S under the Securities Act ("**Reg S**") will initially be represented by a global note in bearer form for each such class of Notes (each a "**Reg S Global Note**" and together the "**Reg S Global Notes**").

The Rule 144A Global Notes and the Reg S Global Notes will be deposited with or to the order of JPMorgan Chase Bank, New York, as book entry depository (the "**Depository**") pursuant to a depository agreement among the Issuer, the Depository and the Trustee (the "**Depository Agreement**"). The Depository will for each class of Notes (a) register a certificateless depository interest in respect of one of the Rule 144A Global Notes in the name of The Depository Trust Company ("**DTC**") or its nominee, (b) register a certificateless depository interest in respect of the other Rule 144A Global Note in the name of JPMorgan Chase Bank, London (the "**Common Depositary**") as common depositary for the account of Euroclear Bank S.A./N.V. as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") and (c) issue a certificated depository interest in respect of the Reg S Global Note to the Common Depositary (each certificateless depository interest and certificated depository interest, a "**CDI**"). The Depository, acting as agent of the Issuer, will maintain a book entry system in which it will register DTC (or a nominee of DTC) as the owner of the certificateless depository interests in respect of the Rule 144A Global Note held by DTC or its nominee and the Common Depositary (or a nominee of the Common Depositary) as the owner of the certificated depository interests and the certificateless depository interests held by the Common Depositary. Transfer of all or any portion of the interests in the Rule 144A Global Notes or the Reg S Global Notes may be made only through the book entry system maintained by the Depository. Each of DTC, Euroclear and Clearstream, Luxembourg will record the beneficial interests in the CDIs attributable to the relevant Global Notes ("**Book Entry Interests**"). Book Entry Interests in the CDIs will be shown on, and transfers thereof will be effected only through, records maintained in book entry form by DTC, Euroclear or Clearstream, Luxembourg, and their respective participants. Prior to the 40th day after the Closing Date, beneficial interests in the Reg S Global Notes may be held only through Euroclear or Clearstream, Luxembourg. No person who owns a Book Entry Interest will be entitled to receive a Note in definitive form (a "**Definitive Note**") unless Definitive Notes are issued in the limited circumstances described in "Terms and Conditions of the Notes — Definitive Notes". Definitive Notes will be issued in registered form only. See also "Description of the Notes and the Depository Agreement".

Holders of beneficial interests in the Rule 144A Global Notes (other than holders of the Class E3 Rule 144A Global Note) who hold such interests directly with DTC or through its participants and who wish payments to be made to them in pounds sterling outside DTC must give advance notice thereof to DTC in accordance with the rules and procedures of DTC prior to each Interest Payment Date. If such instructions are not given, pounds sterling payments on the Rule 144A Global Notes will be exchanged for dollars by the Exchange Agent (as defined herein) prior to their receipt by DTC and the affected holders will receive dollars on the relevant Interest Payment Date. See "Description of the Notes and the Depository Agreement — Payments on Global Notes".

Save as provided for in the following two paragraphs, the Issuer accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Issuer the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

The information relating to Lloyds TSB Bank plc and its subsidiaries, subsidiary undertakings and associated undertakings and set out in the section entitled "Lloyds TSB Bank Group" has been accurately reproduced from information published by Lloyds TSB Bank plc. So far as the Issuer is aware and is able to ascertain from information published by Lloyds TSB Bank plc, no facts have been omitted which would render the reproduced information misleading.

The information relating to Thistle Hotels Plc and set out in the section entitled "Thistle Hotels Plc" has been accurately reproduced from information published by Thistle Hotels Plc. So far as the Issuer is aware and is able to ascertain from information published by Thistle Hotels Plc, no facts have been omitted which would render the reproduced information misleading.

No person is or has been authorised in connection with the issue and sale of the Notes to give any information or to make any representation not contained in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Issuer, MSDW Bank, the Managers, the Servicer, the Special Servicer, the Cash Manager, the Trustee, the Security Trustee, the Corporate Services Provider, the Share Trustee, the Principal Paying Agent, the Agent Bank, the Registrar, the Liquidity Facility Provider, the Swap Provider, the Swap Guarantor, the Depository, the Exchange Agent or the Operating Bank. Neither the delivery of this Offering Circular nor any sale or allotment made in connection with the offering of any of the Notes shall, under any circumstances, constitute a representation or create any implication that there has been no change in the information contained herein since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

Other than the approval by the Irish Stock Exchange of this Offering Circular as listing particulars in accordance with the requirements of the Regulations and the delivery of a copy of this Offering Circular to the Registrar of Companies in Ireland for registration in accordance with the Regulations, no action has been or will be taken to permit a public offering of the Notes or the distribution of this Offering Circular in any jurisdiction where action for that purpose is required. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular (or any part hereof) comes are required by the Issuer and the Managers to inform themselves about, and to observe, any such restrictions. Neither this Offering Circular nor any part hereof constitutes an offer of, or an invitation by or on behalf of the Issuer or the Managers to subscribe for or purchase any of, the Notes and neither this Offering Circular, nor any part hereof, may be used for or in connection with an offer to, or solicitation by, any person in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation. For a further description of certain restrictions on offers and sales of the Notes and distribution of this Offering Circular (or any part hereof) see "Notice to U.S. Investors", "Subscription and Sale" and "Transfer Restrictions" below.

NOTICE TO U.S. INVESTORS

Each purchaser of the Notes will be deemed to have made the representations, warranties and acknowledgements that are described in this Offering Circular under "Transfer Restrictions".

The Notes have not been and will not be registered under the Securities Act and are subject to certain restrictions on transfer. Prospective purchasers are hereby notified that the seller of any Note may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain further restrictions on resale or transfer of the Notes, see "Description of the Notes and the Depository Agreement" and "Transfer Restrictions".

AVAILABLE INFORMATION

The Issuer has agreed that, for so long as any of the Notes are restricted securities within the meaning of Rule 144(a)(3) under the Securities Act, it will, during any period in which it is not subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the Exchange Act, nor exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder, make available to any holder or beneficial owner of such restricted securities or to any prospective purchaser designated by such holder or beneficial owner of such restricted securities in order to permit compliance by such holder or beneficial owner with Rule 144A in connection with the resale of such restricted securities or any interest therein, in each case at the request of such holder, beneficial owner or prospective purchaser to the Issuer, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act.

ENFORCEABILITY OF JUDGMENTS

The Issuer is a company incorporated with limited liability in England and Wales. All of the directors of the Issuer currently reside in England and Wales. As a result, it may not be possible to effect service of process within the United States upon such persons to enforce against them judgments of courts of the United States predicated upon the civil liability provisions of the federal or state securities laws of the United States. There is doubt as to the enforceability in England and Wales, in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated solely upon such securities laws.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE STATE OF NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

FORWARD-LOOKING STATEMENTS

Certain matters contained herein are forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. Such statements appear in a number of places in this Offering Circular, including with respect to assumptions on prepayment and certain other characteristics of the Loan (as defined below), and reflect significant assumptions and subjective judgments by the Issuer that may or may not prove to be correct. Such statements may be identified by reference to a future period or periods and the use of forward-looking terminology such as "may", "will", "could", "believes", "expects", "anticipates", "continues", "intends", "plans" or similar terms. Consequently, future results may differ from the Issuer's expectations due to a variety of factors, including (but not limited to) the economic environment and changes in governmental regulations, fiscal policy, planning or tax laws in the United Kingdom. Moreover, past financial performance should not be considered a reliable indicator of future performance and prospective purchasers of the Notes are cautioned that any such statements are not guarantees of performance and involve risks and uncertainties, many of which are beyond the control of the Issuer. None of the Managers have attempted to verify any such statements, nor do they make any representation, express or implied, with respect thereto.

Certain figures included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

All references in this document to "**sterling**" *or* "**pounds**" *or* "**£**" *are to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland and all references to* "**dollars**" or "**U.S.$**" or "**$**" *or* **"U.S. dollars"** *are to the lawful currency for the time being of the United States of America.*

In connection with this issue, Morgan Stanley & Co. International Limited or any person acting for it may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there may be no obligation on Morgan Stanley & Co. International Limited or any of its agents to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

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SUMMARY

The following information is a summary of the principal features of the issue of the Notes. This summary should be read in conjunction with, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this document. Certain terms used in this summary are defined elsewhere in this document. A list of the pages on which these terms are defined is found in the "Index of Principal Defined Terms" at the end of this document.

Transaction Overview

On the Closing Date the Issuer will issue the Notes and with the proceeds will acquire from MSDW Bank a loan (the "**Loan**") together with MSDW Bank's beneficial interest in a security trust created over the benefit of the covenants, mortgages, security interests and charges given in respect of the Loan. The Loan was made by MSDW Bank to Hotel Portfolio II (Jersey) Limited ("**HPIJL**") and Hotel Portfolio II UK Limited (the "**Property Owner**" and, together with HPIJL, the "**Borrowers**") as joint borrowers on 11th March, 2002 (the "**Loan Closing Date**"). The Loan was made pursuant to a credit agreement, as amended prior to the Closing Date, dated 8th March, 2002 between, *inter alios*, the Borrowers and MSDW Bank (the "**Credit Agreement**").

The Credit Agreement provides for the Borrowers to pay a fixed rate of interest on the Loan, is denominated in sterling and is governed by English law. The outstanding principal amount of the Loan is due for repayment on the Loan Payment Date falling in May 2005. The obligations of the Borrowers under the Loan are secured by, amongst other things, first legal mortgages (or, in relation to properties in Scotland, standard securities) over 32 hotels situated in the United Kingdom (each a "**Hotel**" and together the "**Hotels**", as more particularly described in the section entitled "Portfolio of Hotels" below).

The Property Owner has established an account (the "**Agency Account**") into which (i) net revenue payable to the Property Owner in respect of the Hotels and (ii) any amount to be paid by Thistle Hotels (Management) Limited (the "**Operator**") to the Property Owner pursuant to the Relationship Agreement (see "Acquisition and Operation of the Hotels" below) are to be paid. Within 20 days of the end of each financial period, amounts due in respect of interest on and principal of the Loan shall, to the extent possible, be transferred from the Agency Account to another account of the Property Owner (the "**Receipts Account**"). On each payment date under the Credit Agreement (each a "**Loan Payment Date**"), the Security Trustee will apply funds then standing to the credit of the Receipts Account to pay amounts then due and payable pursuant to the Credit Agreement. The Security Trustee will transfer such funds to an account with Allied Irish Banks, p.l.c. in the name of the Issuer (the "**Transaction Account**"). On each interest payment date under the Notes, the Cash Manager will, on the basis of information provided by the Servicer, identify the source of the funds standing to the credit of the Transaction Account and will, after payment of those obligations of the Issuer having a higher priority, apply such funds in payment of, *inter alia*, interest due on the Notes and, where applicable, in repayment of principal.

In order to protect the Issuer against interest rate risk arising as a result of the Borrowers paying a fixed rate of interest on the Loan whilst the Issuer is required to pay floating rates of interest on the Notes, the Issuer will enter into an interest rate swap transaction with the Swap Provider, whose obligations under such transaction will be guaranteed by the Swap Guarantor.

In addition, the Issuer will be protected against currency risk arising as a result of the Class E3 Notes being denominated in dollars whilst the Loan is denominated in sterling by entering into a currency swap transaction with the Swap Provider whose obligations under such transaction will also be guaranteed by the Swap Guarantor.

The Issuer and the Swap Provider have agreed that, upon the rating of the short-term unsecured, unsubordinated debt obligations of the Swap Guarantor falling below "A-1" by S&P or "P-1" by Moody's, they will, subject to the provisions of the Swap Agreement, enter into a collateral agreement pursuant to which the Swap Provider may be required to transfer collateral to an account in the name of the Issuer in support of the obligations of the Swap Provider under the Interest Rate Swap Transaction. In addition, if the rating of the long-term unsecured, unsubordinated debt obligations of the Swap Guarantor falls below "BB" by S&P, the Swap Provider will, subject to the provisions of the Swap Agreement, transfer to an account in the name of the Issuer additional collateral in respect of its obligations under the Dollar Swap Transaction.

The obligations of the Issuer under the Notes to the Noteholders and to other secured parties will be secured pursuant to a deed of charge and assignment governed by English law or to the extent applicable

Scots law or Jersey law. The Issuer will create, *inter alia*, (a) an assignment by way of security of the Loan and the Issuer's rights under the Credit Agreement and an assignment by way of security of the Issuer's beneficial interest in the Security Trust, (b) an assignment by way of security of the Issuer's rights under certain contracts entered into in connection with the issuance of the Notes, (c) assignments by way of security of the Issuer's interests in the Transaction Account and certain other accounts in which the Issuer may place and hold cash, and (d) a floating charge over the whole of the undertaking and assets of the Issuer (other than those assets that are otherwise secured by way of an effective fixed security interest but extending over all of the Issuer's undertaking and assets situated in Scotland, or otherwise governed by the laws of Scotland).

There is no intention to accumulate any surplus funds in the Issuer as security for any future payments of interest and principal on the Notes.

The Parties

Issuer	HOTELoC plc (the "**Issuer**"), a public company incorporated in England and Wales with limited liability under registration number 4404024.
Originator	The Loan was originated by Morgan Stanley Dean Witter Bank Limited ("**MSDW Bank**"), whose principal offices are located at 25 Cabot Square, Canary Wharf, London E14 4QA.
Security Trustee	Morgan Stanley Mortgage Servicing Limited ("**MSMS**" and, in such capacity, the "**Security Trustee**") holds all the security granted in respect of the Loan on trust (the "**Security Trust**") as security for the senior liabilities (being liabilities under the Loan and related finance documents to, *inter alios*, MSDW Bank, the Security Trustee and their respective successors and assigns). The beneficiaries of the Security Trust were originally MSDW Bank and the Security Trustee.
Trustee	JPMorgan Chase Bank, London Branch (the "**Trustee**") will act as trustee for the holders of the Notes pursuant to a trust deed (the "**Trust Deed**") between the Trustee and the Issuer to be dated on or prior to the Closing Date.
Servicer	MSMS, whose principal office is located at 25 Cabot Square, Canary Wharf, London E14 4QA, will, pursuant to a servicing agreement (the "**Servicing Agreement**") to be entered into on or prior to the Closing Date between the Servicer, the Trustee, the Issuer, the Security Trustee and the Special Servicer, act as servicer (in such capacity, the "**Servicer**") in respect of the Loan and the Related Security.
Special Servicer	MSMS will, in the circumstances set out in and pursuant to the Servicing Agreement, act as special servicer (in such capacity, the "**Special Servicer**") in respect of the Loan and the Related Security. The Special Servicer may only be appointed in relation to the Loan where (a) one or both of the Interest Cover Percentages of the Loan is determined by the Servicer in accordance with the Credit Agreement to be equal to or less than 110 per cent. or (b) any other Loan Event of Default occurs pursuant to the Credit Agreement, and in any such circumstances an Extraordinary Resolution is passed by the Noteholders requiring the Trustee to invite the Special Servicer to act as such in respect of the Loan and the Related Security. If the Special Servicer accepts such an invitation, the Special Servicer will become responsible, save for certain limited exceptions, for servicing and administering the Loan and Related Security.
Principal Paying Agent, Cash Manager, Agent Bank and Exchange Agent	AIB International Financial Services Limited (in such capacities, the "**Principal Paying Agent**", the "**Cash Manager**", the "**Agent Bank**" and the "**Exchange Agent**", respectively). The Principal Paying Agent, together with any other paying agent(s) that may be appointed pursuant to the Agency Agreement, are together referred to as the "**Paying Agents**".
Operating Bank	Allied Irish Banks, p.l.c. (the "**Operating Bank**").

Depository and Registrar	JPMorgan Chase Bank, New York office (in such capacities, the "**Depository**" and the "**Registrar**", respectively).
Corporate Services Provider	SFM Corporate Services Limited (in such capacity, the "**Corporate Services Provider**") will, pursuant to a corporate services agreement between the Corporate Services Provider, the Issuer and the Trustee (the "**Corporate Services Agreement**"), provide certain services to the Issuer.
Share Trustee	SFM Corporate Services Limited (in such capacity, the "**Share Trustee**") will, pursuant to the charitable declaration of trust constituting the HOTELoC Securitisation Trust (the "**Declaration of Trust**"), provide certain services as trustee of the HOTELoC Securitisation Trust.
Swap Provider and the Swap Agreement	Morgan Stanley Capital Services Inc. (the "**Swap Provider**"), whose principal office is located at 1585 Broadway, New York, New York 10036, USA, will enter into a swap agreement in the form of an International Swaps and Derivatives Association Inc. ("**ISDA**") 1992 Master Agreement (Multicurrency-Cross Border) dated on or prior to the Closing Date (the "**Swap Agreement**") with the Issuer. The Issuer and the Swap Provider will, on or prior to the Closing Date, enter into a swap confirmation evidencing the terms of a swap transaction (the "**Interest Rate Swap Transaction**") to be entered into pursuant to the Swap Agreement in order to protect the Issuer against interest rate risk arising as a result of the Borrowers paying a fixed rate of interest on the Loan whilst the Issuer is required to pay floating rates of interest on the Notes. In addition, the Issuer and the Swap Provider will, on or prior to the Closing Date, enter into a swap confirmation evidencing the terms of a swap transaction (the "**Dollar Swap Transaction**" and, together with the Interest Rate Swap Transaction, the "**Swap Transactions**") to be entered into pursuant to the Swap Agreement in order to protect the Issuer against the risk of movements in foreign exchange rates given that the Class E3 Notes will be denominated in dollars and the Loan is denominated in sterling. See further "Credit Structure — The Swap Agreement". The Issuer and the Swap Provider have agreed, in the event of a downgrade of the short-term, unsecured, unsubordinated debt obligations of the Swap Guarantor below "A-1" by S&P or "P-1" by Moody's and subject to the provisions of the Swap Agreement, to enter into a collateral agreement in the form of an ISDA credit support document on terms acceptable to the Issuer (the "**Swap Agreement Credit Support Document**"), pursuant to which the Swap Provider will make transfers of collateral in support of its obligations under the Interest Rate Swap Transaction. The Issuer and the Swap Provider have agreed, in the event of a downgrade of the long-term, unsecured, unsubordinated debt obligations of the Swap Guarantor below "BB" by S&P and subject to the provisions of the Swap Agreement, to enter into a Swap Agreement Credit Support Document on terms acceptable to the Issuer, pursuant to which the Swap Provider will make transfers of collateral in support of its obligations under the Dollar Swap Transaction. See further "Credit Structure — Swap Agreement Credit Support Document to be entered into upon Swap Guarantor Downgrade".

Swap Guarantor ..... Morgan Stanley ("**MSDW**" and, in such capacity, the "**Swap Guarantor**"), whose principal office is located at 1585 Broadway, New York, New York 10036, USA, will, pursuant to and subject to the terms of a guarantee in favour of the Issuer (the "**Swap Guarantee**"), guarantee all of the Swap Provider's obligations under the Swap Agreement and the Swap Transactions.

Liquidity Facility Provider and Liquidity Facility Agreement ..... Barclays Bank PLC ("**Barclays**"), acting through its branch at 54 Lombard Street, London EC3V 9EX, will act as the liquidity facility provider (the "**Liquidity Facility Provider**") under a liquidity facility agreement (the "**Liquidity Facility Agreement**") with an initial maximum aggregate principal amount of £22,500,000 (such amount being subject to reduction in certain specified circumstances), to be dated on or prior to the Closing Date and between the Liquidity Facility Provider, the Issuer and the Trustee.

The Issuer will be entitled to make drawings under the Liquidity Facility Agreement from time to time to cover shortfalls in the amount of interest received from the Borrowers in respect of the Loan ("**Interest Drawings**"), as well as shortfalls in the amounts required to pay interest that has accrued on outstanding drawings under the Liquidity Facility Agreement ("**Accrued Interest Drawings**"). In addition, drawings under the Liquidity Facility Agreement will be available to fund Revenue Priority Amounts payable to a third party other than MSDW Bank ("**Expenses Drawings**").

Each drawing under the Liquidity Facility Agreement will be made in sterling.

For a more detailed description of the Liquidity Facility, see "Credit Structure — Liquidity Facility" below.

The Loan

The Loan ..... The Loan is a full recourse obligation of the Borrowers. The Loan is currently secured by, *inter alia*, first priority mortgages (or, in the case of properties in Scotland, standard securities) over 32 hotels which are located in England, Scotland and Wales. On origination, the aggregate principal amount of the Loan was £598,000,000, but following the disposal of certain hotels (the "**Sale Hotels**") this was reduced to £531,189,624.

Purpose ..... The purpose of the Loan was to provide the Property Owner with finance to allow for the purchase of the Hotels from certain associated companies (formerly subsidiaries of Thistle Hotels Plc).

Valuation ..... As at 1st April, 2002, the aggregate open market value of the Hotels as determined by HVS International and DTZ Debenham Tie Leung Limited ("**DTZ**"), the external valuers of the Hotels, was £788,400,000. On the basis of the above valuation, the loan to value ratio of the Loan on the date of this Offering Circular (expressed as a percentage) is approximately 67.38 per cent.

Interest Cover Ratio ..... The interest cover ratio of the Loan (calculated on the basis of total EBITDA of the Hotels (as calculated in accordance with

the Operating Agreements) for Thistle's financial year to 30th December, 2001) is approximately 1.34 times.

Payments on the Loan ..... No scheduled payments have been made in respect of the Loan since its origination, but on the disposal of the Sale Hotels all scheduled amortisation payments were made. The Loan is repayable on the Loan Payment Date falling in May 2005, subject to earlier prepayment. The Loan is prepayable by the Borrowers, in part or in full, on any Loan Payment Date, subject, in certain cases, to payment of a Prepayment Fee. The amount of any Prepayment Fee, when payable, is dependent on the amount of time left unexpired until the final maturity date of the Loan.

Representations and Warranties ..... The loan sale agreement (the "**Loan Sale Agreement**"), pursuant to which the Issuer will purchase the Loan and the beneficial interest in the Security Trust from MSDW Bank, contains certain warranties given by MSDW Bank in respect of the Loan and the Related Security and which are summarised in "The Loan and the Related Security — Representations and Warranties". MSDW Bank will be required (should the Issuer exercise this right), in the event that there has been a material breach of any such warranty by MSDW Bank which breach (if capable of remedy) has not been remedied within the time specified in the Loan Sale Agreement, to repurchase the Loan together with the beneficial interest in the Security Trust. The consideration for such repurchase shall be the principal amount of the Loan together with an amount in respect of accrued and unpaid interest. Any such repurchase would result in a redemption of the Notes in accordance with Condition 6(*b*).

The Loan Security..... The Borrowers and London Park Hotels Limited (the "**Employer**") have executed debentures over all of their assets in favour of the Security Trustee as security for the Borrowers' obligations under the Loan and other liabilities owing from time to time to MSDW Bank (together referred to as the "**Debentures**"). The Charging Companies have executed third party charges and, where appropriate, have granted Scottish Mortgages (together referred to as the "**Third Party Charges**") as security for the Borrowers' obligations referred to above.

The Debentures and the Third Party Charges incorporate (as appropriate) a first legal charge over each of the Hotels situated in England and Wales (the "**English Hotels**"), in addition to which, in relation to the Hotels situated in Scotland (the "**Scottish Hotels**"), first ranking standard securities in Scottish form (the "**Scottish Mortgages**") have also been executed. The debentures executed by the Property Owner and the Employer also assign by way of security, *inter alia,* their rights in the Operating Agreements and the Relationship Agreement. Security for the Loan also includes the benefit of a subordination agreement under which any other debt of the Borrowers or Charging Companies owed to the Shareholder or the Share Purchaser is subordinated to the debt owed to MSDW Bank (a "**Subordination Agreement**"); charges or security interests over or in shares of the Borrowers, the Target Companies and the Charging Companies (the "**Share Charge**"); a direct agreement between, *inter alios*, MSMS, the Operator and the Property Owner (the "**Direct Agreement**"); letters of credit in relation to certain of Thistle Hotel Plc's payment obligations as guarantor pursuant to the Relationship

Agreement (the "**Letters of Credit**"); charges or security interests over or in various bank accounts (including the Agency Account, Capex Account and FF&E Reserve Account) (the "**Bank Accounts Charge**"); and a charge by the Share Purchaser of its rights under, *inter alia*, the Acquisition Agreement (the "**Acquisition Charge**"). The documents referred to in this paragraph and/or any other security (the beneficial interest in the trust over which is to be acquired on the Closing Date by the Issuer) are referred to herein as the "**Related Security**".

For a more detailed description of the Debentures, Scottish Mortgages and other elements of the Related Security, see "The Loan and the Related Security – Terms of the Debentures and – The Additional Related Security".

Further Advances ..... The Issuer is not required to make any further advance to the Borrowers. The Servicer is not permitted under the Servicing Agreement, subject to the terms thereof, to agree to an amendment of the terms of the Loan that would require the Issuer to make a further advance to the Borrowers.

Hotels..... The 32 Hotels are Skean Dhu Dyce (Aberdeen), Thistle Aberdeen Airport, Thistle Aberdeen Altens, Thistle Aberdeen Caledonian, Thistle Birmingham City, Thistle Birmingham Edgbaston, Thistle Bloomsbury, Thistle Brands Hatch, Thistle Brighton, Thistle Bristol, Thistle Cardiff, Thistle Cheltenham, Thistle East Midlands Airport, Thistle Exeter, Thistle Gatwick Airport, Thistle Glasgow, Thistle Haydock, Thistle Inverness, Thistle Irvine, Thistle Kensington Palace, Thistle Kensington Park, Thistle Lancaster Gate, Thistle Liverpool, Thistle Luton, Thistle Manchester, Thistle Manchester Airport, Thistle Middlesbrough, Thistle Newcastle, Thistle St. Albans, Thistle Stevenage, Thistle Stratford-upon-Avon and Thistle Swindon.

Operation of Hotels..... Pursuant to Operating Agreements entered into in respect of each Hotel, the application of which is in part amended by the Relationship Agreement, the Operator is required to provide management services in respect of the Hotels. A summary of the material terms of the Operating Agreements and the Relationship Agreement is set out at "Acquisition and Operation of the Hotels". The Operator will continue to operate the Hotels under the Thistle trade marks, using the existing name of each Hotel or such other name as the Operator and the Property Owner may agree from time to time.

The Operator has, pursuant to the Relationship Agreement, agreed to pay to the Property Owner an amount so that the Property Owner receives a minimum EBITDA (as calculated in accordance with the Operating Agreements), the amount of minimum EBITDA being £41,570,729 per annum in respect of all the Hotels. The obligations of the Operator under the Relationship Agreement are guaranteed by Thistle Hotels Plc ("**Thistle**"). In addition, Lloyds TSB Bank plc has provided two letters of credit the beneficiary of both of which is the Security Trustee. The letters of credit may be drawn upon by the Security Trustee in certain circumstances, including upon Thistle's failure to make a payment in respect of the minimum EBITDA guarantee.

Insurance ..... The Credit Agreement requires that the Borrowers procure insurance in respect of the Hotels and the plant and machinery, including furniture, fixtures and equipment at the Hotels. In addition, the Borrowers are required to procure insurance in an amount equivalent to three years' loss of revenue, not less than two years' loss of rent in relation to any occupational tenancies, third party liability and against acts of terrorism, in each case in an amount, in a form and with an insurance company or underwriter reasonably acceptable to the Security Trustee. The Security Trustee's interest must be noted on all insurance policies.

For a more detailed description of the insurance arrangements and the risks in relation thereto see "Property Overview – Insurance", "Risk Factors — Insurance" and "The Loan and the Related Security - Insurance". For a description of the Servicer's responsibilities regarding the maintenance of insurance see "Servicing – Insurance".

The Notes

Status and Form..... The Notes will be constituted by the Trust Deed. The Notes of each class will rank *pari passu* without any preference or priority among themselves.

The Notes will all share the same security, but, in the event of the security being enforced, the Class A Notes will rank higher in priority to the Class B Notes, the Class B Notes will rank higher in priority to the Class C Notes, the Class C Notes will rank higher in priority to the Class D Notes and the Class D Notes will rank higher in priority to the Class E Notes.

Definitive Notes will be issued in registered form only in certain limited circumstances (see "Terms and Conditions of the Notes — Definitive Notes" and "Description of the Notes and the Depository Agreement"). So long as the Notes are held by the Depository in global form, the Depository will be deemed for all purposes to be the owner of such Notes and will be entitled to receive all principal, premium (if any), interest and other amounts payable in respect of the Notes but will, for the purposes of forming a quorum for meetings, be deemed to constitute two persons.

The Trust Deed contains provisions requiring the Trustee to have regard to the interests of the holders of the Class A Notes (the "**Class A Noteholders**"), the holders of the Class B Notes (the "**Class B Noteholders**"), the holders of the Class C Notes (the "**Class C Noteholders**"), the holders of the Class D Notes (the "**Class D Noteholders**") and the holders of the Class E Notes (the "**Class E Noteholders**" and, together with the Class A Noteholders, the Class B Noteholders, the Class C Noteholders and the Class D Noteholders, the "**Noteholders**"), but where there is, in the Trustee's opinion, a conflict between such interests, the Trustee will be required to have regard only to the interests of the most senior class of Notes then outstanding.

Certain Noteholders are restricted in their ability to pass Extraordinary Resolutions. See "Terms and Conditions of the Notes — Condition 3(*A*)(d) and Condition 12".

Limited Recourse ..... Claims against the Issuer by Noteholders will be limited to the Issuer Security. The proceeds of realisation of the Issuer Security may, after paying or providing for all prior-ranking claims, be less than the sums due to Noteholders or certain of the Noteholders. See "Security for the Notes" below.

Interest..... Each Note will bear interest on its Principal Amount Outstanding (as defined in Condition 6(*f*)) from, and including, the Closing Date. Interest will be payable in respect of the Notes in pounds sterling (or, in the case of the Class E3 Notes, dollars) quarterly in arrear on the 10th day of February, May, August and November in each year or, if such day is not a Business Day, the next following Business Day (unless such Business Day falls in the next succeeding calendar month, in which event the immediately preceding Business Day) (each such day being an "**Interest Payment Date**"). The first Interest Payment Date in respect of each class of Notes will be 10th August, 2002.

Interest payments will be made subject to applicable withholding or deduction for or on account of tax (if any), without the Issuer being obliged to pay additional amounts in respect of any such withholding or deduction.

The interest rate applicable to the Notes from time to time will be LIBOR for three-month sterling deposits or, in the case of the Class E3 Notes, three-month dollar deposits (save, in the case of the first Interest Period, when the applicable interest rate will be determined by reference to LIBOR for one-month sterling or dollar deposits, as the case may be) plus the Relevant Margin. The "**Relevant Margin**" in respect of each class of Notes will be:

Class	***Relevant Margin***
A	*0.43 per cent. per annum*
B	*0.52 per cent. per annum*
C	*1.05 per cent. per annum*
D	*2.05 per cent. per annum*
E1	*2.50 per cent. per annum*
E2	*6.00 per cent. per annum*
E3	*2.50 per cent. per annum*

Whenever it is necessary to compute an amount of interest in respect of any of the Notes for any period, such interest will be calculated on the basis of actual days elapsed and a 365-day year, save in the case of the Class E3 Notes when it will be calculated on the basis of actual days elapsed and a 360-day year.

Failure by the Issuer to pay interest on the most senior class of Notes which is still outstanding when due and payable will result in an Event of Default (as defined in Condition 10) which may result in the Trustee enforcing the Issuer Security. To the extent that funds available to the Issuer on any Interest Payment Date, after paying any interest then accrued due and payable on the more senior class or classes of Notes then outstanding, are insufficient to pay in full interest otherwise due on any one or more classes of more junior-ranking Notes then outstanding, the shortfall in the amount then due will not be paid but will only be

paid in accordance with the order of seniority of the affected classes of Notes, and, in the case of the Class B Notes and the Class C Notes only, on subsequent Interest Payment Dates, if and when permitted by subsequent cash flow which is available after the Issuer's other higher priority liabilities have been discharged. The Issuer's obligation to pay interest in respect of the Class D Notes and the Class E Notes is limited, on each Interest Payment Date, to an amount equal to the lesser of (a) the Interest Amount (as defined in Condition 5(*d*)) in respect of such class of Notes for that Interest Payment Date, and (b) the Adjusted Interest Amount (as defined in Condition 5(*i*)).

Principal Amount Outstanding ..... The "Principal Amount Outstanding" of a Note on any date will be its face amount less the aggregate amount of principal repayments that have been paid in respect of that Note.

Principal Final Redemption ..... Unless previously redeemed, the Notes will be redeemed at their Principal Amount Outstanding together with accrued interest on the Interest Payment Date falling in May 2007 (the "**Maturity Date**").

Mandatory Redemption in Part ..... Unless a Note Enforcement Notice has been served, the Notes will be subject to mandatory redemption in part in the manner described in "Available Funds and their Priority of Application — Payments out of the Transaction Account prior to Enforcement of the Notes — Available Principal" below, including upon the Servicer exercising its right to purchase the Loan in certain limited circumstances pursuant to the Servicing Agreement. The obligations of the parties under the Swap Agreement will terminate proportionally as the Loan is repaid. See further "Terms and Conditions of the Notes — Condition 6*(b)*".

Optional Redemption in Full ..... The Notes will be subject to redemption in full, but not in part, in the following circumstances:

(a) if the Issuer satisfies the Trustee that (i) by virtue of a change in tax law from that in effect on the Closing Date the Issuer will be obliged to make any withholding or deduction from payments in respect of the Notes or (ii) by virtue of a change in law from that in effect on the Closing Date any amount payable by the Borrowers in relation to the Loan is reduced or ceases to be receivable (whether or not actually received);

(b) if the aggregate Principal Amount Outstanding of all the Notes then outstanding is less than 10 per cent. of the initial Principal Amount Outstanding of all the Notes issued on the Closing Date; or

(c) if a Tax Event occurs under the Swap Agreement and (i) the Swap Provider is unable to transfer its rights and obligations thereunder to another branch, office or affiliate to cure the Tax Event, and (ii) the Issuer is unable to find a replacement swap provider (the Issuer being obliged to use reasonable efforts to find a replacement swap provider),

provided further that in each case the Issuer has determined to redeem the Notes and certified to the Trustee that it will have

sufficient funds available to it on the relevant Interest Payment Date to discharge all of its liabilities in respect of the Notes and any amounts required under the Deed of Charge and Assignment to be paid in priority to, or *pari passu* with, the Notes on such Interest Payment Date, all in accordance with "Available Funds and their Priority of Application — Payments out of the Transaction Account Prior to Enforcement of the Notes" below. See further "Terms and Conditions of the Notes — Conditions 6*(c)*, 6*(d)* and 6*(e)*".

Ratings..... The Notes are, upon issue, expected to be rated by the Rating Agencies as follows:

Expected Rating

Class	***S&P***	***Moody's***
A	AAA	Aaa
B	AAA	Aa2
C	A	A2
D	BBB	Baa2
E1	BB	Ba3
E2	BB	Ba3
E3	BB	Ba3

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by one or more of the rating agencies assigning such security rating. The ratings from the Rating Agencies only address the likelihood of timely receipt by any Noteholder of interest on the Notes and the likelihood of receipt by any Noteholder of principal of the Notes by the Maturity Date and do not address the likelihood of receipt by any Noteholder of principal prior to the Maturity Date. Furthermore, the ratings on the Notes only address the credit risks associated with the underlying transaction and do not address the non-credit risks which may have a significant effect on the receipt by Noteholders of interest and principal.

The ratings of the Notes are dependent upon, among other things, the short term unsecured, unsubordinated debt ratings of the Liquidity Facility Provider, the Letters of Credit Provider and the Swap Guarantor. Consequently, a qualification, downgrade or withdrawal of any such rating by a Rating Agency may have an adverse effect on the ratings of the Notes.

Sales Restrictions..... The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), or any state securities law and unless so registered may not be offered or sold within the United States or to, or for the benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and the applicable state securities laws. Accordingly, the Notes are being offered and sold only to (A) **"**Qualified Institutional Buyers" (as defined in Rule 144A under the Securities Act) and (B) persons (other than U.S. persons) outside the United States pursuant to Regulation S under the Securities Act. For a description of

certain restrictions on resales or transfers of the Notes, see "Transfer Restrictions".

Listing ..... Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List of the Irish Stock Exchange.

Settlement ..... DTC, Euroclear and Clearstream, Luxembourg.

Governing Law ..... The Notes and the Trust Deed will be governed by English law.

Available Funds and their Priority of Application

The payment of principal and interest by the Borrowers in respect of the Loan will provide the principal source of funds for the Issuer to make repayments of principal and payments of interest in respect of the Notes.

Funds paid into the Transaction Account ..... On or shortly after each Loan Payment Date, the Security Trustee, acting on the instructions of the Servicer, will transfer from the Receipts Account and, if appropriate according to the terms of the Credit Agreement, the Debt Service Reserve Account, the Sales Account and/or the Guarantee Reserve Account, to the Transaction Account, an amount in respect of interest, principal and fees and other amounts then due and payable in respect of the Loan. Amounts standing to the credit of the Transaction Account from time to time are referable to, *inter alia*, the following sources:

(a) "***Borrower Interest Receipts***", comprising all payments of interest, fees (other than Prepayment Fees and any other amounts received as a result of the prepayment of the Loan (other than principal of or interest on the Loan)), breakage costs, if any, expenses, commissions and other sums paid by the Borrowers in respect of the Loan or the Related Security (other than any payments in respect of principal), including recoveries in respect of such amounts on enforcement of the Loan or Related Security;

(b) "***Prepayment Redemption Funds***", comprising all payments in respect of principal (excluding any Prepayment Fees) received as a result of (i) any prepayment in part or in full of the Loan (including upon the receipt of insurance proceeds not applied to reinstate a relevant Hotel), (ii) the repurchase of the Loan by MSDW Bank pursuant to the Loan Sale Agreement, or (iii) the purchase of the Loan by the Servicer pursuant to the Servicing Agreement;

(c) "***Final Redemption Funds***", comprising all principal payments received as a result of the repayment of the Loan upon its scheduled final maturity date;

(d) "***Principal Recovery Funds***", comprising all amounts recovered in respect of principal of the Loan as a result of the enforcement of the Loan or the Related Security;

(e) "***Prepayment Fees***", comprising all fees and costs (except for breakage costs, if any) received as a result

of any prepayment of the Loan, including any such fees arising from a prepayment following the enforcement of the Loan or the Related Security; and

(f) "***Swap Breakage Receipts***" means all amounts paid to the Issuer under the Swap Agreement as a result of the termination thereof.

Prepayment Fees and Swap Breakage Receipts will not be included in the calculation of Borrower Interest Receipts at any time. Prepayment Fees and Swap Breakage Receipts received during any Collection Period will be paid to MSDW Bank (or, in the event that the right to such amounts has been assigned to a third party, to the person then entitled to them) on the immediately following Interest Payment Date as a component of the Deferred Consideration then payable.

Payments out of the Swap Collateral Cash Account and the Swap Collateral Custody Account prior to Enforcement of the Notes ..... If the Swap Agreement Credit Support Document is entered into and the Swap Collateral Cash Account and/or the Swap Collateral Custody Account opened, the Cash Manager will pay to the Swap Provider amounts equal to any amounts of interest on the credit balance of the Swap Collateral Cash Account and/or amounts equivalent to distributions received on securities held in the Swap Collateral Custody Account as well as any other payments required to be made by the Issuer in accordance with the terms of the Swap Agreement Credit Support Document in priority to any other payment obligations of the Issuer.

Payments out of the Transaction Account prior to Enforcement of the Notes

(a) ***Priority Amounts*** ..... The Cash Manager may, prior to the service of a Note Enforcement Notice, make the following payments in priority to all other amounts required to be paid by the Issuer:

(i) out of Borrower Interest Receipts and, where Borrower Interest Receipts are insufficient, out of the aggregate of Prepayment Redemption Funds, Final Redemption Funds and Principal Recovery Funds (such aggregate amount comprising the "**Borrower Principal Receipts**"), sums due to third parties (other than the Servicer, the Special Servicer, the Liquidity Facility Provider, the Swap Provider, MSDW Bank, the Cash Manager, the Corporate Services Provider, the Trustee, the Share Trustee, the Security Trustee, the Principal Paying Agent, the Agent Bank, the Exchange Agent, the Depository or the Operating Bank), including the Issuer's liability, if any, to corporation tax and/or value added tax, on a date other than an Interest Payment Date, under obligations incurred in the course of the Issuer's business, including costs, expenses, fees and indemnity claims due and payable to any receiver appointed by or on behalf of the Security Trustee in respect of the Loan or the Related Security;

(ii) out of Borrower Interest Receipts, when due, any amount of interest payable by the Issuer to MSDW Bank or to the Servicer (such amounts, together with any amounts described in paragraph (i), being "**Revenue Priority Amounts**"); and

(iii) out of Borrower Principal Receipts, when due, any amount of principal payable by the Issuer to MSDW Bank or to the Servicer ("**Principal Priority Amounts**").

Revenue Priority Amounts and/or Principal Priority Amounts payable to MSDW Bank will occur where there has been a material breach of warranty under the Loan Sale Agreement and MSDW Bank has repurchased the Loan. Revenue Priority Amounts and/or Principal Priority Amounts payable to the Servicer will also occur where the Servicer has purchased the Loan pursuant to the Servicing Agreement. Revenue Priority Amounts (as described in paragraph (ii) above) and Principal Priority Amounts are any moneys received by or on behalf of the Issuer following the repurchase or purchase of the Loan, as the case may be, which do not belong to the Issuer, notwithstanding that the Security Trustee will hold the Related Security on trust for MSDW Bank following the repurchase of the Loan by MSDW Bank or the Servicer following the purchase of the Loan by the Servicer. The funds received by the Issuer on the repurchase of the Loan by MSDW Bank or the purchase of the Loan by the Servicer will be classified as Prepayment Redemption Funds and will be applied by the Issuer to redeem the Notes in accordance with Condition 6(*b*). The obligations of the parties under the Swap Agreement will terminate proportionally as the Loan is repaid.

Revenue and/or Principal Priority Amounts will be paid using funds standing to the credit of the Transaction Account.

(b) ***Available Interest Receipts***..... On each Interest Payment Date prior to the service of a Note Enforcement Notice, the Issuer or the Swap Provider, as the case may be, will make any relevant payment then due and payable pursuant to the Swap Agreement but excluding any payment due and payable under the Dollar Swap Transaction. Then, on each such Interest Payment Date, (i) all Borrower Interest Receipts transferred by or at the direction of the Servicer into the Transaction Account during the Collection Period ended immediately before such Interest Payment Date (net of any Borrower Interest Receipts applied during such Collection Period in payment of any of the amounts referred to in "Priority Amounts" above or applied to make any relevant payment pursuant to the Swap Agreement on such date); (ii) any payments (other than any amounts provided by the Swap Provider by way of collateral pursuant to the Swap Agreement Credit Support Document) received by the Issuer under the Interest Rate Swap Transaction or the Swap Guarantee in respect thereof (less amounts received by the Issuer on termination of the Interest Rate Swap Transaction following the prepayment or enforcement of the Loan); (iii) an amount equal to the Liquidation Fee, if any, payable on such Interest Payment Date; (iv) the proceeds of any Interest Drawing or Accrued Interest Drawing made under and in accordance with the Liquidity Facility Agreement in respect of such Interest Payment Date; and (v) any interest accrued upon and paid to the

Issuer on the Transaction Account or the Stand-by Account (such amounts being, collectively, the "**Available Interest Receipts**", in respect of such Interest Payment Date, and as determined by the Cash Manager on the basis of, *inter alia*, information provided by the Servicer) will be applied in the following order of priority (in each case, only if and to the extent that the payments and provisions of a higher priority have been made in full), all as more fully set out in the Deed of Charge and Assignment:

(i) in payment or discharge to or towards any amounts due and payable by the Issuer on such Interest Payment Date to (A) the Trustee, the Security Trustee and any receiver appointed under the Loan or the Related Security, *pari passu* and *pro rata*; then (B) the Paying Agents and the Agent Bank under the Agency Agreement; then (C) *pari passu* and *pro rata,* any amounts, including any amounts due to the Special Servicer in respect of any Liquidation Fee, due to the Servicer and the Special Servicer pursuant to the Servicing Agreement (other than in respect of the Servicing Fee or the Special Servicing Fee) and, until the date on which the aggregate Principal Amount Outstanding of the Notes (after providing for all amounts to be applied in redemption of the Notes or any class thereof on such Interest Payment Date) is less than 10 per cent. of the aggregate Principal Amount Outstanding of the Notes on the Closing Date, to the Servicer and the Special Servicer, *pari passu*, in respect of the Servicing Fee and the Special Servicing Fee; then (D) the Cash Manager under the Cash Management Agreement; then (E) the Corporate Services Provider under the Corporate Services Agreement; then (F) the Share Trustee under the Declaration of Trust; then (G) the Operating Bank under the Cash Management Agreement; then (H) the Depository under the Depository Agreement; then (I) the Exchange Agent under the Exchange Rate Agency Agreement; then (J) the Swap Provider under the Swap Agreement in respect of any payments due to be made by the Issuer following an early termination of the Interest Rate Swap Transaction under the Swap Agreement (other than payments to be made by the Issuer referred to in (viii) below and other than in respect of the Dollar Swap Transaction in respect of which no termination payments are payable) and then (K) the Liquidity Facility Provider under and in accordance with the Liquidity Facility Agreement in respect of any drawings made by the Issuer under the Liquidity Facility Agreement and the commitment fee (except to the extent that the commitment fee has been increased pursuant to the imposition of increased costs on the Liquidity Facility Provider), and any Mandatory Costs (as defined in the Master Definitions Agreement) up to a maximum aggregate amount of 0.125 per cent. per annum as provided in the Liquidity Facility Agreement;

(ii) in payment or discharge to or towards sums due to third parties (other than payments made to any third party as described in item (i) of "Priority Amounts" above)

under obligations incurred in the course of the Issuer's business, including provision for any such obligations expected to come due in the following Interest Period (as defined in Condition 5(*b*)) and the payment of the Issuer's liability (if any) to value added tax and to corporation tax;

(iii) in payment or discharge to or towards interest due and interest overdue (and any interest due on such overdue interest) on the Class A Notes;

(iv) in payment or discharge to or towards interest due and interest overdue (and any interest due on such overdue interest) on the Class B Notes;

(v) in payment or discharge to or towards interest due and interest overdue (and any interest due on such overdue interest) on the Class C Notes;

(vi) in payment or discharge to or towards interest due on the Class D Notes;

(vii) *pari passu* and *pro rata*, (1) in payment or discharge to or towards interest due on the Class E1 Notes, (2) in payment or discharge to or towards interest due on the Class E2 Notes, and (3) in payment or discharge of amounts due to the Swap Provider under the Dollar Swap Transaction (to enable payment to be made pursuant to the Class E3 Notes) in respect of interest payments;

(viii) in payment or discharge by or towards any amounts due and payable by the Issuer on such Interest Payment Date to the Swap Provider under the Swap Agreement in respect of any payments due to be made by the Issuer following an early termination of the Interest Rate Swap Transaction under the Swap Agreement as a result of an Event of Default (as defined in the Swap Agreement) under the Swap Agreement in respect of which the Swap Provider is the Defaulting Party (as defined in the Swap Agreement);

(ix) in payment or discharge to or towards any amounts in respect of any Mandatory Costs due to the Liquidity Facility Provider under the Liquidity Facility Agreement in excess of those amounts referred to under item (i)(K) above and any additional amounts payable to the Liquidity Facility Provider in respect of withholding taxes or increased costs as a result of a change in law or regulation, including, without limitation, any increase in the commitment fee payable to the Liquidity Facility Provider as a result of the imposition of increased costs;

(x) if, on such Interest Payment Date, the aggregate Principal Amount Outstanding of the Notes after providing for all amounts to be applied in redemption of the Notes or any class thereof on such Interest Payment Date) is less than 10 per cent. of the aggregate Principal Amount Outstanding of the Notes on the

Closing Date, to or towards payment of the Servicing Fee and the Special Servicing Fee;

(xi) in payment or discharge of any Deferred Consideration payable to MSDW Bank or the person or persons otherwise entitled thereto; and

(xii) any surplus to the Issuer.

(c) ***Available Principal*** ..... The Cash Manager is required, on the basis of information provided to it by the Servicer, to calculate on each Calculation Date in respect of the Collection Period then ended the Available Prepayment Redemption Funds, the Available Principal Recovery Funds and the Available Final Redemption Funds (each as defined in Condition 6(*b*)).

The Available Prepayment Redemption Funds, Available Final Redemption Funds and Available Principal Recovery Funds calculated on each Calculation Date are collectively referred to as the "**Available Principal**" for the purposes of the Interest Payment Date immediately following such Calculation Date.

On each Interest Payment Date, Available Principal will be applied from the Transaction Account in the following order of priority (in each case only if and to the extent that the payments and provisions of a higher priority have been made in full), all as more fully set out in the Deed of Charge and Assignment:

(i) in repaying principal on the Class A Notes until all of the Class A Notes have been redeemed in full;

(ii) in repaying principal on the Class B Notes until all of the Class B Notes have been redeemed in full;

(iii) in repaying principal on the Class C Notes until all of the Class C Notes have been redeemed in full;

(iv) in repaying principal on the Class D Notes until all of the Class D Notes have been redeemed in full;

(v) *pari passu* and *pro rata*, (1) in repaying principal on the Class E1 Notes until all of the Class E1 Notes have been redeemed in full, (2) in repaying principal on the Class E2 Notes until all of the Class E2 Notes have been redeemed in full, and (3) in payment to the Swap Provider under the Dollar Swap Transaction (to enable payment to be made pursuant to the Class E3 Notes) in respect of principal payments until all of the Class E3 Notes have been redeemed in full;

(vi) in paying that component of the Deferred Consideration, if any, that comprises any excess Available Principal; and

(vii) any surplus to the Issuer.

See "Terms and Conditions of the Notes — Condition 6*(b)*".

The Issuer will not be required to accumulate surplus assets as security for any future payments of interest or principal on the

Notes. Any temporary liquidity surpluses in the Transaction Account may be invested in Eligible Investments.

Payments paid out of the Transaction Account Post-Enforcement of the Notes..... The Issuer Security will become enforceable upon the Trustee giving a Note Enforcement Notice. Following enforcement of the Issuer Security, the Trustee will be required to apply all funds received or recovered by it in accordance with the order of priority described under "Credit Structure — Post-Enforcement Priority of Payments".

Security for the Notes

The obligations of the Issuer to the Noteholders and to each of the Trustee, the Security Trustee, the Corporate Services Provider, the Share Trustee, the Servicer, the Special Servicer, the Cash Manager, the Liquidity Facility Provider, the Swap Provider, the Paying Agents, the Agent Bank, the Registrar, the Operating Bank, the Depository, the Exchange Agent and MSDW Bank (all of such persons or entities being, collectively, the "**Secured Parties**") will be secured by and pursuant to a deed of charge and assignment (the "**Deed of Charge and Assignment**") to be entered into on the Closing Date.

The Issuer will create, *inter alia*, the following security under the Deed of Charge and Assignment (the "**Issuer Security**"):

(i) an assignment by way of security over the Loan and the Issuer's rights under the Credit Agreement;

(ii) an assignment by way of security over the Issuer's beneficial interest in the Security Trust created over the Related Security;

(iii) an assignment under Jersey law by way of security over the Issuer's beneficial interest in the Security Trust created over the Related Security, and over the Issuer's rights and interest under, *inter alia*, all other contracts and agreements, to the extent that such security property is situated in Jersey and not otherwise assigned by way of security under (i) above;

(iv) an assignation in security over the Issuer's beneficial interest in the Security Trust created over the Related Security under Scots laws to the extent not otherwise assigned by way of security under (ii) above, if any;

(v) an assignment by way of security over the Issuer's interest in the Related Security not otherwise assigned by way of security under (ii), (iii) and (iv) above, if any;

(vi) an assignment by way of security of the Issuer's rights under, *inter alia*, the Loan Sale Agreement, the Servicing Agreement, the Corporate Services Agreement, the Declaration of Trust, the Cash Management Agreement, the Agency Agreement, the Liquidity Facility Agreement, the Swap Agreement (subject to netting and set-off provisions contained therein), the Swap Guarantee, the Swap Agreement

Credit Support Document (if and when executed), the Depository Agreement, the Exchange Rate Agency Agreement, the Trust Deed and the Master Definitions Agreement;

(vii) an assignment by way of security of the Issuer's interests in the Transaction Account, the Swap Collateral Cash Account (if and when opened), the Swap Collateral Custody Account (if and when opened), the Stand-by Account and any other bank account in which the Issuer may place and hold its cash resources, and of the funds from time to time standing to the credit of such accounts and any other Eligible Investments from time to time held by or on behalf of the Issuer; and

(viii) a floating charge governed by English law over the whole of the undertaking and assets of the Issuer (other than any property or assets of the Issuer subject to an effective fixed security set out in paragraphs (i) to (vii) above, but extending over all Scottish assets).

Upon enforcement of the Issuer Security, the amounts payable to the Secured Parties (other than the Noteholders) will rank higher in priority to payments of interest or principal on the Class A Notes, except for amounts owed to MSDW Bank under the Loan Sale Agreement and, in the case of the Swap Provider, any amounts due to it as described in item (vii) of "Credit Structure - Post-Enforcement Priority of Payments". **Upon enforcement of the Issuer Security, all amounts owing to the Class B Noteholders will rank after all payments on the Class A Notes, all amounts owing to the Class C Noteholders will rank after all payments on the Class B Notes, all amounts owing to the Class D Noteholders will rank after all payments on the Class C Notes and all amounts owing to the Class E Noteholders will rank after all payments on the Class D Notes.**

If the net proceeds of realisation of, or enforcement with respect to, the Issuer Security are not sufficient to make all payments due in respect of the Notes, the other assets (if any) of the Issuer will not be available for payment of any shortfall arising therefrom (which will be borne in accordance with the provisions of the Deed of Charge and Assignment). All claims in respect of such shortfall, after realisation of or enforcement with respect to all of the Issuer Security, will be extinguished and the Trustee, the Noteholders and the other Secured Parties will have no further claim against the Issuer in respect of such unpaid amounts. Each Noteholder, by subscribing for or purchasing Notes, is deemed to accept and acknowledge that it is fully aware that, except as set out above, (i) in the event of an enforcement of the Issuer Security, its right to obtain payment of interest and repayment of principal on the Notes is limited to recourse against the assets of the Issuer comprised in the Issuer Security, (ii) the Issuer will have duly and entirely fulfilled its repayment obligation by making available to the Noteholder its relevant proportion of the proceeds of realisation of, or enforcement with respect to, the Issuer Security in accordance with the Deed of Charge and Assignment, and all claims in respect of such

shortfall will be extinguished, and (iii) if a shortfall in the amount owing in respect of principal of the Notes of any class exists on the Maturity Date of the Notes of any class, after payment on the Maturity Date of all other claims ranking higher in priority to the Notes or the relevant class of Notes, and the Issuer Security has not become enforceable as at the Maturity Date, the liability of the Issuer to make any payment in respect of such shortfall will cease and all claims in respect of such shortfall will be extinguished.

RISK FACTORS

The following is a summary of certain issues of which prospective Noteholders should be aware, but it is not intended to be exhaustive and prospective Noteholders should also read the detailed information set out elsewhere in this document and reach their own views prior to making any investment decision. Some of the issues set out in this section are mitigated by certain representations and warranties which MSDW Bank will provide in the Loan Sale Agreement in relation to the Loan, the Related Security, the Hotels and other associated matters (see further "The Loan and the Related Security — Representations and Warranties").

Factors Relating to the Loan

The Issuer's Ability to Meet its Obligations under the Notes: Default by Borrowers

The ability of the Issuer to meet its obligations under the Notes will be dependent on the receipt by it of funds from the Borrowers in respect of the Loan and the Related Security, payments under the Swap Agreement and, where necessary and applicable, the Liquidity Facility Agreement. If, on default by the Borrowers and following the exercise of all available remedies in respect of the Loan and the Related Security, the Issuer does not receive the full amount due from the Borrowers, then Noteholders (or the holders of certain classes of Notes) may receive by way of principal repayment an amount less than the face value of their Notes and the Issuer may be unable to pay in full interest due on the Notes. The Issuer does not guarantee or warrant full and timely payment by the Borrowers of any sums.

The Borrowers were incorporated for the purpose of entering into the Credit Agreement and in the case of the Property Owner also for the purpose of acquiring the legal and beneficial interests in the Hotels. As at the Closing Date, the Borrowers will have no material liabilities (other than those that are fully subordinated to their liabilities under the Credit Agreement pursuant to the Subordination Agreement) except in relation to the Hotels and under the Operating Agreements and the Relationship Agreement. (See further "Acquisition and Operation of the Hotels").

The Credit Agreement contains provisions requiring the Borrowers to make a repayment of outstanding principal on the final maturity date of the Loan. The Borrowers' ability to repay principal on the Loan on final maturity may be dependent upon their ability to refinance the Loan or the Property Owner's ability to sell the Hotels. Neither the Issuer nor MSDW Bank is under any obligation to provide any such refinancing and there can be no assurance that the Borrowers will be able to refinance the Loan or that the Property Owner will be able to sell the Hotels. However, MSDW Bank has attempted to mitigate the refinancing risk of the Borrowers on the final maturity of the Loan by obtaining an undertaking from the Property Owner in the Credit Agreement to apply for planning permission (an application to be approved by the Security Trustee) for the development of Thistle Lancaster Gate and either Thistle Kensington Park or Thistle Kensington Palace for residential purposes within a specified number of days of the completion of the sale and purchase of the relevant Hotels and to apply for such planning permission within a longer specified period of the completion of the sale and purchase of the relevant Hotels in respect of whichever of Thistle Kensington Park or Thistle Kensington Palace has not already had planning permission applied for. DTZ has provided a Residential Appraisal Commentary Report in respect of Thistle Lancaster Gate, Thistle Kensington Park and Thistle Kensington Palace which has indicated that their redevelopment for residential purposes should substantially increase their value. The Property Owner has further undertaken in the Credit Agreement to ensure that the relevant Hotel is transferred, sold or otherwise disposed of within 30 days of the grant of planning permission as referred to above. The provisions of the Credit Agreement provide that on the disposal of each such Hotel an amount in excess of the portion of the Loan referable to the initial valuation of that Hotel shall be repaid so as to reflect the anticipated enhanced value of such Hotel after the grant of planning permission. If planning permission is granted in respect of all three Hotels and such Hotels are, as required by the Credit Agreement, disposed of by the Property Owner, it is anticipated that the principal amount of the Loan will be reduced by approximately £240,000,000. However, no assurance can be given that all or any of such applications for planning permission will be granted or that the Property Owner will be able to so dispose of a Hotel in respect of which planning permission has been granted in order to reduce the principal amount outstanding of the Loan as contemplated or at all.

Failure by the Borrowers to refinance the Loan or by the Property Owner to sell the Hotels at final maturity may result in the Borrowers defaulting on the Loan. In the event of such a default, the Noteholders, or the holders of certain classes of Notes, may receive by way of principal repayment an

amount less than the face value of their Notes and the Issuer may be unable to pay in full interest due on the Notes.

The Issuer's Ability to Meet its Obligations under the Notes: The Hotels

The Loan will be secured by, amongst other things, mortgages and standard securities over the Hotels and the payment of interest on the Loan is, to an extent, dependent on the performance of the Hotels and their ability to produce cash flow. However, the income-producing capacity of the Hotels may be adversely affected by a large number of factors, some of them related to the hotel industry as a whole rather than to the Hotels in particular. Some of these factors relate specifically to a Hotel itself, such as: (i) the age, design and construction quality of the Hotel; (ii) perceptions regarding the attractiveness of the Hotel; (iii) the proximity and attractiveness of competing hotels; (iv) the adequacy of the Hotel's management and maintenance; (v) increases in operating expenses; (vi) an increase in the capital expenditure needed to maintain the Hotel or make improvements; (vii) a decline in a Hotel's room rates and/or room utilisation rates; (viii) natural disasters; and (ix) a fluctuation, seasonal or otherwise, in demand for the facilities that the Hotel offers.

Other factors are more general in nature affecting the hotel industry as a whole, such as: (i) national, regional or local economic conditions (including plant closures, industry slowdowns and unemployment rates); (ii) local hotel conditions from time to time (such as an oversupply or under supply of hotel accommodation and facilities); (iii) demographic factors; (iv) consumer confidence and personal disposable income; (v) consumer tastes and preferences; (vi) retrospective changes in building codes or other regulatory changes; (vii) changes in governmental regulations, fiscal policy, planning/zoning or tax laws; and (viii) potential environmental legislation or liabilities or other legal liabilities. The events of September 11th, 2001 and the outbreak in the United Kingdom of foot and mouth disease, both of which are believed to have had an adverse effect upon the hotel industry in the United Kingdom as a whole, show how unforeseen factors can affect the hotel industry (see further "Property Overview").

Due in part to the historically strong correlation between the hotel industry's performance and general economic conditions, the hotel industry is subject to cyclical changes in revenues and profits. All of the Hotels are located in the United Kingdom and, consequently, the level of income derived from the Hotels will be substantially influenced by general economic conditions in the United Kingdom. Income from the Hotels is likely to be more sensitive than income from other commercial properties to economic downturns or increased competitive conditions, as such income is primarily generated by room occupancy and room occupancy is usually for a short period of time. Hotels have relatively high fixed operating costs, and as a result relatively small decreases in revenue can cause significant declines in net cash flow.

Any one or more of the above described factors could operate to have an adverse effect on the income derived from, or able to be generated by, the Hotels or a particular Hotel, which could in turn cause the Borrowers to default on the Loan, reduce the chances of the Borrowers refinancing the Loan or reduce the Property Owner's ability to sell the Hotels or a particular Hotel.

Conversion of a Hotel to alternative uses would generally require substantial capital expenditure. Therefore, the Hotels may not readily be converted to alternative uses if they become unprofitable due to competition, decreased demand or other factors (but see above in respect of Thistle Lancaster Gate, Thistle Kensington Park and Thistle Kensington Palace). Thus, if the operation of any of the Hotels becomes unprofitable, the liquidation value of any such Hotel may be substantially less than would be the case if such Hotel were readily adaptable to other uses. In addition, to remain competitive and maintain economic value, Hotels generally require more frequent expenditure for improvements and renovation than other types of commercial properties. If insufficient amounts are spent on capital expenditure on the Hotels, such properties may not remain competitive in their market. However, the Hotels have been the subject of significant capital expenditure in the recent past and, further, on the Loan being drawn down, the Borrowers procured the deposit of approximately £11.5 million of the proceeds of the Loan into an account of the Property Owner to be applied in undertaking capital improvements required to be carried out in respect of the Hotels. Whilst a certain amount of this has already been applied or is in the process of being applied towards capital improvements, the balance is still available for such purpose. The Borrowers will also be required pursuant to the Credit Agreement to retain amounts from the operating revenues received in respect of the Hotels, to the extent that such operating revenues are available for such purposes, that will be available to spend on the contents of the Hotels including fittings, fixtures and equipment.

Competition

Each of the Hotels competes with other hotels in the region in which it is located. The principal factors affecting each Hotel's ability to attract customers are, *inter alia*, the quality of the relevant building, the amenities and facilities offered and the convenience and location of the Hotel (including availability and cost), in comparison to competing hotels. In the event that competing hotels have competitive advantages over a Hotel, the business of the Hotel is likely to be adversely affected.

Hotel Management

Each of the Hotels is, pursuant to the relevant Operating Agreement and the Relationship Agreement, to be operated by the Operator under the Thistle trade marks. The viability of any hotel that is affiliated with a hotel operating company depends, in part, on the continued existence and financial strength of the group of companies incorporating the operator, the public perception of the corporate brand of the operator and the duration of the operating arrangements. In addition, the effective management and operation of the Hotels will be a significant factor affecting the revenues, expenses and value of the Hotels. The continuation of the Operating Agreements and the Relationship Agreement is subject to specified terms and conditions, as set forth in those agreements (see further "Acquisition and Operation of the Hotels"). The Operating Agreements and Relationship Agreement may be terminated by the Operator in a number of circumstances, including (i) interference by the Property Owner in the day-to-day operation of a Hotel; (ii) failure by the Property Owner to provide sufficient working capital to ensure the uninterrupted and efficient operation of a Hotel; (iii) failure by the Property Owner to provide funds for the cost of refurbishing, altering or otherwise effecting improvements to a Hotel in accordance with previously approved capital expenditure plans; (iv) failure by the Property Owner to provide assistance as reasonably required by the Operator to enable the Operator to properly perform its services; and/or (v) the refusal or withholding by the Property Owner of any consent or approval with respect to expenditure and/or the conduct of the business or the running and operation of a Hotel where the result of such refusal or withholding is that the Operator is or would be unable to maintain and operate the Hotel in accordance with the Hotel Operating Standard. In addition, the Property Owner may, in certain circumstances, terminate an Operating Agreement or the Relationship Agreement. A termination of one or more Operating Agreements would leave the relevant Hotel or Hotels without an Operator and consequently require the Property Owner to appoint a suitable replacement. No assurance can be given that any such termination would not have an adverse effect on the revenues of the affected Hotel or Hotels and so ultimately upon the ability of the Issuer to meet its obligations under the Notes.

In an attempt to mitigate the risk of the Operating Agreements and Relationship Agreement being terminated, the Property Owner has, in the Credit Agreement, been required to undertake not to do or omit to do any act or thing which would entitle the Operator to regard any Operating Agreement or the Relationship Agreement as being terminated and further to undertake not, without the prior consent of the Security Trustee, to terminate any Operating Agreement or the Relationship Agreement. Also, pursuant to the Direct Agreement, the Operator has agreed not to terminate an Operating Agreement and/or the Relationship Agreement during certain periods of time solely on the grounds that the Property Owner has failed to discharge any liability or failed to perform any obligation (other than a failure to make a payment or in the case of a material breach of an obligation incapable of remedy) where the Security Trustee or a receiver or administrator of the Property Owner is using all reasonable endeavours to remedy such breach.

General Thistle Business Risk

Thistle has, pursuant to the Relationship Agreement, agreed to guarantee the obligations of the Operator under the Relationship Agreement, including the Operator's obligation to pay to the Property Owner an amount so that the Property Owner receives a minimum EBITDA (as calculated in accordance with the Operating Agreements), the amount of minimum EBITDA being £41,570,729 per annum in respect of all the Hotels (see "Acquisition and Operation of the Hotels"). The ability of Thistle to meet any financial obligations arising under the Relationship Agreement (including, without limitation, any obligation pursuant to the minimum EBITDA guarantee) may be dependent upon the performance of Thistle's business. Thistle's revenue from its present hotel business may be affected by the factors referred to in "The Issuer's Ability to meet its Obligations under the Notes: The Hotels" and "Competition" above and, in addition, no restrictions have been placed upon Thistle to prevent it from taking actions which may adversely affect its creditworthiness. Also, Thistle may be affected by other specific factors such as material litigation being brought against it, which may affect its creditworthiness and ultimately its ability

to pay amounts due to the Property Owner. For information in respect of Thistle, see the section entitled "Thistle Hotels Plc" below.

In order to mitigate the possible credit exposure of the Property Owner and consequently the Issuer to Thistle, Thistle has procured from Lloyds TSB Bank plc (in such capacity, the "**Letters of Credit Provider**") two letters of credit the beneficiary of which is the Security Trustee which may be drawn upon by the Security Trustee in certain circumstances, including where Thistle has failed to make a payment in respect of the minimum EBITDA guarantee (see "The Loan and the Related Security – Letters of Credit") and where Thistle has become the subject of an insolvency type proceeding. However, no assurances can be given as to the continued creditworthiness and rating of the Letters of Credit Provider. See "Lloyds TSB Bank Group" for further information on the Letters of Credit Provider.

The Operator is not a single purpose entity and it or its affiliates own and continue to operate a number of other hotels. An insolvency with respect to the Operator or the Thistle Group as a whole could have a material adverse effect on the management and operation of the Hotels, which could have an adverse effect on the revenues of the Hotels and, therefore, the ability of the Borrowers to make payments under the Loan. In the event of the termination of the Operating Agreements and the Relationship Agreement, the Property Owner would need to appoint a suitable replacement operator of the Hotels.

Employees

Prior to the sale of the Hotels by Thistle, approximately 3,000 employees were associated with the Hotels. As part of the transaction, the employees' contracts of employment were transferred to London Park Hotels Limited (the "**Employer**") and the Hotels were then transferred to the Property Owner. The rationale for transferring the employees to the Employer was to try and ensure that the Property Owner does not incur any employee related liabilities. The Transfer of Undertakings (Protection of Employment) Regulations 1981 (the "**TUPE Regulations**") provide that where the ownership of an economic entity is transferred, the employees assigned to the undertaking transfer with the business. Where a relevant transfer occurs, the employees would not be able to obtain an order from a court or tribunal compelling any entity other than the transferee to offer them employment. Denton Wilde Sapte, counsel to MSDW Bank in connection with the origination of the Loan, has advised MSDW Bank that, on the basis that all employees engaged in the operation of the Hotels are employed and remain employed on their original terms and conditions of employment, then the possibility of any employee bringing a successful claim against the Property Owner of a material nature would be remote. It would only be in the event of the employees being dismissed by the Employer and replacement employees subsequently being employed by the Property Owner that an employment tribunal may be in a position to consider that a relevant transfer under the TUPE Regulations had taken place of which the Property Owner was the transferee. Whilst no assurances can be given that the Property Owner would not be faced with employee related liabilities, the structure of the transaction and the fact that at present no redundancies are anticipated make it, in the view of Denton Wilde Sapte, unlikely.

Licences and Approvals

The hotel industry in the United Kingdom is highly regulated at both national and local levels and hotel operations require licences, permits and approvals. Delays and failures to obtain required licences or permits could negatively affect the operation of the Hotels. However, the Operator has undertaken, pursuant to the Operating Agreements, to obtain and maintain, so far as reasonably practicable, the licences and permits required for the operation and management of the Hotels. However, no assurance can be given that the necessary licences and permits will always be obtained.

In addition, the business carried on in relation to the Hotels is affected by national and local laws, including laws and regulations relating to employment, health, sanitation, alcoholic beverage control and safety standards. These laws and regulations impose an administrative burden upon any operator of hotels and additional or more stringent requirements could be imposed in the future. Alcoholic beverage control regulations require each of the Hotel's managers to apply to a national authority and, in certain locations, local or municipal authorities for a licence to sell alcoholic beverages. These licences must generally be renewed every three years and may be suspended or revoked at any time for cause, including violation by a retailer or its employees of any law or regulation, such as those regulating the minimum age of patrons or employees, advertising and inventory control. Also, each Hotel requires licences from local health authorities and the redevelopment or renovation of Hotels may be subject to compliance with applicable planning, land use and environmental regulations.

Accounts

The provisions of the Operating Agreements and the Relationship Agreement require the Operator to credit gross revenue to various bank accounts opened by the Operator in relation to each Hotel which are collectively referred to as "**Operating Accounts**". Whilst the Operator has declared a trust over amounts standing to the credit of the Operating Accounts (other than amounts that the Operator is entitled to retain in the Operating Account pursuant to the Relationship Agreement) in favour of the Property Owner and the Property Owner has granted floating security over such amounts to which it is beneficially entitled, these accounts are in the name of and controlled by the Operator for the purpose of operating the Hotels. The Operator is required on a daily basis to sweep all monies credited to the Operating Accounts (other than (a) that required to ensure the uninterrupted and efficient operation of the Hotels and (b) sums payable to the Operator or to be available to the Operator in accordance with the Operating Agreements and the Relationship Agreement) into the Agency Account (and thereafter to the various other Borrowers' Accounts, save to the extent that the Property Owner directs that other accounts should be credited (as contemplated by the Credit Agreement)).

On the Closing Date, the Issuer's beneficial interest in the Security Trust (which includes the security interest in the Borrowers' Accounts) will be assigned by way of security to the Trustee. (See further "The Structure of the Accounts" and "Acquisition and Operation of the Hotels").

The security interests over the Borrowers' Accounts are expressed to be constituted by assignment of title under Jersey law (as these accounts are held with a Jersey bank). The Borrowers' Accounts have been structured and the above security interests are constituted and documented with a view to ensuring that the Security Trustee will have sole control over the operation of these accounts, other than the Agency Account where the Property Owner will have signing rights until the occurrence of a Loan Event of Default which is continuing, whereupon the Security Trustee can assert sole control over the operation of the Agency Account.

Operating Agreements and Relationship Agreement: Property Owner's Liabilities and Obligations

Pursuant to the terms of each Operating Agreement, the Property Owner has agreed to indemnify the Operator in respect of losses, damages and liabilities suffered or incurred by the Operator as a result of any breach by the Property Owner of its obligations under the relevant Operating Agreement or arising from the proper performance of the Operator of its obligations under the relevant Operating Agreement. In addition, the Property Owner has agreed to indemnify the Operator in respect of employment costs in certain circumstances when these are not treated as an operating expense. In certain circumstances, the effect of having to make such payments may be such as to reduce the funds available to the Property Owner such that it cannot meet its obligations under the Credit Agreement. However, the obligations of the Property Owner under the Relationship Agreement and the obligations of the Property Owner under the Operating Agreements are guaranteed by Euro & UK Property Limited and Orb Estates plc, being affiliates of the Property Owner.

Pursuant to the Operating Agreements, the Property Owner is not entitled to sell, lease, assign or transfer its interest in a Hotel without the prior written consent of the Operator, such consent not to be unreasonably withheld. The Operator may withhold its consent in the event of a proposed sale, lease, assignment or transfer to any person (i) which is not of good business character; (ii) which is unable to perform the Property Owner's obligations under the relevant Operating Agreement or (iii) to a competitor of the Operator. In addition, in the event of a sale, lease, assignment or transfer of a Hotel to a third party, the Operator may require the Property Owner to procure that such third party assumes all obligations and liabilities of the Property Owner under the relevant Operating Agreement.

Compulsory Purchase

Any property in the United Kingdom may at any time be compulsorily acquired by, *inter alia*, a local or public authority or a governmental department generally in connection with proposed redevelopment or infrastructure projects. No such compulsory purchase proposals have been revealed in the certificates of title relating to the Hotels that have been reviewed and reported upon by Denton Wilde Sapte and Tods Murray WS, Scots Law counsel to MSDW Bank in connection with the origination of the Loan, to MSDW Bank with respect to the origination of the Loan.

If a compulsory purchase order was made in respect of a Hotel (or part thereof), compensation would be payable on the basis of the open market value of the Property Owner's proprietary interest in the Hotel (or part thereof) at the time of the relevant purchase. The relevant interest in the Hotel would be acquired. The risk to Noteholders in such circumstances is that the amount received from the proceeds of purchase of the freehold, heritable or leasehold estate may be less than the corresponding Principal Amount Outstanding of the Notes together with accrued interest.

There is often a delay between the compulsory purchase of a property and the payment of compensation, the length of which will largely depend upon the ability of the property owner and entity acquiring the property to agree on the open market value. Should such a delay occur in the case of a Hotel, then, unless the Borrowers have other funds available to them, an event of default may occur under the Credit Agreement. Following the payment of compensation, the Borrowers will be required to prepay all or such part of the amounts owing by them under the Credit Agreement as is equivalent to the compensation payment received, such prepayment being used by the Issuer to redeem the Notes (or part thereof).

Forfeiture on Insolvency

There are a small number of leases under which Hotels are held (usually where the headlease rent is above the level which could be considered a normal ground rent) where the relevant landlord is entitled to forfeit (or, in the case of the Scottish Hotels, "irritate") the lease not only in respect of non-payment of rent or a breach of covenant but also upon the insolvency of the tenant (i.e. the Property Owner). The relevant properties are Thistle Birmingham City, Thistle Stratford-upon-Avon, Thistle Luton, Thistle Glasgow and Thistle Aberdeen Airport. Under English law, there are provisions whereby in pursuing the right to forfeit notice of intention to forfeit first needs to be served upon the tenant and there are in addition statutory rights for the tenant or other persons interested in the lease (which includes a mortgagee or undertenant) to apply to the court for relief. Whether such relief is granted is at the court's absolute discretion but it would normally be granted automatically where the rent arrears were paid and/or steps are taken to rectify the relevant breach.

The headleases in relation to the relevant Scottish Hotels contain provisions whereby, in the case of non-payment of rent or breach of obligations by the tenant, the landlord may seek to terminate or "irritate" the lease. In two cases the landlord may also be entitled to irritate the lease upon the insolvency of the tenant. Both leases provide, however, that a liquidator or chargeholder are given an opportunity to remedy the breach or dispose of the lease to a third party. There is statutory protection for the tenant whereby a landlord can only irritate the lease if (a) the rent remains unpaid for a period of 14 days or more following written demand under threat of irritancy, or (b) remediable breaches remain unremedied following written notice requesting the breach to be remedied within a reasonable period of time and again under express threat of irritancy. In addition to these requirements, the landlord may only terminate (irritate) the lease if a reasonable landlord would do so in the same circumstances. Details of the number of Hotels held pursuant to a headlease and the rents payable under such leases are set out at "Property Overview – Tenure and Headlease Rents" below.

Frustration

The Operating Agreements and the Relationship Agreement could, in exceptional circumstances, be frustrated under English law, whereupon the parties to the relevant agreements need not perform any obligation arising under the relevant agreements after the frustration has taken place. Frustration may occur where superseding events radically alter the continuance of the arrangements under the agreements for a party thereto, so that it would be inequitable for such an agreement or agreements to continue.

Prepayment Risk

A high prepayment rate in respect of the Loan may result in a reduction in interest receipts on the Loan by the Issuer and, therefore, a shortfall in the monies available to be applied by the Issuer in making payments of interest on the Notes. The prepayment risk will be borne initially by the holders of the Class D Notes and the Class E Notes. On each Interest Payment Date, the maximum amount of interest then due and payable on the Class D Notes or the Class E Notes, as applicable, will be limited to the amount equal to the lesser of (a) the Interest Amount (as defined in Condition 5(*d*)) in respect of such class of Notes, and (b) the Adjusted Interest Amount (as defined in Condition 5(*i*)) for such class of Notes. The debt that would otherwise be represented by the amount by which, on any Interest Payment Date, the Interest Amount in respect of the Class D Notes or the Class E Notes, as applicable, exceeds the Adjusted Interest

Amount in respect of such class, will be extinguished on such Interest Payment Date, and the affected Noteholders will have no claim against the Issuer in respect thereof.

Breach of warranty in relation to the Loan and the Related Security

Except as described under "The Loan and the Related Security - Acquisition", neither the Issuer nor the Trustee has undertaken or will undertake any investigations, searches or other actions as to the status of the Borrowers, Charging Companies, Shareholder, Share Purchaser or Target Companies and the Issuer and the Trustee will each rely instead solely on the warranties given by MSDW Bank in respect of such matters in the Loan Sale Agreement (see further "The Loan and the Related Security - Representations and Warranties"). If any breach of warranty is material and (if capable of remedy) is not remedied, the Issuer and the Trustee may require MSDW Bank to repurchase the Loan together with the beneficial interest in the Security Trust; provided that this shall not limit any other remedies available to the Issuer and/or the Trustee if MSDW Bank fails to repurchase the Loan when obliged to do so.

Insurance

MSMS's interest (in its capacity as Security Trustee) has been noted on each insurance policy maintained in respect of each Hotel or is in the course of being noted or is otherwise included by the relevant insurers under a "general interest noted" provision in the relevant insurance policy. Noting a party's interest on a policy does not, however, entitle that party to a share in the proceeds, although it is generally the practice for insurers in the United Kingdom to notify the party whose interest is noted if the policy lapses.

On the Closing Date, the Issuer will acquire the beneficial interest in the Security Trust (which includes MSMS's interest in the insurance policies), and the Issuer's beneficial interest in the Security Trust will form part of the Issuer Security secured under the Deed of Charge and Assignment in favour of the Trustee for the benefit of, *inter alios*, Noteholders. The Servicer will serve notice of the assignment under the Deed of Charge and Assignment on each insurer within 15 business days of the Closing Date. However, for the reasons described above, the ability of the Security Trustee to make a claim under the relevant insurance policies is not certain.

Privity of Contract

The Landlord and Tenant (Covenants) Act 1995 (the "**Covenants Act**") provides that, in relation to leases of property in England and Wales granted after 1st January, 1996 (other than leases granted after that date pursuant to agreements for lease entered into before that date), if an original tenant under such a lease assigns that lease (having obtained all necessary consents (including consent of the landlord if required by the lease)), that original tenant's liability to the landlord, under the terms of the lease, ceases. The Covenants Act provides that arrangements can be entered into whereby on assignment of a lease of commercial property, the original tenant can be required to enter into an "authorised guarantee" of the assignee's obligations to the landlord. Such an authorised guarantee relates only to the obligations under the lease of the original assignee of the original tenant and not any subsequent assignees of the original assignee. The same principles apply to an original assignee if it assigns the lease.

To the extent any occupational leases in respect of the Hotels as at the Closing Date were entered into before 1st January, 1996 or pursuant to agreements for lease in existence before 1st January, 1996, because the Covenants Act has no retrospective effect, the original tenant of a lease of any such Hotel in England will remain liable under these leases notwithstanding any subsequent assignments, subject to any express releases of the tenant's covenant on assignment. In such circumstances the first and every subsequent assignee would normally covenant with his predecessor to pay the rent and observe the covenants in the lease and would give an appropriate indemnity in respect of those liabilities to his predecessor in title, and thereby create a "chain of indemnity".

There can be no assurance that any assignee of a lease of premises within a Hotel will be of a similar credit quality to the original tenant, or that any subsequent assignees (who in the context of a new tenancy will not be covered by the original tenant's authorised guarantee) will be of a similar credit quality.

The Covenants Act does not apply in Scotland, where, under common law upon assignation of the tenant's interest, the tenant's liability to the landlord ceases. However, it is not usual for a guarantee from

the outgoing tenant to be obtained, it being largely for the landlord to withhold consent to the assignation if it is not satisfied with the covenant of the proposed assignee.

Statutory Rights of Tenants

In certain limited circumstances, tenants of a Hotel may have legal rights to require the landlord of that property to grant them tenancies, for example pursuant to the Landlord and Tenant Act 1954 or the Landlord and Tenant (Covenants) Act 1995 (both of which statutes apply to the English Hotels only). Should such a right arise, the landlord may not have its normal freedom to negotiate the terms of the new tenancy with the tenant, such terms being imposed by the court or being the same as those under the previous tenancy of the relevant premises. Accordingly, while it is the general practice of the courts in renewals under the Landlord and Tenant Act 1954 to grant a new tenancy on similar terms to the expiring tenancy, the basic annual rent will be adjusted in line with the then market rent at the relevant time and there can be no guarantee as to the terms on which any such new tenancy will be granted.

Appointment of Substitute Servicer

For a termination of the appointment of the Servicer under the Servicing Agreement to be effective, a substitute servicer must have been appointed. See "Servicing". There is no guarantee that a substitute servicer could be found who would be willing to service the Loan and the Related Security at a commercially reasonable fee, or at all, on the terms of the Servicing Agreement (even though this agreement provides for the fees payable to a substitute servicer to be consistent with those payable generally at that time for the provision of commercial mortgage administration services). In any event, the ability of such substitute servicer to perform such services fully would depend on the information and records then available to it. The fees and expenses of a substitute servicer performing services in this way would be payable in priority to payment of interest under the Notes.

Risks relating to Conflicts of Interest

Conflicts of interest may arise between the Issuer and MSMS because MSMS or one or more of its affiliates intends to continue actively to service, acquire, develop, finance and dispose of real estate-related assets (including hotels) in the ordinary course of their business. Likewise, conflicts of interest may arise between the Issuer and Thistle or one or more of its affiliates as, even after completion of the sale of the Hotels, the Thistle Group operates a number of other hotels and may operate, acquire, develop, finance and dispose of hotels in the ordinary course of their business. During the course of their business activities, Thistle, MSMS or any of their respective affiliates may operate, service, acquire or sell hotels, or finance loans secured by hotels, which are in the same markets as the Hotels and neither the Relationship Agreement nor any of the Operating Agreements place any restrictions upon the ability of the Operator or any other member of the Thistle Group to so carry out competing business activities. In such cases, the interests of Thistle, MSMS or any of their respective affiliates may differ from, and compete with, the interests of the Issuer, and decisions made with respect to those assets may adversely affect the value of the Hotels and therefore the ability to make payments under the Notes. Likewise, the Special Servicer or affiliates of the Special Servicer may service, acquire, develop, operate, finance or dispose of real estate-related assets (including hotels) in the ordinary course of their business so causing similar conflicts of interest to arise.

Mortgagee in Possession Liability

The Security Trustee may (on enforcement of its Security Interests) be deemed to be a mortgagee or, in relation to the Scottish Hotels, a heritable creditor in possession if it physically enters into possession of a Hotel or performs an act of control or influence which may amount to possession.

To the extent that there are any tenants of the Hotels, the Security Trustee submitting a demand direct to tenants requiring them to pay rents to the Security Trustee may amount to an act of possession. The enforcement procedures contained in the Debentures contemplate that, following a default, notice would be served on the tenants of a Hotel (to the extent that there are any such tenants) requiring all further rents to be paid directly to the Issuer; similar notice may be served under a Scottish Mortgage in respect of Scottish Hotels in such circumstances. In each case this could result in the Security Trustee becoming a mortgagee or, in relation to the Scottish Hotels, a heritable creditor in possession.

A mortgagee or, in relation to the Scottish Hotels, a heritable creditor in possession has an obligation to account for the income obtained from the relevant Hotel. A mortgagee or, in relation to the Scottish Hotels, a heritable creditor in possession may also incur liabilities to third parties in nuisance and negligence and, under certain statutes (including environmental legislation), can incur the liabilities of a property owner.

In a case where it is necessary to initiate enforcement procedures against the Borrowers, the Servicer or the Special Servicer, as the case may be, is likely to require the Security Trustee to appoint a receiver which should have the effect of reducing the risk that it is deemed to be a mortgagee in possession or, in relation to the Scottish Hotels, a heritable creditor in possession.

Environmental Risks

Certain existing environmental legislation imposes liability for clean-up costs on the owner or occupier of land where the person who caused or knowingly permitted the pollution cannot be found. The term "owner" would include anyone with a proprietary interest in a property. Even if more than one person may have been responsible for the contamination, each person covered by the relevant environmental laws may be held responsible for all the clean up costs incurred.

If any environmental liability were to exist in respect of any Hotel or the Property Owner, the Security Trustee should incur no responsibility for such liability prior to enforcement of the Loan and Related Security, unless it could be established that the Security Trustee (or the Servicer or the Special Servicer on behalf of the Security Trustee) had entered into possession of the affected Hotel or could be said to be in control of the Hotel. After enforcement, the Security Trustee, if deemed to be a mortgagee or, in relation to the Scottish Hotels, heritable creditor in possession, or a receiver appointed on behalf of the Security Trustee, could become responsible for environmental liabilities in respect of a Hotel.

If an environmental liability arises in relation to any Hotel and is not remedied, or is not capable of being remedied, this may result in an inability to sell the Hotel or in a reduction in the price obtained for the Hotel, resulting in a sale at a loss. In addition, third parties may sue a current or previous owner, occupier or operator of a site for damages and costs resulting from substances emanating from that site, and the presence of substances at the Hotel could result in personal injury or similar claims by private plaintiffs or pursuers.

In relation to the Hotels, the environmental due diligence undertaken has revealed a relatively minor environmental issue in relation to Thistle Aberdeen Airport and in relation to this MSDW Bank has required the Borrowers to take appropriate action (see "Property Overview -Environmental Report"). In connection with the sale of the Target Companies, Thistle has agreed to pay costs of remediation in respect of this environmental issue in an amount up to £50,000 (being the estimated cost of cleaning up the site).

Legal Title

All of the English Hotels (with the exception of one Hotel which only became compulsorily registrable on completion of the acquisition and one Hotel which is held pursuant to an unregistrable lease) comprise registered land. All of the Scottish Hotels are registered in the Land Register of Scotland or recorded in the General Register of Sasines (together, the "**Registers of Scotland**"). In relation to certain Hotels, the Property Owner will not, on the Closing Date, be registered or recorded as legal proprietor of that Hotel (either because the transfer has not yet been registered or recorded in the relevant register following acquisition of the Hotel or certain consents remain outstanding before the relevant transfer can be completed) and consequently the Security Trustee is not yet registered or recorded as proprietor (or in Scotland, heritable creditor) of a legal mortgage or Scottish Mortgage granted to it by the Property Owner over that Hotel. See "Acquisition and Operation of the Hotels" for a description of the interim ownership and security arrangements pending perfection of title to the Hotels in the name of the Property Owner and security in favour of the Security Trustee. MSDW Bank has confirmed, following consultation with its external legal advisers, that it is not aware of any reason why in such instances the Property Owner should not in due course be registered or recorded as legal proprietor (or in Scotland, heritable proprietor) of the Hotel to which they are acquiring legal title or why the Security Trustee should not in due course be registered or recorded as proprietor (or, in Scotland, heritable creditor) of a legal mortgage over the Hotel.

To the extent, following the acquisition of the Target Companies and pending the grant of the relevant consent, a Consent Hotel is retained by the current legal proprietor (being a Charging Company) then such

legal proprietor or, in Scotland, heritable proprietor has entered into a third party charge incorporating (in relation to an English Hotel), *inter alia*, a legal mortgage (and in addition entered into a standard security in relation to a Scottish Hotel) pending receipt of the relevant consent and the transfer of such Consent Hotel to the Property Owner and the grant of a charge over the legal title to such Consent Hotel by the Property Owner (an English first fixed charge having been granted over the beneficial interest already held by the Property Owner pursuant to the Property Owner Debenture). As above, MSDW Bank is not aware of any reason why the Security Trustee should not in due course (in relation to this interim security) be registered as legal proprietor (or in Scotland, heritable creditor) of a mortgage or Scottish Mortgage over the Consent Hotel or any reason why, following the grant of consent and transfer of the Consent Hotels to the Property Owner, the Consent Hotels should not be registered or recorded in the name of the Property Owner as legal proprietor or as heritable proprietor or why the Security Trustee should not in due course be registered as the legal proprietor (or in Scotland, heritable creditor) of a mortgage or Scottish Mortgage granted by the Property Owner over the Consent Hotels. (See further "Acquisition and Operation of the Hotels" and "The Loan and the Related Security").

In the case of each Hotel that is the subject of a completed transfer to the Property Owner, an appropriate application has been made (or will be made within the appropriate priority period, where applicable, following execution of a transfer) to H.M. Land Registry or the Registers of Scotland (as applicable) for registration or recording of transfer of the title and the relevant mortgage or Scottish Mortgage (including in relation to Third Party Charges). The same procedure will be undertaken in relation to the outstanding transfers once completed together with an application for adjudication for exemption from stamp duty. See further "Acquisition and Operation of the Hotels". MSDW Bank holds funds sufficient to pay the fees or has received solicitors' undertakings to pay the fees in relation to all necessary applications to H.M. Land Registry or the Registers of Scotland (as applicable) to the extent the same have not already been paid. It is expected that all applications will be complete within six months of the Closing Date.

Due Diligence

The only due diligence (including valuations of Hotels) that has been undertaken in relation to the Loan and the Hotels is referred to below (see "The Loan and the Related Security") and was undertaken in the context of and at the time of the origination of the Loan by MSDW Bank. Additional non-priority Land Registry or Registers of Scotland searches will be undertaken in respect of the Hotels by solicitors to MSDW Bank in the context of the warranties that are being given in the Loan Sale Agreement but, other than this, none of the due diligence previously undertaken will be verified or updated prior to the sale of the Loan and the beneficial interest in the Security Trust to the Issuer. The Issuer will accordingly rely solely on the representations and warranties of MSDW Bank contained in the Loan Sale Agreement.

Valuations were obtained with respect to each of the Hotels prior to the Loan Closing Date. Each valuation is subject to various limitations, qualifications and assumptions. Assumptions often differ from the current facts regarding such matters and are subject to various risks and contingencies, many of which are not within the control of the Trustee, the Security Trustee, the Servicer, the Special Servicer or the Property Owner. Some of the future facts assumed inevitably will not materialise, and unanticipated events and circumstances may occur subsequent to the date of the relevant valuation. Therefore, the actual results achieved may vary from the related valuation and such variations may be material.

A valuation is only an estimate of value and should not be relied upon as a measure of realisable value. Moreover, a valuation seeks to establish the amount a typically motivated buyer would pay a typically motivated seller. Such amount could be significantly higher than the amount obtained from the sale of any of the Hotels in a distress or liquidation sale. No assurance is or can be given as to the actual value of any Hotel during the term of the Loan or the Notes.

Receivers

Pursuant to the Servicing Agreement, the Servicer (and, where relevant, the Special Servicer) is required to take all reasonable steps to recover amounts due from the Borrowers, and to comply with the procedures for enforcement of the Loan and Related Security current from time to time. See "Servicing". The principal remedies available following a default under the Loan or the Related Security, as contemplated by the Servicer's and Special Servicer's enforcement procedures, are the appointment of a receiver over the Hotels or over all of the assets of the Borrowers and/or entering into possession of the Hotels. The Servicer and the Special Servicer have each confirmed to the Issuer and the Trustee that its

usual procedure for enforcing security over property would involve the appointment of a receiver. A receiver would invariably require an indemnity to meet his costs and expenses (notwithstanding his statutory indemnity under the Insolvency Act 1986) as a condition of his appointment or continued appointment. Such an indemnity would rank ahead of payments on the Notes.

The Servicer's and Special Servicer's usual practice would be to require the Security Trustee to appoint a "Law of Property Act receiver" ("**LPA Receiver**") rather than an administrative receiver. Such a receiver is so called because his powers derive not only from the mortgage under which he has been appointed but also from the Law of Property Act 1925. An LPA Receiver is deemed by law to be the agent of the entity providing security until the commencement of liquidation proceedings against such entity and so, for as long as the receiver acts within his powers, he will only incur liability on behalf of the entity providing security. If, however, the Security Trustee, the Servicer or the Special Servicer on behalf of the Security Trustee, unduly directs or interferes with and influences the receiver's actions, a court may decide that the receiver is the Security Trustee's agent and that the Security Trustee should be responsible for the receiver's acts.

The Law of Property Act 1925 does not apply in Scotland and, therefore, "Law of Property Act" receivership does not exist in that jurisdiction. In Scotland, the Servicer or Special Servicer would require the Security Trustee to appoint a receiver pursuant to a floating charge contained in the relevant Related Security. The appointment of a receiver in this context is intended to provide the Security Trustee with remedies which are in addition to existing Scottish statutory rights of enforcement in respect of the Scottish Mortgages (see also "The Loan and the Related Security - Scottish Mortgages" below). The receiver would conduct himself in a manner broadly analogous to an administrative receiver appointed under a debenture granted by a company incorporated in England and Wales in relation to property situated in England and Wales.

Receivers are not part of the law of Jersey, and the Courts of Jersey are unlikely to recognise the powers of any receiver appointed in respect of Jersey-situs assets.

Factors Relating to the Notes

Liability under the Notes

The Notes and interest thereon will not be obligations or responsibilities of any person other than the Issuer. In particular, the Notes will not be obligations or responsibilities of, or be guaranteed by, MSDW Bank or any associated body of MSDW Bank, or of or by the Managers, the Servicer, the Special Servicer, the Cash Manager, the Trustee, the Security Trustee, the Corporate Services Provider, the Share Trustee, the Paying Agents, the Agent Bank, the Registrar, the Liquidity Facility Provider, the Swap Provider, the Swap Guarantor, the Depository, the Exchange Agent or the Operating Bank or any company in the same group of companies as the Managers, the Servicer, the Special Servicer, the Cash Manager, the Trustee, the Security Trustee, the Corporate Services Provider, the Share Trustee, the Paying Agents, the Agent Bank, the Registrar, the Liquidity Facility Provider, the Swap Provider, the Swap Guarantor, the Depository, the Exchange Agent or the Operating Bank and none of such persons accepts any liability whatsoever in respect of any failure by the Issuer to make payment of any amount due on the Notes.

Limited Recourse

On enforcement of the security for the Notes, the Trustee and the Noteholders will only have recourse to the proceeds of the Loan and the Related Security and the remaining Issuer Security. In the event that the proceeds of such enforcement are insufficient (after payment of all other claims ranking higher in priority to or *pari passu* with amounts due under the Notes), then the Issuer's obligation to pay such amounts will cease and the Noteholders will have no further claim against the Issuer in respect of such unpaid amounts. Enforcement of the security created pursuant to the Deed of Charge and Assignment is the only remedy available for the purpose of recovering amounts owed in respect of the Notes.

The Issuer and the Trustee will have no recourse to MSDW Bank save as provided in the Loan Sale Agreement (see further "The Loan and the Related Security - Representations and Warranties").

Rights Available to Holders of Notes of Different Classes

In performing its duties as trustee for the Noteholders, the Trustee will not be entitled to consider solely the interests of the holders of the most senior class of Notes then outstanding but will need to have regard to the interests of all of the Noteholders. Where, however, there is, in the Trustee's opinion, a conflict between the interests of the holders of one class of Notes and the holders of another class of Notes, the Trustee will be required to have regard only to the interests of the most senior class of Notes then outstanding.

Ratings of Notes and Confirmation of Ratings

The ratings assigned to the Notes by the Rating Agencies are based on the Loan, the Related Security, the Hotels, the operation of the Hotels and other relevant structural features of the transaction, including, *inter alia*, the short term unsecured, unguaranteed and unsubordinated debt ratings of the Liquidity Facility Provider, the Letters of Credit Provider and the Swap Guarantor, and reflect only the views of the Rating Agencies. The ratings address the likelihood of full and timely receipt by any Noteholder of interest on the Notes and the likelihood of receipt by any Noteholder of principal of the Notes by the Maturity Date. There is no assurance that any such ratings will continue for any period of time or that they will not be reviewed, revised, suspended or withdrawn entirely by any of the Rating Agencies as a result of changes in or unavailability of information or if, in the judgment of the Rating Agencies, circumstances so warrant. A qualification, downgrade or withdrawal of any of the ratings mentioned above may impact upon the value of the Notes.

Agencies other than the Rating Agencies could seek to rate the Notes and if such "unsolicited ratings" are lower than the comparable ratings assigned to the Notes by the Rating Agencies, those shadow ratings could have an adverse effect on the value of the Notes. For the avoidance of doubt and unless the context otherwise requires, any references to "ratings" or "rating" in this Offering Circular are to ratings assigned by the specified Rating Agencies only.

The Servicing Agreement requires the Servicer and, if it has been appointed, the Special Servicer, to determine whether, and on what basis, to exercise certain discretions of the Security Trustee and the Issuer in connection with the Loan and the Related Security. Prior to exercising any discretion on behalf of the Issuer or the Security Trustee in relation to the Loan, the Related Security, the Operating Agreements, the Direct Agreement and/or the Relationship Agreement, the effect of which would be:

(i) to terminate any Operating Agreement or the Relationship Agreement;

(ii) to release Thistle (in whole or in part) from its guarantee of the obligations of the Operator under the Relationship Agreement;

(iii) to dismiss the Operator or appoint another in addition therefor or in replacement thereof; or

(iv) (in the reasonable opinion of the Servicer or Special Servicer, as the case may be) materially adverse to the Noteholders (whether of any particular Class of Notes or all Classes of Notes),

the Servicer or the Special Servicer, as appropriate, must notify the Rating Agencies and the Trustee in writing of the manner in which it proposes to exercise the relevant discretion and the time at which it proposes to do so (the "**Specified Time**"), which shall be no earlier than the fifteenth Business Day following the date of such notification, and provide the Rating Agencies and the Trustee with such additional information within their control that may reasonably be necessary to enable them to properly evaluate the proposed manner of exercise of the discretion in question.

Neither the Servicer nor the Special Servicer may exercise any discretion referred to above prior to the Specified Time unless a failure to do so would be inconsistent with the Servicing Standard or (in the reasonable opinion of the Servicer or Special Servicer, as the case may be) have an effect which was more adverse to the interests of the Noteholders than would the exercise of the discretion at or after the Specified Time, in which case, prior to actually exercising the relevant discretion the Servicer or the Special Servicer, as the case may be, shall notify the Rating Agencies and the Trustee in writing of its intention to do so. Furthermore, if the Trustee notifies the Servicer or Special Servicer that it does not consent to the exercise of the relevant discretion in the manner proposed, the Servicer or Special Servicer shall desist from so acting. However, without prejudice to the obligation of the Servicer and the Special Servicer to act

at all times in accordance with the Servicing Standard, nothing shall prevent the Servicer or the Special Servicer from exercising the relevant discretion at, after or prior to the Specified Time if it has notified the Rating Agencies and the Trustee in writing of the proposed exercise and the reasons therefore, and provided any additional information required by the Servicing Agreement but has received no response.

Although the Rating Agencies will be given prior notice of the exercise of the discretions referred to above, they are under no obligation to revert to the Servicer or Special Servicer regarding the impact of such exercise on the ratings of the Notes and any decision as to whether or not to confirm, downgrade, withdraw or qualify the ratings of all Classes or any Class of Notes based on such notification may be made at the sole discretion of the Rating Agencies at any time, including after the exercise of the discretion by the Servicer or Special Servicer.

Absence of Secondary Market; Limited Liquidity

Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List of the Irish Stock Exchange. There can be no assurance that a secondary market in the Notes will develop or, if it does develop, that it will provide Noteholders with liquidity of investment, or that it will continue for the life of the Notes. In addition, the market value of certain of the Notes may fluctuate with changes in prevailing rates of interest. Consequently, any sale of Notes by Noteholders in any secondary market which may develop may be at a discount to the original purchase price of those Notes.

Availability of Liquidity Facility

Pursuant to the terms of the Liquidity Facility Agreement, the Liquidity Facility Provider will provide a committed 364 day renewable facility for drawings to be made in the circumstances described in "Credit Structure - Liquidity Facility". The facility will, however, be subject to an initial maximum aggregate principal amount of £22,500,000 which will in certain specified circumstances be reduced. The amount available to be drawn by the Issuer under the facility in the event of a non-payment with respect of the Loan may, if followed by an Appraisal Reduction in respect of the Loan, be reduced, such that insufficient funds may be available to the Issuer to pay in full interest due on the Notes, such risk being borne initially by the holders of the Class D and the Class E Notes as described under "Credit Structure - Liabilities under the Notes". The Liquidity Facility Agreement is not available to meet shortfalls in Final Redemption Funds, Principal Recovery Funds or Prepayment Redemption Funds or to fund any Principal Priority Amount.

United States Tax Characterisation of the Notes

Although all of the Notes are denominated as debt, there is a significant possibility that the Class E Notes (and to a lesser extent, one or more senior classes of Notes) may be treated as equity for United States federal income tax purposes. Such a characterisation could have certain adverse tax consequences to United States investors who hold such Notes. See "United States Taxation - Possible Alternative Characterisation of the Notes".

Adoption of Proposed European Union Directive on the Taxation of Savings Income

On 13th December, 2001, the EU Ecofin Council reached a political agreement on the text of a proposed EU Savings Directive. Under the proposed EU Savings Directive, subject to a number of important conditions being met, EU Member States are required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by an entity/person within its jurisdiction to an individual resident in another Member State, subject to the right of certain Member States to opt instead for a withholding system during a specified transitional period. The text of the proposed EU Savings Directive is not yet final, and may be subject to further amendment and/or clarification. If any Member State through which a payment of interest on the Notes is made or collected opts for a withholding system, this may prevent a Noteholder from receiving interest on the Notes in full.

Withholding Tax under the Notes

In the event any withholding or deduction for or on account of taxes is imposed on or is otherwise applicable to payments of interest or principal on the Notes to Noteholders, the Issuer is not obliged to gross-up or otherwise compensate Noteholders for the lesser amounts the Noteholders will receive as a result of such withholding or deduction.

Introduction of the Euro

If at any time there is a change of currency in the United Kingdom such that the Bank of England recognises a different currency or currency unit or more than one currency or currency unit as the lawful currency of the United Kingdom, then references in, and obligations arising under, the Notes outstanding at the time of such change and which are expressed in sterling will be translated into, and any amount payable will be paid in, the currency or currency unit of the United Kingdom, and in the manner designated by the Principal Paying Agent. Any such translation will be at the official rate of exchange recognised for that purpose by the Bank of England.

Where such a change in currency occurs, the Notes and the Conditions will be amended in the manner agreed between the Issuer and the Trustee so as to reflect that change and, so far as practicable, to place the Issuer, the Trustee and the Noteholders in the same position as if no change in currency had occurred. Such amendments are to include, without limitation, changes required to reflect any modification to business day or other conventions arising in connection with a change in currency. All such amendments will be binding on the Noteholders. Notification of the amendments will be made in accordance with Condition 15.

Change of Law

The structure of the issue of the Notes and the ratings which are to be assigned to them are based on English law, Scottish law, Jersey law and New York law and administrative practice in effect as at the Closing Date. No assurance can be given as to the impact of any possible change to English law, Scottish law, Jersey law or New York law or administrative practice after the Closing Date, nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer to make payments under the Notes.

In particular, it should be noted that significant changes to the English and Scottish insolvency regime have recently been enacted, although not all these provisions have yet been brought into effect.

These changes include the Insolvency Act 2000, most of the provisions of which came into force in April 2001, other than the moratorium provisions (as described below), which are not expected to come into force until later in 2002. When brought fully into force, the Insolvency Act 2000 will allow certain "small" companies (which are defined by reference to certain tests relating to a company's balance sheet, turnover and average number of employees) to seek court protection from their creditors for a period of 28 days with the option for creditors to extend the moratorium for a further two months. The position as to whether or not a company is a "small" company may change from period to period and consequently no assurance can be given that either the Issuer or either of the Borrowers will, at any given time, be determined to be a "small" company. The Secretary of State for Trade and Industry may by regulation modify the eligibility requirements for "small" companies and can make different provisions for different cases. No assurance can be given that any such modification or different provisions will not be detrimental to the interests of Noteholders. However, the Secretary of State has indicated that regulations will be made excluding special purpose companies from the moratorium provisions, but the scope of this exemption is not at present known.

In addition, on 26th March, 2002 the Government published the Enterprise Bill (the "**Bill**") which, *inter alia*, contains proposals for reforming bankruptcy and insolvency law. These proposals set out the intention to introduce legislation the effect of which would be to restrict the right of the holder of a floating charge to appoint an administrative receiver and instead to give primacy to collective insolvency procedures and in particular administration. The Government's aim is that, rather than having primary regard to the interests of secured creditors, any insolvency official should have regard to the interest of all creditors, both secured and unsecured. Presently, the holder of a floating charge over the whole or substantially the whole of the assets of a company has the ability to block the appointment of an administrator by appointing an administrative receiver, who primarily acts in the interests of the floating charge holder, though there are residual duties to the chargor.

The Bill states that the holder of a valid and enforceable floating charge over the whole or substantially the whole of a company's property will be able to appoint an administrator of his choice, and that (if no winding up order had been made or provisional liquidator appointed) such appointment can be made without going to court. However, the administrator will be acting for the creditors generally and not just his appointor.

Directors of companies will also be able to use the out of court route to place the company in administration. There will be a notice period during which the holder of the floating charge can either agree to the proposed appointment by the directors or appoint an alternative administrator, although the moratorium will take effect immediately after notice is given. If the floating charge holder does not respond to the notice of intention to appoint, the company's appointee will automatically take office after the notice period had elapsed.

The Bill states that the purpose of administration will be to rescue the company or, where that is not reasonably practicable, to achieve a better result for the company's creditors as a whole than would be likely if the company were wound up. These purposes could conflict with the interests of Noteholders. Nevertheless, the Bill makes it clear that the administrator's statement of proposals cannot include an action which affects the right of a secured creditor to enforce its security.

The Bill provides that the abolition of administrative receivership will only apply to a floating charge created on or after a date appointed by the Secretary of State by order made by statutory instrument. This provision is generally referred to as the "grandfathering provision". If the Bill is enacted in its current form, it should therefore continue to be possible to appoint administrative receivers under floating charges created before the appointed date. If the security granted by the Issuer and the Borrowers is created before the appointed date, the new provisions should not prevent administrative receivers being appointed under the security.

The Bill also provides that the abolition of administrative receivership will not extend to certain capital market arrangements. In broad terms, to fall within this exemption, the arrangement must involve a party incurring or expecting to incur a debt of at least £50 million and the issue of an investment that is rated, listed or traded or designed to be rated, listed or traded. An arrangement is a "capital market arrangement" if (a) it involves a grant of security to a person holding it as trustee for a person who holds a capital market investment issued by a party to the arrangement; or (b) at least one party guarantees the performance of obligations of another party; or (c) at least one party provides security in respect of the performance of obligations of another party; or (d) the arrangement involves an investment of a kind described in articles 83 to 85 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (options, futures and contracts for differences).

The proposals included within the Bill potentially affect the ability of the Trustee or the Security Trustee (as applicable) to enforce, and the remedies available to the Trustee or the Security Trustee (as applicable) in enforcing, the security granted by the Issuer and the Borrowers. However, if the Bill is enacted in its present form, it is likely that the security will be excepted from the proposals either under the grandfathering provision or under the provisions dealing with capital markets arrangements.

It should be noted that the Bill does not yet have legal effect and there is nothing to prevent amendments being made as it progresses through Parliament.

Moreover, the date upon which the moratorium provisions contained in the Insolvency Act 2000 and the date upon which the provisions dealing with the abolition of administrative receivership will come into force are not yet known, and the regulations excluding special purpose companies from the moratorium provisions have not yet been published.

As it is not possible to determine with certainty whether such proposed changes to the United Kingdom insolvency regime will be enacted, or if they are enacted what the final form will be, no assurance can be given as to whether they will have a detrimental effect on the transactions described in this Offering Circular.

Proposed changes to the Basel Accord

The Basel Committee on Banking Supervision (the "**Basel Committee**") has issued proposals for reform of the 1988 Capital Accord and has proposed a framework which places enhanced emphasis on market discipline. The consultation period on the initial proposals ended in March 2000 and the Basel Committee published its second consultation document, the "New Basel Capital Accord", on 16th January, 2001. The consultation period on the further proposals contained in the New Basel Capital Accord ended on 31st May, 2001. Although the Basel Committee had announced previously that it would release a revised proposal in early 2002, this has now been delayed pending the completion of a review assessing the overall impact of the proposals on banks and the banking system. No date has been set for the issuance of

the revised proposal. Although the Basel Committee has not announced a revised schedule for implementation of the new proposal, currently scheduled for 2005, the committee has indicated that it is prepared to address the consequences that completing the assessment may have for its timetable. If adopted in their current form, the proposals could affect risk weighting of the Notes in respect of certain investors if those investors are regulated in a manner which will be affected by the proposals. Consequently, recipients of this Offering Circular should consult their own advisers as to the consequences to and effect on them of the potential application of the New Basel Capital Accord proposals.

Hedging Risks

The Loan bears interest at a fixed rate while each class of the Notes bears interest at a rate based on, except in the case of the first Interest Period, three month LIBOR plus a margin (see Condition 5). In addition, the Class E3 Notes are denominated in dollars. In order to address interest rate risk, the Issuer will enter into the Interest Rate Swap Transaction pursuant to the Swap Agreement and in order to address the risk of movements in foreign exchange rates the Issuer will enter into the Dollar Swap Transaction. However, there can be no assurance that the Interest Rate Swap Transaction or the Dollar Swap Transaction will adequately address unforeseen hedging risks. Moreover, in certain circumstances the Interest Rate Swap Transaction and/or the Dollar Swap Transaction may be terminated and as a result the Issuer may be unhedged if replacement swap transactions cannot be entered into. In particular, Noteholders may suffer a loss if, as a result of a default by a Borrower under the Credit Agreement, the Interest Rate Swap Transaction is terminated and the Issuer is, as a result of such termination, required to pay amounts to the Swap Provider. Certain of such amounts payable on an early termination rank senior to any payments to be made to the Noteholders both before enforcement of the Issuer Security and after enforcement of the Issuer Security. See "Summary – Available Funds and their Priority of Application – Payments out of the Transaction Account prior to the Enforcement of the Notes" and "Credit Structure - Post-Enforcement Priority of Payments".

For a more detailed description of the Swap Agreement see "Credit Structure - The Swap Agreement", below.

The Issuer believes that the risks described above are the principal risks inherent in the transaction for the Noteholders, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons and the Issuer does not represent that the above statements regarding the risks of holding the Notes are exhaustive. Although the Issuer believes that the various structural elements described in this Offering Circular lessen some of these risks for Noteholders, there can be no assurance that these measures will be sufficient to ensure payment to Noteholders of interest, principal or any other amounts on or in connection with the Notes on a timely basis or at all.

THE ISSUER

The Issuer, HOTELoC plc, was incorporated in England and Wales on 26th March, 2002 (registered number 4404024), as a public company with limited liability under the Companies Act 1985. The registered office of the Issuer is at Blackwell House, Guildhall Yard, London EC2V 5AE. The Issuer has no subsidiaries.

1. Principal Activities

The principal objects of the Issuer are set out in clause 4 of its Memorandum of Association and are, *inter alia*, to invest in mortgage loans secured on commercial or other properties in the British Isles or elsewhere, to manage and administer mortgage loan portfolios, to issue securities in payment or part payment for any real or personal property purchased, to borrow, raise and secure the payment of money by the creation and issue of bonds, debentures, notes or other securities and to charge or grant security over the Issuer's property or assets to secure its obligations.

The Issuer has not commenced operations and has not engaged, since its incorporation, in any activities other than those incidental to its incorporation and registration as a public limited company under the Companies Act 1985, the authorisation of the issue of the Notes and of the other documents and matters referred to or contemplated in this Offering Circular and matters which are incidental or ancillary to the foregoing.

The Issuer will covenant to observe certain restrictions on its activities, which are detailed in Condition 4(A) of the Notes, the Deed of Charge and Assignment and the Trust Deed. In addition, the Issuer will covenant in the Trust Deed to provide written confirmation to the Trustee, on an annual basis, that no Event of Default or Potential Event of Default (or other matter which is required to be brought to the Trustee's attention) has occurred in respect of the Notes.

2. Directors and Secretary

The directors of the Issuer and their respective business addresses and other principal activities are:

Name	Business Address	Principal Activities
SFM Directors Limited	Blackwell House, Guildhall Yard, London EC2V 5AE	Provision of directors to special purpose companies
SFM Directors (No. 2) Limited	Blackwell House, Guildhall Yard, London EC2V 5AE	Provision of directors to special purpose companies

The company secretary of the Issuer is SFM Corporate Services Limited, a company incorporated in England and Wales (registered number 3920255), whose business address is Blackwell House, Guildhall Yard, London EC2V 5AE. The directors of SFM Directors Limited (registered number 3920254), SFM Corporate Services Limited and SFM Directors (No. 2) Limited (registered number 4017430) are Jonathan Eden Keighley and James Garner Smith Macdonald (together with their alternate directors, Kate Louise Hamblin, Helena Paivi Whitaker, Ryan William O'Rourke and Annika Ida Louise Aman Goodwille), whose business addresses are Blackwell House, Guildhall Yard, London EC2V 5AE, and who perform no other principal activities outside the group which are significant with respect to the group.

3. Capitalisation and Indebtedness

The capitalisation and indebtedness of the Issuer as at the date of this Offering Circular, adjusted to take account of the issue of the Notes, is as follows:

Share Capital

Authorised Share Capital £	Issued Share Capital £	Value of each Share £	Shares Fully Paid Up	Shares Quarter Paid Up	Paid Up Share Capital £
50,000	50,000	1	2	49,998	12,501.50

49,999 of the issued shares (being 49,998 shares of £1 each, each of which is paid up as to 25p and one share of £1 which is fully paid) in the Issuer are held by SFM Corporate Services Limited (the "**Share Trustee**") as trustee of the HOTELoC Securitisation Trust pursuant to a Declaration of Trust declared by the Share Trustee on 9th July , 2002. The Issuer will, in accordance with the Declaration of Trust, pay the fees and expenses of the Share Trustee. The remaining one share in the Issuer (which is fully paid) is held by Structured Finance Management Limited (registered number 3853947) as nominee for SFM Corporate Services Limited in its capacity as trustee of the HOTELoC Securitisation Trust.

Loan Capital

Class A Commercial Mortgage Backed Floating Rate Notes due 2007 .....£240,000,000
Class B Commercial Mortgage Backed Floating Rate Notes due 2007.....£100,000,000
Class C Commercial Mortgage Backed Floating Rate Notes due 2007.....£43,000,000
Class D Commercial Mortgage Backed Floating Rate Notes due 2007 .....£88,000,000
Class E1 Commercial Mortgage Backed Floating Rate Notes due 2007 .....£35,000,000
Class E2 Commercial Mortgage Backed Floating Rate Notes due 2007 .....£8,000,000
Class E3 Commercial Mortgage Backed Floating Rate Notes due 2007 .....£17,189,000 (1)

Total Loan Capital £531,189,000

(1) *Calculated using an exchange rate of £1=U.S.$1.545*

Except as set out above, the Issuer has no outstanding loan capital, borrowings, indebtedness or contingent liabilities and the Issuer has not created any mortgages or charges nor has it given any guarantees as at the date hereof.

4. Accountants' Report

The following is the text of a report, extracted without material adjustment, received by the directors of the Issuer from Deloitte & Touche, who have been appointed as auditors and reporting accountants to the Issuer. Deloitte & Touche are chartered accountants and registered auditors. The balance sheet contained in the report does not comprise the Issuer's statutory accounts. No statutory accounts have been prepared or delivered to the Registrar of Companies in England and Wales since the Issuer's incorporation. The Issuer's accounting reference date will be 30th June and the first statutory accounts will be drawn up to 30th June, 2003.

Deloitte & Touche

The Board of Directors
HOTELoC plc
Blackwell House
Guildhall Yard
London EC2V 5AE
(the "Issuer")

And

The Board of Directors
JPMorgan Chase Bank, London Branch
Trinity Tower
9 Thomas More Street
London E1W 1YT
(the "Trustee")

And

The Board of Directors
Morgan Stanley & Co. International Limited
25 Cabot Square
Canary Wharf
London E14 4QA
(the "Lead Manager" and "Listing Agent")

And

The other Managers as defined in our letter of
arrangement dated 11th April, 2002

9th July , 2002

Dear Sirs

HOTELoC plc (the "Company")

We report on the financial information set out below. This financial information has been prepared for inclusion in the Offering Circular dated 9th July, 2002 of the Company relating to the issue of £240,000,000 Class A Commercial Mortgage Backed Floating Rate Notes due 2007, £100,000,000 Class B Commercial Mortgage Backed Floating Rate Notes due 2007, £43,000,000 Class C Commercial Mortgage Backed Floating Rate Notes due 2007, £88,000,000 Class D Commercial Mortgage Backed Floating Rate Notes due 2007, £35,000,000 Class E1 Commercial Mortgage Backed Floating Rate Notes due 2007, the £8,000,000 Class E2 Commercial Mortgage Backed Floating Rate Notes due 2007 and the U.S.$26,557,000 Class E3 Commercial Mortgage Backed Floating Rate Notes due 2007.

Basis of preparation

The Company was incorporated and registered as a public limited company in England and Wales on 26th March, 2002 under the name HOTELoC plc, registered number 4404024.

The Company has issued 50,000 ordinary shares for a total consideration of £12,501.50. The Directors have represented that no material contracts or transactions have been entered into save for those detailed in the Offering Circular. The Directors have represented that the Company has not yet traded and no dividends have been declared or paid.

We have been auditors of the Company since our appointment on 3rd April, 2002.

The financial information set out in this report is based on the audited non-statutory financial statements of the Company for the period from incorporation on 26th March, 2002 to 9th July, 2002 to which no adjustments were considered necessary.

No audited statutory financial statements have been prepared for submission to the members of the Company in respect of any period.

Responsibility

Such financial statements are the responsibility of the directors of the Company who approved their issue.

The Company is responsible for the contents of the Offering Circular in which this report is included.

It is our responsibility to compile the financial information set out in our report from the non-statutory financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of non-statutory financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion the financial information set out below gives, for the purposes of the Offering Circular, a true and fair view of the state of affairs of the Company as at the date stated.

HOTELoC plc

BALANCE SHEET as at 9th July, 2002

	Note	**£**
Assets employed:		
Current assets – cash		12,501.50
Financed by:		
Equity shareholders' funds		
Called up share capital	2	12,501.50

NOTES TO THE FINANCIAL INFORMATION

1. Accounting Policies

The financial information set out in this report has been prepared in accordance with applicable accounting standards generally accepted in the United Kingdom.

The financial information and notes have been prepared using the historic cost method of accounting.

2. Called up share capital

On incorporation the authorised share capital of the Company was £50,000 divided into 50,000 ordinary shares of £1 each.

On 26th March, 2002, one share of £1 was issued fully paid to SFM Corporate Services Limited and one share of £1 was issued fully paid to Structured Finance Management Limited.

On 3rd April, 2002, 49,998 ordinary shares of £1 each were issued to SFM Corporate Services Limited and partially called up for cash consideration of £12,499.50.

The shares are held in trust by SFM Corporate Services Limited and Structured Finance Management Limited for the HOTELoC Securitisation Trust.

3. Profit and loss account

The Directors have represented that the Company has been dormant throughout the period since incorporation on 26th March, 2002 to 9th July, 2002, consequently no profit and loss account, and no statement of total recognised gains and loses have been prepared.

This information does not constitute statutory financial statements.

Yours faithfully

Deloitte & Touche
Chartered Accountants

THE PARTIES

Morgan Stanley Dean Witter Bank Limited

Morgan Stanley Dean Witter Bank Limited ("**MSDW Bank**") is a wholly owned subsidiary of Morgan Stanley Dean Witter & Co ("**MSDW**"). MSDW Bank is active in retail lending through the Morgan Stanley Dean Witter credit card as well as wholesale loan origination and securitisation in the United Kingdom and Europe. MSDW Bank is incorporated in England and Wales (registered number 3722571) and has its registered office at 25 Cabot Square, London E14 4QA.

Servicer, Special Servicer and Security Trustee

Morgan Stanley Mortgage Servicing Limited ("**MSMS**") is a specialist loan servicing company and a subsidiary of MSDW, operating mainly in the United Kingdom and Ireland. MSMS is incorporated in England and Wales (registered number 3411668) and has its registered office at 25 Cabot Square, Canary Wharf, London E14 4QA.

Swap Provider

Morgan Stanley Capital Services Inc. ("**MSCS**") is a Delaware corporation, which conducts forward payment business, including interest rate swaps, currency swaps and interest rate guarantees with institutional clients. The office of MSCS is located at 1585 Broadway, New York, New York 10036.

Swap Guarantor

MSDW is a global financial services firm that maintains three primary businesses: securities, asset management and credit services. MSDW combines global investment banking (including the origination of underwritten public offerings and mergers and acquisitions advice) with institutional sales and trading, and provides investment and global asset management products and services and, primarily through its Discover Card brand, consumer credit products. MSDW is incorporated in the State of Delaware.

MSCS is a wholly-owned unregulated subsidiary of MSDW. MSCS's obligations under the Swap Agreement benefit from an unconditional, irrevocable guarantee of MSDW under the Swap Guarantee. If MSCS ceases to be the Swap Provider, MSDW will cease to be the Swap Guarantor. The long term, unsecured, unsubordinated debt obligations of MSDW are rated "AA-" by S&P and "Aa3" by Moody's. The consolidated accounts of MSDW are available on request.

Liquidity Facility Provider

Barclays Bank PLC ("**Barclays**"), acting through its branch at 54 Lombard Street, London EC3V 9EX, will act as the Liquidity Facility Provider under the Liquidity Facility Agreement and is regulated by the Financial Services Authority. The long term, unsecured, unsubordinated debt obligations of Barclays are rated "AA" by S&P and "Aa2" by Moody's.

Letters of Credit Provider

Lloyds TSB Bank plc, acting through its City office located at 11-15 Monument Street, London, EC3V 9JA, will act as the Letters of Credit Provider and is regulated by the Financial Services Authority. The long term, unsecured, unsubordinated debt obligations of the Letters of Credit Provider are rated "AA" by S&P and "Aaa" by Moody's.

Operating Bank

The principal office of Allied Irish Banks, p.l.c. is at Bankcentre, P.O. Box 452, Ballsbridge, Dublin 4. In its capacity as the Operating Bank through its branch at AIB International Centre, I.F.S.C., Dublin 1, Allied Irish Banks, p.l.c. will act as operating bank pursuant to the Cash Management Agreement in relation to the Transaction Account, Stand-by Account, Swap Collateral Cash Account and Swap Collateral Custody Account (each as defined below). The long term, unsecured, unsubordinated debt obligations of Allied Irish Banks, p.l.c. are rated "A" by S&P and "Aa3" by Moody's.

Principal Paying Agent, Cash Manager, Agent Bank and Exchange Agent

AIB International Financial Services Limited, whose principal office is at P.O. Box 2751, AIB International Centre, I.F.S.C., Dublin 1. It will be appointed as Principal Paying Agent and Agent Bank under the Agency Agreement, as Cash Manager under the Cash Management Agreement and as Exchange Agent under the Exchange Rate Agency Agreement.

Depository and Registrar

JPMorgan Chase Bank, New York office, has its principal office at 15th Floor, 450 West 33rd Street, New York, New York 10001. It will be appointed as Depository under the Depository Agreement and Registrar under the Agency Agreement.

Corporate Services Provider and Share Trustee

SFM Corporate Services Limited has its registered office at Blackwell House, Guildhall Yard, London EC2V 5AE.

Trustee

JPMorgan Chase Bank, London Branch, has its principal office at Trinity Tower, 9 Thomas More Street, London E1W 1YT. The Trustee will be appointed pursuant to the Trust Deed to represent the interests of the Noteholders. The Trustee will agree to hold the benefit of the covenants of the Issuer contained in the Trust Deed on trust for the Noteholders and the security created by, under or pursuant to the Deed of Charge and Assignment for the benefit of, *inter alios*, the Noteholders.

Among other things, the Trust Deed:

(a) sets out when, and the terms upon which, the Trustee will be entitled or obligated, as the case may be, to take steps to enforce the Issuer's obligations under the Notes (or certain other relevant documents) or to enforce the Issuer Security;

(b) contains various covenants of the Issuer relating to repayment of principal and payment of interest in respect of the Notes, to the conduct of its affairs generally and to certain ongoing obligations connected with its issuance of the Notes;

(c) provides for the remuneration of the Trustee, the payment of expenses incurred by it in the exercise of its powers and performance of its duties and provides for the indemnification of the Trustee against liabilities, losses and costs arising out of the Trustee's exercise of its powers and performance of its duties;

(d) sets out whose interests the Trustee should have regard to when there is a conflict between the interests of different classes of Noteholder;

(e) provides that the determinations of the Trustee will be conclusive and binding on the Noteholders;

(f) sets out the extent of the Trustee's powers and discretions, including its rights to delegate the exercise of its powers or duties or agents, to seek and act upon the advice of certain experts and to rely upon certain documents without further investigation;

(g) sets out the scope of the Trustee's liability for any breach of duty or breach of trust, negligence or default in connection with the exercise of its duties, including losses resulting from any disposal by the Trustee pursuant to the Deed of Charge and Assignment of the property secured in its favour thereunder;

(h) sets out the terms upon which the Trustee may, without the consent of the Noteholders, waive or authorise any breach or proposed breach of covenant by the Issuer or determine that an Event of Default (as defined in Condition 10) or any event, condition or act, which, with the giving of notice and/or the lapse of time and/or the Trustee issuing any relevant notice, would constitute an Event of Default (any such event, condition or act, a "**Potential Event of Default**") will not be treated as such;

(i) sets out the terms upon which the Trustee may, without the consent of the Noteholders, make or sanction any modification to the Conditions or to the terms of the Trust Deed or certain other relevant documents; and

(j) sets out the requirements for and organisation of Noteholder meetings.

The Trust Deed also contains provisions governing the retirement or removal of the Trustee and the appointment of a successor Trustee. The Trustee may at any time and for any reason resign as Trustee upon giving not less than three months' prior written notice to the Issuer. The holders of the Notes of each class, acting by Extraordinary Resolution, may together remove the Trustee from office. No retirement or removal of the Trustee (or any successor Trustee) will be effective until a trust corporation has been appointed to act as successor Trustee.

The appointment of a successor Trustee will be made by the Issuer or, where the Trustee has given notice of its resignation and the Issuer has failed to make any such appointment by the expiry of the applicable notice period, by the Trustee itself. No person may be appointed to act as a successor Trustee unless that person has been previously approved by an Extraordinary Resolution of each class of the Noteholders.

THE BORROWERS

The Property Owner

The Property Owner, Hotel Portfolio II UK Limited, was incorporated in England on 21st February, 2002 (registered number 4379118) as a private company with limited liability under the Companies Act 1985 in connection with the transaction contemplated by the Credit Agreement. The registered office of the Property Owner is 25 North Row, London W1K 6DJ. The Property Owner is a wholly owned subsidiary of the Jersey Borrower and has no subsidiaries of its own.

1. Principal Activities

The principal business of the Property Owner is property investment. The Property Owner has undertaken pursuant to the Credit Agreement not to carry on any business other than relating to the ownership and management of its interests in the Hotels (including for these purposes the Sale Hotels) and further has undertaken not to have any subsidiary or employee.

The Property Owner is not, and has not been, involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Property Owner is aware) which may have, or have had, since the date of its incorporation, a significant effect on the Property Owner's financial position.

2. Director and Secretary

The director of the Property Owner and his business address are:

Name	Business Address	Principal Activities
Steven F. Johnstone	Albemarle House, 1 Albemarle Street, London W1S 4HA	A Director of Orb Estates Plc, Exitcluster Limited, Kingsmead Hotels Limited and London Park Hotels Limited.
Charles Helvert	Albemarle House, 1 Albemarle Street, London W1S 4HA	A Director of Orb Estates plc, Orb Securities Limited and London Park Hotels Limited.
Walgate Services Ltd (Secretary)	Albemarle House, 1 Albemarle Street, London W1S 4HA	

The directors have no other principal activities that are significant with respect to the Property Owner.

3. Capitalisation and Indebtedness Statement

The capitalisation and indebtedness of the Property Owner as at the date of this Offering Circular is as follows:

Share Capital

Authorised Share Capital £	Issued Share Capital £	Value of each Share £	Shares Fully Paid Up	Paid Up Share Capital £
10,000	2	1	2	2

The one issued share is fully paid and is held by HPIJL.

Loan Capital

The outstanding loan capital of the Property Owner consists of £531,189,624 drawn under the Credit Agreement from MSDW Bank secured on the Hotels. The Property Owner is jointly and severally liable

with the Jersey Borrower for the repayment of the drawing and all other obligations under the Credit Agreement.

Except as set out above, the Property Owner has no outstanding loan capital, borrowings, financial indebtedness or contingent liabilities and the Property Owner has not created any mortgages, standard securities or charges or security interests nor has it given any guarantees as at the date hereof other than in favour of the Security Trustee.

4. Financial Position

Except as described above, since 21st February, 2002 there has been (i) no material adverse change in the financial position or prospects of the Property Owner and (ii) no significant change in the trading or financial position of the Property Owner.

The Jersey Borrower

Hotel Portfolio II (Jersey) Limited (the "**Jersey Borrower**"), was incorporated in Jersey, Channel Islands on 25th January, 2002 (registered number 81927) as a private company with limited liability under the Companies (Jersey) Law 1991 in connection with the transaction contemplated by the Credit Agreement. The registered office of the Jersey Borrower is La Chasse Chambers, La Chasse, St. Helier, Jersey JE2 4UE. The Property Owner is the only subsidiary of the Jersey Borrower.

1. Principal Activities

The principal business of the Jersey Borrower is property investment. The Jersey Borrower has undertaken pursuant to the Credit Agreement not to carry on any business other than relating to the ownership and management of its respective interests in the Hotels (including for these purposes the Sale Hotels) and further has undertaken not to have any subsidiary or employee.

The Jersey Borrower is not, and has not been, involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Jersey Borrower is aware) which may have, or have had, since the date of its incorporation, a significant effect on the Jersey Borrower's financial position.

2. Director and Secretary

The directors and the secretary of the Jersey Borrower and their business addresses are:

Name	**Business Address**	**Principal Activities**
Sam J. Nolan	La Chasse Chambers La Chasse St. Helier Jersey JE2 4UE	A Director of Euro & UK Property Limited, Gamma Four Limited, Orb Estates plc and Orb Securities Limited.
Salahi Ozturk	La Chasse Chambers La Chasse St. Helier Jersey JE2 4UE	A Director of Euro & UK Property Limited, Gamma Four Limited, Orb Securities Limited
Diane Waterton (secretary)	La Chasse Chambers La Chasse St. Helier Jersey JE2 4UE	

The directors have no other principal activities that are significant with respect to the Jersey Borrower.

3. Capitalisation and Indebtedness Statement

The capitalisation and indebtedness of the Jersey Borrower as at the date of this Offering Circular is as follows:

Share Capital

Authorised Share Capital £	Issued Share Capital £	Value of each Share £	Shares Fully Paid Up	Paid Up Share Capital £
10,000	2	1	2	2

Loan Capital

The outstanding loan capital of the Jersey Borrower consists of £531,189,624 drawn under the Credit Agreement from MSDW Bank secured on the Hotels. The Jersey Borrower is jointly and severally liable with the Property Owner for the repayment of the drawing and all other obligations under the Credit Agreement.

Except as set out above, the Jersey Borrower has no outstanding loan capital, borrowings, financial indebtedness or contingent liabilities (other than administration fees and costs) and the Jersey Borrower has not created any mortgages or charges nor has it given any guarantees as at the date hereof other than in favour of the Security Trustee.

4. Financial Position

Except as described above, since 25th January, 2002 there has been (i) no material adverse change in the financial position or prospects of the Jersey Borrower and (ii) no significant change in the trading or financial position of the Jersey Borrower.

LLOYDS TSB BANK GROUP

Lloyds TSB Bank plc, its subsidiaries, subsidiary undertakings and associated undertakings (together the "**Lloyds TSB Bank Group**") has three principal segments, the main businesses and activities of which are described below.

United Kingdom Retail Banking and Mortgages

United Kingdom Retail Banking and Mortgages provided banking and financial services to 16 million customers during 2001. With approximately 2,300 branches of Lloyds TSB Bank plc, Lloyds TSB Scotland and Cheltenham & Gloucester at the end of 2001, Lloyds TSB Bank Group provides comprehensive geographic branch coverage in England, Scotland and Wales. Lloyds TSB Bank Group has continued to develop alternative distribution channels, through the telephone (PhoneBank and PhoneBank Express, an interactive voice recognition service) and the internet (*LloydsTSB.com*). This enables Lloyds TSB Bank Group to offer a broad range of access points for customers in order to improve service and to enhance revenue growth. During 2001, the Lloyds TSB Bank Group completed the implementation of an online real-time personal banking system enabling customers to get up-to-the minute information of their account balances and allowing immediate clearance of Lloyds TSB Bank plc cheques and immediate transfer of funds between Lloyds TSB Bank plc accounts.

United Kingdom Retail Banking

Current accounts, savings and investment accounts, and consumer lending. The retail branches of Lloyds TSB Bank plc offer a broad range of branded products, and Cheltenham & Gloucester provides retail investments through its branch network and a postal investment centre. Lloyds TSB Bank Group's supermarket banking operation, branded "easibank", continues to expand and there were 22 branches in ASDA supermarkets or large shopping centres at the end of 2001. Lloyds TSB Bank Group has a relationship with the Post Office to allow Lloyds TSB Bank Group personal customers to undertake banking transactions in post offices in Scotland, England and Wales.

Business banking. Small businesses were served by dedicated business managers based in 448 locations throughout the United Kingdom at the end of 2001. Customers have access to a wide range of tailored business services including money transmission, lending and deposits and insurance and investments. In addition, customers have access to a range of non-financial solutions to their business problems such as "Debtor Management" service, providing legal support to help customers recover debts and "Prospect Finder" providing customers with a tailored list of potential customers for their business. Lloyds TSB Bank Group is a leading bank for new business start-ups with around one in five opening accounts with the Lloyds TSB Bank Group.

Card services. Provides a range of card-based products and services, including credit and debit cards and card transaction processing services for retailers. Lloyds TSB Bank Group is a member of both the VISA and MasterCard payment systems and is the third largest credit card issuer in the United Kingdom with a 10 per cent. share of cards in issue at 31st December, 2001.

Cash machines. Lloyds TSB Bank Group has one of the largest cash machine networks of any leading banking group in the United Kingdom and personal customers of Lloyds TSB Bank plc are able to withdraw cash, check balances and obtain mini statements through 4,350 cashpoints at branches and external locations around the country. In addition, they have access to a further 32,400 cash machines via LINK in the United Kingdom and to cash machines worldwide through the VISA and MasterCard networks.

Telephone banking. Telephone Banking continues to grow and Lloyds TSB Bank Group provides one of the largest telephony services in Europe, in terms of customer numbers. At the end of 2001, 2.5 million customers had registered to use the services of PhoneBank and the automated voice response service PhoneBank Express. PhoneBank and PhoneBank Express handled some 25 million calls during the year.

Internet banking. Internet Banking provides online banking facilities for personal and business customers and enables them to conduct their financial affairs without the need to use the branch network. Lloyds TSB Bank Group had 1.8 million online customers of *LloydsTSB.com* at the end of 2001. *LloydsTSB.com* was rated one of the most visited financial websites in Europe by Jupiter MMXI.

United Kingdom Wealth Management. Private Banking provided a range of tailor-made wealth management services and products to individuals from 40 offices throughout the United Kingdom in 2001. In addition to asset management, these services include tax and estate planning, executor and trustee services, deposit taking and lending, insurance and personal equity plan and individual savings account (ISA) products. At 31st December, 2001, total funds managed and administered totalled some £11,000 million. The Lloyds TSB Bank Group's new wealth management brand, Create, was launched in October 2001. The Create offer aims to meet the differing needs of the Lloyds TSB Bank Group's affluent customers who will be the target market for the wealth management services which embrace current account banking through to personalised asset management services. Lloyds TSB Stockbrokers undertakes retail stockbroking through its Sharedeal Direct telephone service.

Mortgages

Cheltenham & Gloucester is Lloyds TSB Bank Group's specialist residential mortgage provider, providing a range of mortgage products to personal customers through its own branches and those of Lloyds TSB Bank plc in England and Wales, as well as through the telephone, internet and postal service, C&G TeleDirect. Lloyds TSB Bank Group also provides mortgages through Lloyds TSB Scotland and Scottish Widows Bank. During 2001, the contribution from mortgages was £955 million. Lloyds TSB Bank Group is the third largest residential mortgage lender in the United Kingdom on the basis of outstanding balances, with mortgages outstanding at 31st December, 2001 of £56,578 million, representing a market share of 9.5 per cent. Lloyds TSB Bank Group believes that it is one of the most efficient mortgage providers in the United Kingdom; since Cheltenham & Gloucester's acquisition by Lloyds TSB Bank Group in 1995, it has consistently had one of the lowest efficiency ratios (total operating expenses expressed as a percentage of total income) compared to its competitors.

Insurance and Investments

Life assurance, pensions and investment. Scottish Widows is Lloyds TSB Bank Group's specialist provider of life assurance, pensions and investment products, which are distributed through Lloyds TSB Bank's branch network, through independent financial advisers and directly via the telephone and the Internet. Before its acquisition in 2000, Scottish Widows Bank was a leading provider of life assurance, pensions and long-term savings products mainly distributed through independent financial advisers. Following the acquisition, the Scottish Widows brand became the sole brand for Lloyds TSB Bank Group's life, pensions, unit trust and other long-term savings products, and Lloyds TSB Bank Group extended the brand's product range to Lloyds TSB Bank Group's retail banking branch network.

In common with other life assurance companies in the United Kingdom, the life and pensions business of each of the life assurance companies in the Lloyds TSB Bank Group is written in a long-term business fund. The long-term business fund is divided into a With-Profits and a Non-Participating sub-funds.

With-Profits life and pensions products are written from the With-Profits fund. The benefits accruing from these policies are designed to provide a smoothed return to policyholders who hold their policies to maturity through a mix of annual and final (or terminal) bonuses added to guaranteed basic benefits. The guarantees generally only apply on death or maturity. The actual bonuses declared will reflect the experience of the With-Profits fund.

Other life and pensions products are generally written from the Non-Participating sub-fund. Examples include unit-linked policies, annuities, term assurances and health insurance (under which a pre-determined amount of benefit is payable in the event of an insured event such as death). The benefits provided by such linked policies are wholly or partly determined by reference to a specific portfolio of assets known as unit-linked funds.

General Insurance. Lloyds TSB General Insurance provides general insurance through the retail branches of Lloyds TSB Bank and Cheltenham & Gloucester, and through a direct telephone operation and the internet. Based on internal management estimates Lloyds TSB General Insurance had a new business market share of 14 per cent. of the new household insurance market, selling more policies in the twelve months to December 2001 than any of the other leading distributors. The new household insurance market is defined as those customers switching suppliers, taking out first ever policies and customers re-entering the household insurance market.

Scottish Widows Investment Partnership manages funds for Lloyds TSB Bank Group's retail life, pensions and investment products. Clients also include corporate pension schemes, local authorities and, other institutions in the United Kingdom and overseas. At 31st December, 2001 funds under management amounted to some £78,000 million, compared to £87,000 million a year earlier. The decline has been partly caused by the market volatility experienced in 2001; Lloyds TSB Bank Group remains a significant player in the asset management business.

Wholesale Markets and International Banking

Wholesale Markets

Lloyds TSB Bank Group's relationships with major United Kingdom and multinational companies, banks and institutions, and medium-sized United Kingdom businesses, together with its activities in financial markets, are managed through dedicated offices in the United Kingdom and a number of locations overseas, including New York.

Treasury is a leading participant in the sterling money market. It is also active in currency money markets, foreign exchange markets and also certain derivatives markets, to meet the needs of customers and as part of Lloyds TSB Bank Group's trading activities. It plays a central role in funding, cash and liquidity management of Lloyds TSB Bank Group.

Corporate and Commercial provides a wide range of banking and related services, including electronic banking, large value lease finance, share registration, venture capital, correspondent banking and capital markets services to major United Kingdom and multinational companies and financial institutions, and, through a network of dedicated offices, to medium-sized businesses in the United Kingdom. The Agricultural Mortgage Corporation provides long-term finance for the agricultural sector.

Asset Finance enables companies to acquire the assets needed to run their businesses through the provision of leasing, hire purchase and contract hire packages. Hire purchase, or instalment credit, is a form of consumer financing where a customer takes possession of goods on payment of an initial deposit but the legal title to the goods does not pass to them until the agreed number of instalments have been paid and the option to purchase has been exercised. Through its invoice discounting and factoring subsidiary, Lloyds TSB Commercial Finance Limited, the Lloyds TSB Bank Group provides working capital finance for companies by releasing to the company up to 90 per cent. of the value of their unpaid invoices, with the balance payable, after deduction of a service fee, once the invoices have been settled. Invoice discounting differs to factoring in that the company retains control of the debt collection and the credit risk. At 31st December, 2001, based on information maintained by the Factors and Discounters Association, Lloyds TSB Commercial Finance Limited (which is a subsidiary of Lloyds TSB Bank plc) was the second largest invoice discounting company in the United Kingdom with a market share of 19 per cent. and the largest factoring company in the United Kingdom with a market share of 22 per cent.

International Banking

New Zealand. The National Bank of New Zealand Limited ("**NBNZ**") was New Zealand's second largest bank measured by assets during 2001 and provides a wide range of banking services through some 159 retail branch outlets. NBNZ serves retail customers' needs for current and savings accounts, credit cards, consumer lending and home loans. NBNZ also has a substantial non-personal business providing working capital, term lending, trade finance and treasury services to the business and agricultural sector.

Europe. International Wealth Management provides services to wealthy individuals outside their country of residence. The business is conducted through branches of Lloyds TSB Bank plc located in Switzerland, Dubai, Luxembourg, Monaco and Gibraltar. There are also private and corporate banking operations in Spain and France.

Offshore banking comprises Lloyds TSB Bank Group's offices in the Channel Islands and Isle of Man, as well as its operations in Hong Kong, Singapore and Malaysia and representation in Belgium and the U.S.. It provides a wide range of retail banking, private banking and financial services to overseas residents and islanders, together with deposit services offshore for United Kingdom residents.

The Americas. Lloyds TSB Bank Group has operated in the Americas for over 130 years and has offices in Brazil, Argentina, Colombia, Ecuador, Guatemala, Honduras, Panama, Paraguay and Uruguay.

In addition Lloyds TSB Bank Group has private banking and investment operations in the U.S. and the Bahamas. In Brazil where Lloyds TSB Bank plc has 11 corporate banking offices, Lloyds TSB Bank Group's most substantial business is Losango, a consumer lending operation providing three retail products: borrowing at the point of sale in stores, unsecured personal lending and borrowing to fund new and second-hand car purchases. The Losango business is conducted through Banco Lloyds TSB SA, a locally incorporated subsidiary of Lloyds TSB Bank plc. Through its network of corporate banking offices, Lloyds TSB Bank plc also provides specialist banking and treasury products to corporate clients in Brazil. In Argentina where Lloyds TSB Bank plc has 40 branches and Colombia where Lloyds TSB Bank plc's subsidiary Lloyds TSB Bank SA has 20 branches, Lloyds TSB Bank Group provides corporate banking services, including trade finance, working capital loans, import finance, term deposits and money transmission. It also provides retail banking services through a network of branches, including current and savings accounts, credit cards, personal loans and mortgages.

Recent Developments

On 14th March, 2002, the Competition Commission's report into the competitiveness of banking for small and medium sized enterprises ("**SME**") was published by the Government. The Government has accepted in full the recommendations made by the Competition Commission. One of the most significant proposals is that banks should offer any SME customer operating a current account in England and Wales, either:

(a) a current account that pays interest of at least the Bank of England Base Rate, minus 2.5 per cent.; or

(b) a current account free of money transmission charges; or

(c) a choice between the two.

The other remedies also covered areas such as transparency of charging, easier, penalty-free switching and portable credit histories. The implications for the Lloyds TSB Bank Group and its SME customers have not yet been fully assessed, but clearly the implications will need to be assessed and the operational impact of introducing these remedies will need to be looked at closely.

Lloyds TSB Bank Group has already introduced (or is currently introducing) initiatives to address a number of these remedies, such as ease of switching or transparency of charging, either on its own initiative or via the Business Banking Code. The SME market is important to the Lloyds TSB Bank Group, it has supported it for a long time and is committed to doing so in the future. In the last year alone, it has helped 100,000 small businesses get started.

THISTLE HOTELS PLC

Thistle was incorporated under the laws of England and Wales with the name Lomah (Rhodesia) Gold Mines, Limited (registration number 262958) on 26th February, 1932. The name of the company was changed to Thistle Hotels Plc on 21st December, 1995, prior to which it had also been known as Mount Charlotte Investments PLC, Mount Charlotte Investments Limited and Mount Charlotte (Kalgoorlie) Gold Mines Limited. The registered office of Thistle is at 2 The Calls, Leeds LS2 7JU.

Principal Activities

The principal business of Thistle is commercial business revolving around the ownership and operation of hotels in the United Kingdom.

Director and Secretary

The directors of Thistle and their addresses are:

Name	**Address**
Michael I. Burke	2 The Calls Leeds LS2 7JU England
Thomas A. Hayes	2 The Calls Leeds LS2 7JU England
Wing Tat Lau (Singapore)	2 The Calls Leeds LS2 7JU England
Charles D. Mackay	2 The Calls Leeds LS2 7JU England
David K. Newbigging	2 The Calls Leeds LS2 7JU England
Baroness Detta O'Caithain	2 The Calls Leeds LS2 7JU England
Leng Chan Quek (Malaysia)	2 The Calls Leeds LS2 7JU England
Arun Amarsi (New Zealand)	2 The Calls Leeds LS2 7JU England
Ian C. Durrant	2 The Calls Leeds LS2 7JU England

The directors have no other principal activities that are significant with respect to Thistle.

Listing

The ordinary shares of Thistle are listed on the London Stock Exchange.

Financial Information Relating to the Thistle Group

The following tables are an extract from the financial results of the Thistle Group for the 53 weeks ended 31st December, 2000 and the 52 weeks ended 30th December, 2001 as taken from the Annual Report and Accounts 2001.

Group Profit and Loss Account

	Note	*2000* *£m*	*2001* *£m*
Turnover	1	324.6	305.3
Cost of sales		(196.8)	(198.4)
Gross profit	1	127.8	106.9
Administrative expenses		(22.4)	(24.0)
Operating profit	2	105.4	82.9
Profit on sale of tangible fixed assets	3	1.2	3.6
Interest payable and similar charges	4	(38.4)	(37.4)
Profit before taxation		68.2	49.1
Taxation	7	(13.4)	(9.0)
Profit for the financial year		54.8	40.1
Dividends	8	(24.6)	(24.6)
Transfer to reserves	18	30.2	15.5
Earnings per share	9	11.4p	8.3p
Diluted earnings per share	9	11.4p	8.3p
Adjusted earnings per share	9	11.1p	7.6p

Adjusted earnings per share is based on the Thistle Group's profit for the financial year before the profit on sale of tangible fixed assets and on the weighted average number of shares in issue.

The above results all arise from continuing operations.

Group Balance Sheet

	Note	*2000* *£m*	*2001* *£m*
Fixed assets			
Tangible assets	10	1,628.0	1,627.3
Investments	11	-	-
		1,628.0	1,627.3
Current assets			
Stocks	12	1.4	1.2
Debtors: amounts falling due within one year	13	31.0	28.1
Debtors: amounts falling due after more than one year	13	-	-
Cash at bank and in hand		4.4	3.1
		36.8	32.4
Creditors (amounts falling due within one year)	14	(90.5)	(69.9)
Net current (liabilities)/assets		(53.7)	(37.5)
Total assets less current liabilities		1,574.3	1,589.8
Creditors (amounts falling due after more than one year)	15	(433.3)	(433.3)
Net assets		**1,141.0**	**1,156.5**
Equity capital and reserves			
Called up share capital	17	123.6	123.6
Share premium account	18	398.5	398.5
Revaluation reserve	18	446.0	441.5
Other reserves	18	50.8	50.8
Profit and loss account	18	122.1	142.1
Total equity shareholders' funds		**1,141.0**	**1,156.5**

Approved by the Board on 3 April 2002
Ian Burke, Director
Ian Durant, Director

Group Cash Flow Statement

	Note	2000 £m	2000 £m	2001 £m	2001 £m
Net cash inflow from operating activities	19		152.8		112.4
Returns on investments and servicing of finance					
Interest paid			(36.6)		(40.6)
Taxation paid			(3.1)		(24.0)
Capital expenditure					
Purchase of tangible fixed assets			(66.3)		(38.3)
Sale of tangible fixed assets			9.1		13.8
Equity dividends paid			(23.6)		(24.6)
Cash (outflow)/inflow before financing			32.3		(1.3)
Financing					
Issue of share capital		0.5		–	
Loans repaid		(0.5)		–	
			–		–
(Decrease)/increase in cash			32.3		(1.3)

Group Reconciliation of Net Debt

	Note	2000 £m	2001 £m
(Decrease)/increase in cash in the year		32.3	(1.3)
Cash flow from decrease in debt		0.5	–
Reclassification of current asset investment		(0.1)	–
Movement in net debt in the year		32.7	(1.3)
Net debt at the beginning of year	20	(461.6)	(428.9)
Net debts at the end of the year	20	**(428.9)**	**(430.2)**

Other Group Financial Statements

Group Statement of Total Recognised Gains and Losses

	2000 £m	2001 £m
Profit for the financial year	54.8	40.1
Total gains and losses relating to the year	**54.8**	**40.1**

Group Note of Historical Cost Profits and Losses

	2000 £m	*2001* £m
Profit before taxation as reported	68.2	49.1
Difference between historical cost and actual depreciation charges	–	1.4
Realisation of property revaluation gains of previous years	2.8	3.1
Historical cost profit before taxation	**71.0**	**53.6**
Historical cost profit after taxation and dividends	**33.0**	**20.0**

Group Reconciliation of Movements in Equity Shareholders' Funds

	2000 £m	*2001* £m
Profit for the financial year	54.8	40.1
Dividends	(24.6)	(24.6)
Issue of share capital	0.5	–
Net change in the year	30.7	15.5
Opening equity shareholders' funds	1,110.3	1,141.0
Closing equity shareholders' funds	**1,141.0**	**1,156.5**

STATEMENT OF ACCOUNTING POLICIES

Basis of Accounting

The accounts have been prepared under the historical cost convention as modified by the revaluation of certain properties and in accordance with applicable accounting standards. A summary of the more important Thistle Group (the "**Group**") accounting policies, which have been applied consistently, is set out below. The Group has adopted Financial Reporting Standard ("**FRS**") 18 (Accounting Policies) for the first time this year. There is no impact arising from FRS 18. Additionally, disclosures required by the new standard, FRS 17 (Retirement Benefits), are set out in Note 21(A) to the accounts.

Basis of Consolidation

The Group accounts comprise a consolidation of the accounts of the holding company and its subsidiaries all of which are prepared up to the same date as the holding company. Uniform accounting policies are adopted by all companies in the Group. Results of subsidiaries acquired or disposed of during the year are consolidated from or until the date on which control passes.

Turnover

Turnover comprises amounts receivable for goods supplied and services provided (excluding VAT) during the financial year.

Tangible Fixed Assets

(a) **Cost and Valuation**

All freehold and long leasehold land and buildings were revalued as at 14 July 1996 by Christie & Co., surveyors, valuers and agents, on an existing use basis. On 11 July 1999, 11 hotels were revalued by Christie & Co., on an existing use basis in accordance with the Group's previous policy of undertaking a rolling five year valuation of the fixed asset base. On adoption of FRS 15, the Group followed the transitional provisions to retain the book value of land and buildings which were revalued in 1996 and 1999, but not to adopt a policy of revaluation in the future. These values are retained subject to the requirement to test assets for impairment in accordance with FRS 11.

All other fixed assets are carried at cost.

(b) Depreciation and amortisation

Depreciation and amortisation are provided to write off the cost of tangible fixed assets by equal annual instalments to their estimated residual value over their estimated remaining useful economic lives as follows:

Freehold land	not depreciated
Core elements of freehold and long leasehold land and buildings (more than 20 years to run)	remaining useful economic life (up to 100 years)
Short leasehold land and buildings (less than 20 years to run)	remaining life of lease
Integral plant and the non-core elements of buildings (comprising surface finishes and surfaces) – "Fit out costs"	15 to 30 years
Moveable plant and equipment	15 years
Furniture, including fitted furniture, furnishings and bathroom equipment	10 years
Soft furnishings	5 years
Motor vehicles and computer equipment	5 years

Stocks

Stocks are stated at the lower of cost and net realisable value.

Investments

Fixed asset investments are stated at cost less any provision for diminution in value. Investments included in current assets are stated at the lower of cost and net realisable value.

Deferred Taxation

No provision is made for deferred taxation unless there is a reasonable probability that a liability will arise in the foreseeable future.

Borrowings

Borrowings are carried at their net issue proceeds plus finance costs less amounts paid. Finance costs, which comprise interest and issue costs, are allocated over the period of the borrowing to achieve a constant rate on the carrying amount.

Financial Instruments

Receipts and payments from interest rate swaps used to manage interest on borrowings or deposits are accrued to match the income or expense of the underlying borrowing or deposit.

Leases

Rentals due under operating leases are charged to the profit and loss account as incurred.

Pension Costs

The cost of providing pension benefits under defined benefit schemes is charged to the profit and loss account over the period benefiting from the employees' services. The cost of providing pension benefits under defined contribution schemes is charged to the profit and loss account in the year in which they are payable.

NOTES TO THE ACCOUNTS

1. Segmental analysis

	2000 *£m*	*2001* *£m*
Turnover by UK region		
London	203.6	183.7
Regions	121.0	121.6
Total group turnover	**324.6**	**305.3**
Gross profit before fixed charges by UK region		
London	120.9	103.9
Regions	54.7	52.9
Total gross profit before fixed charges	175.6	156.8
Fixed charges	(47.8)	(49.9)
Total group gross profit	**127.8**	**106.9**

Fixed charges comprise property rent, rates and insurance, depreciation and amortisation. The comparative figures for 2000 have been restated to classify the Thistle Heathrow as a regional hotel in line with industry reporting practice.

2. Operating profit

	2000 *£m*	*2001* *£m*
This is stated after charging:		
Depreciation and amortisation	29.3	32.6
Repairs and renewals	8.8	8.4
Operating lease rentals		
- land and buildings	8.5	8.5
- hire of plant and machinery	2.3	2.4
Auditors' remuneration		
- audit fees	0.1	0.1
- other services	0.3	0.4

Repairs and renewals include amounts attributable to maintenance wages which are also included in staff costs. Other fees payable to the auditors comprised internal audit services £0.3 million (2000: £0.2 million) and taxation fees (£0.1 million (2000: £0.1 million). The whole of the auditors' remuneration was borne by Thistle Hotels plc (which for the purposes of the "Notes to the Accounts" section of this Offering Circular shall be referred to as the "**Company**").

3. Profit on sale of tangible fixed assets

	2000 *£m*	*2001* *£m*
Profit on sale of tangible fixed assets	1.2	3.6

During the year the Group realised an aggregate net profit of £3.6 million (2000: £1.2 million) on the disposal of one hotel (2000: three hotels and a number of ancillary properties). There was no tax charge attributable to this profit (2000: £nil). The sale proceeds net of selling costs were £10.4 million (2000: £9.1 million).

4. Interest payable and similar charges

	2000 £m	*2001 £m*
Interest on long term loans	28.0	27.4
Interest on bank overdrafts and loans repayable within five years	10.3	9.9
Bank charges	0.1	0.1
	38.4	**37.4**

5. Staff costs

	2000 £m	*2001 £m*
Agency wages	12.8	12.5
Employee wages and salaries	66.2	65.7
	79.0	78.2
Employer's social security costs	4.8	4.7
Employer's other pension costs (see Note 21)	2.1	2.0
	85.9	84.9

	2000 number	*2001 number*
Average monthly number of people under contracts of service:		
Hotel operating staff	6,134	5,828
Management, administration and support staff	300	309
	6,434	6,137

6. Directors

	2000 £000	*2001 £000*
Aggregate emoluments		
Fees	260	281
Amounts payable to third parties	30	30
Salaries and benefits	883	886
Performance related bonuses	52	-
Compensation for loss of office	367	482
Pension contributions to defined contribution plans	220	186
	1,812	1,865
Highest Paid Director		
Salary and benefits	359	365
Performance related bonus	31	-
Pension contributions to defined contribution plans	160	136
	550	501

During the year, the Company made pension contributions on behalf of three (2000: four) directors to defined contribution plans.

Details of each director's remuneration are disclosed in the Remuneration Report on page 30 of the 2001 Annual Report.

7. Taxation

	2000 *£m*	*2001* *£m*
Corporation tax at 30.0% (2000: 30.0%)	13.4	11.0
Adjustments in respect of previous years	–	(2.0)
	13.4	**9.0**

The corporation tax charge based on the profit for the year has benefited from capital allowances of approximately £2.7 million (2000: £6.8 million). Agreement has been reached with the Inland Revenue in respect of many elements of the tax computations for 1996 to 1999 and consequently provisions of £2.0 million have been released. No provision has been made for deferred tax within the Group or the Company as no liability is expected to crystallise in the foreseeable future. However, the new Financial Reporting Standard 19 requires that in 2002 full provision is made for deferred tax. Under this standard a provision of approximately £134.0 million would have been made as at 30 December 2001. This reflects the tax that would crystallise if all timing differences (arising from both accelerated capital and hotel allowances) were to reverse. Within the total of £134.0 million, approximately £54.0 million relates to the hotel businesses disposed of since the year end (see Note 27). In addition the directors estimate that were all the hotels to be sold as at 30 December 2001 at book value then the capital gains tax arising would be less than £90.0 million.

8. Dividends paid and proposed

	pence	*2000* *£m*	*pence*	*2001* *£m*
Interim dividend paid	1.70	8.2	1.70	8.2
Final dividend proposed	3.40	16.4	3.40	16.4
	5.10	**24.6**	**5.10**	**24.6**

9. Earnings per share

	2000 *£m*	*2001* *£m*
Earnings per share has been calculated as follows:		
Basic earnings	54.8	40.1
Exceptional items (net of attributable taxation)	(1.2)	(3.6)
Adjusted Earnings	53.6	36.5

	millions	*millions*
Weighted average number of shares	481.9	481.9
Dilutive potential ordinary shares arising from employee share options	0.2	0.3
Diluted weighted average number of shares	482.1	482.2

	pence	*pence*
Basic earnings per share	11.4	8.3
Exceptional items (net of attributable taxation)	(0.3)	(0.6)
Adjusted earnings per share	11.1	7.6

	pence	*pence*
Diluted earnings per share	11.4	8.3

The calculation of adjusted earnings per share is based on the profit before exceptional items (net of taxation) and is included as it provides a better understanding of the underlying performance of the Group.

Tangible Fixed Assets

	Land and buildings £m	*Fit out costs, furniture, furnishings, equipment and motor vehicles £m*	*Total £m*
A. Tangible Fixed Assets			
Cost or valuation			
At the beginning of year	1,393.8	415.6	1,809.4
Additions	9.6	29.3	38.9
Disposals	(6.0)	(3.2)	(9.2)
At end of year	**1,397.4**	**441.7**	**1,839.1**
Accumulated Depreciation			
At beginning of year	10.1	171.3	181.4
Provision for the year	2.6	30.0	32.6
Disposals	(0.2)	(2.0)	(2.2)
At end of year	**12.5**	**199.3**	**211.8**
Net book amount at end of year	**1,384.9**	**242.4**	**1,627.3**
Net book amount at beginning of year	1,383.7	244.3	1,628.0

	2000 £m	*2001 £m*
B. Analysis of Land and Buildings		
Analysis of net book value of land and buildings:		
Freehold	747.8	756.3
Long leasehold	605.8	597.6
Short leasehold	30.1	31.0
	1,383.7	**1,384.9**

	2000 £m	*2001 £m*
Analysis of land and buildings at cost or valuation:		
At cost	111.8	121.4
At valuation – 1996	910.5	904.5
At valuation – 1999	371.5	371.5
	1,393.8	**1,397.4**

All freehold and long leasehold and buildings were revalued as at 14 July 1996. On 11 July 1999 11 hotels were revalued in accordance with the Group's previous policy of undertaking a rolling five year valuation of the fixed assets base. All the valuations were performed by Christie & Co. on an existing use basis and in accordance with the requirements of the RICS Appraisal and Valuation Manual.

	2000 £m	*2001 £m*
Analysis of land and buildings at historic cost:		
At cost	1,041.4	1,048.1
Accumulated depreciation	(10.1)	(11.1)
Net book amount based on historic cost:	**1,031.3**	**1,037.0**

11. Fixed Asset Investments

The Group has no fixed asset investments. Details of the principal subsidiaries are shown in Note 26.

12. Stocks

Stocks mainly comprise food and beverage stocks and other goods for resale.

13. Debtors

	2000 £m	*2001 £m*
Amounts falling due within one year		
Trade debtors	25.1	22.9
Amounts owed by group undertakings	-	-
Prepayments	5.9	5.2
	31.0	**28.1**
Amounts falling due after more than one year		
Amounts owed by group undertakings	**-**	**-**

14. Creditors (amounts falling due within one year)

	2000 £m	*2001 £m*
Bank loans and overdrafts	-	-
Trade creditors	27.2	16.1
Amounts owed to group undertakings	-	-
Tax and social security	8.9	7.3
Corporation tax	24.9	9.9
Other creditors	0.9	3.5
Accruals	12.2	16.7
Dividend proposed	16.4	16.4
	90.5	**69.9**

15. Creditors (amounts falling due after one year)

	2000 £m	*2001 £m*
Bank loans	174.0	174.0
10.75% Debenture stock 2014	200.0	200.0
7.857% Debenture stock 2022	59.3	59.3
	433.3	**433.3**

	2000 *£m*	*2001* *£m*
The above loans are repayable as follows:		
One to two years	70.0	-
Two to five years	84.0	154.0
Beyond five years	279.3	279.3
	433.3	**433.3**

As at 30 December 2001 the mortgage debenture stock and one bank loan totalling £279.3 million (2000: £279.3 million) were secured on 19 hotels owned by the Group.

16. Financial Instruments

Interest Rate Risk

The Group's debt comprises floating rate bank loans and fixed rate debenture stock. The Group uses interest rate swaps to manage interest rates wherever there is a perceived foreseeable long term cash benefit. No swaps were used during the year ended 30 December 2001. In January 2000, the Company entered into a ten year interest rate swap over £100.0 million of its debenture stock due 2014, which had the effect of swapping the 10.75 per cent. fixed rate coupon to a floating rate of LIBOR plus 2.88 per cent. Gains arising in the year ended 31 December 2000 as a result of this swap amounting to £1.6 million were dealt with in the profit and loss account. The swap counterparty exercised its option to terminate the swap on 20 December 2000. There were no unrecognised gains or losses in respect of hedging instruments at 30 December 2001 (2000: £nil) as there were no such instruments in place. Further details of the Group's treasure policy are given in the Finance Director's review on page 17 of the 2001 Annual Report.

Liquidity Risk

As at 30 December 2001, the Group had undrawn overdraft facilities of £50.0 million (2000: £50.0 million). These facilities are rolled over on an annual basis. All other borrowing facilities were fully drawn down at 30 December 2001 and 31 December 2000.

Financial Assets

The Group's financial assets as at 30 December 2001 comprised cash at bank of £1.7 million (2000: £2.3 million), £1.0 million of short term deposit balances (2000: £1.6 million) and hotel cash floats of £0.4 million (2000: £0.5 million). Cash at bank does not earn interest and is repayable on demand. Short term deposit balances have earned interest at variable rates ranging between 2 per cent. and 6 per cent. Short term debtors have been excluded from all disclosures other than currency profile.

Financial Liabilities

The Group's financial liabilities as at 30 December 2001 comprised floating rate bank loans of £174.0 million (2000: £174.0 million) and fixed rate debenture stock at £259.3 million (2000: £259.3 million). Short term creditors have been excluded from all disclosures other than currency profile.

The interest rate profile of the Group's financial liabilities as at 30 December 2001 was:

	2000			*2001*		
	Floating Rate	*Fixed Rate*	*Total*	*Floating Rate*	*Fixed rate*	*Total*
Sterling amount (£m)	174.0	259.3	433.3	174.0	259.3	433.3
Weighted average interest rate (%)	7.0	10.1	8.8	5.4	10.1	8.2
Weighted average period for which rate is fixed (years)	n/a	15.3	n/a	n/a	14.7	n/a

The floating rate financial liabilities comprise sterling denominated bank borrowings which bear interest rates based on LIBOR.

Fair values of financial assets and liabilities

The book and fair values of the Group's primary financial instruments as at 30 December 2001 were as follows:

	2000		*2001*	
	Book value £m	*Fair value £m*	*Book value £m*	*Fair value £m*
Financial assets	4.4	4.4	3.1	3.1
Long term borrowings – floating rate	(174.0)	(174.0)	(174.0)	(174.0)
Long term borrowings – fixed rate	(259.3)	(314.5)	(259.3)	(299.6)

As at 30 December 2001, the fair value of the 2014 debenture stock was £240.7 million (2000: £253.5 million) and the fair value of the 2022 debenture stock was £58.9 million (2000: £61.0 million). For this purpose, market values have been used to determine fair values. In the case of other financial instruments, the fair value is considered to approximate to the carrying value in the balance sheet.

Currency Profile

The Group's net monetary assets and liabilities at 30 December 2001 and 31 December 2000 were denominated in sterling.

17. Called up Share Capital

A) Share Capital

	Number of shares m	*Amount £m*
Authorised		
Ordinary shares of 25 $^{13}/_{20}$ pence each at the beginning and end of the year	584.8	150.0
Allotted and Fully Paid		
Ordinary shares of 25 $^{13}/_{20}$ pence each at the beginning and end of the year	481.9	123.6

B) Share Options

Options were granted during the year under the Company's No. 1 and No. 2 Executive Share Option Schemes and under the Sharesave Scheme as disclosed in the Remuneration report on page 27 of the 2001 Annual Report. Details of options outstanding as at 30 December 2001 (including options held by directors reported on page 31 of the 2001 Annual Report) are as follows:

Executive Share Option Schemes	Exercise price (pence)	Number of options outstanding: No. 1 Scheme	Number of options outstanding: No. 2 Scheme	Earliest exercise date: Both Schemes	Latest exercise date: No. 1 Scheme	Latest exercise date: No. 2 scheme
	170.0	829,403	915,276	Oct 1999	Oct 2003	Oct 2006
	138.0	43,476	-	Sep 2000	Sep 2004	n/a
	175.5	63,903	451,793	Apr 2001	Apr 2005	Apr 2008
	174.0	17,241	614,942	Apr 2001	Apr 2005	Apr 2008
	121.5	145,677	737,904	Oct 2001	Oct 2005	Oct 2008
	158.5	282,414	758,231	Apr 2002	Mar 2006	Mar 2009
	167.0	167,364	203,801	Sep 2002	Sep 2006	Sep 2009
	141.0	422,313	1,035,012	Apr 2003	Mar 2007	Feb 2010
	129.0	23,255	325,581	May 2003	May 2007	May 2010
	119.5	324,679	491,637	Sep 2003	Sep 2007	Sep 2010
	146.0	648,418	1,709,589	Apr 2004	Mar 2008	Mar 2011
	122.5	24,489	187,755	Apr 2004	Apr 2008	Apr 2011
	87.5	532,428	310,704	Sep 2004	Sep 2008	Sep 2011
	115.5	25,974	406,926	Dec 2004	Dec 2008	Dec 2011
		3,551,034	8,149,151			

Sharesave Schemes	Exercise price (pence)	Number of options outstanding: 3 Year Scheme	Number of options outstanding: 5 Year Scheme	Earliest exercise date: Both Schemes	Latest exercise date: 3 Year Scheme	Latest exercise date: 5 Year Scheme
	136.0	-	257,469	Dec 2001	n/a	May 2002
	138.0	51,645	61,500	July 2002	Dec 2002	Dec 2004
	127.0	91,627	52,336	July 2003	Dec 2003	Dec 2005
	113.0	219,815	141,834	July 2004	Dec 2004	Dec 2006
	117.0	164,536	70,078	July 2005	Dec 2005	Dec 2007
		527,623	583,217			

18. Reserves

	Share premium account £m	Revaluation reserve £m	Capital reserve £m	Profit and loss account £m
At the beginning of year	398.5	466.0	50.8	122.1
Profit for the year transferred	-	-	-	15.5
Transfer of depreciation on revaluation reserve	-	(1.4)	-	1.4
Revaluation surplus realised on disposal	-	(3.1)	-	3.1
At end of year	**398.5**	**441.5**	**50.8**	**142.1**

19. Reconciliation of operating profit to net cash inflow from operating activities

	2000 £m	*2001 £m*
Operating profit	105.4	82.9
Depreciation	29.3	32.6
Profit on disposal of fixed assets	–	(0.2)
Decrease in stocks	–	0.2
Decrease in debtors	4.5	2.9
(Decrease)/increase in creditors	13.6	(6.0)
Net cash inflow from operating activities	**152.8**	**112.4**

20. Analysis of net debt

	At beginning of year £m	*Cash flows £m*	*At end of year £m*
Cash at bank and in hand	4.4	(1.3)	3.1
Bank overdrafts	-	-	-
	4.4	(1.3)	3.1
Debt due after one year	(433.3)	-	(433.3)
Total	(428.9)	(1.3)	(430.2)

21. Pensions

A) Defined Benefit Pension Schemes

The Group operates two schemes covering 408 employees (2000: 575). The schemes, both of which are closed to new members, are of the funded defined benefit type and their assets are held in separate funds administered by trustees.

The latest actuarial assessments of the schemes were carried out as at 1 May 1999 using the "project unit" method. Under this method the current service cost will increase as the members of the schemes approach retirement. An investment return 2 per cent. higher than the rate of annual salary increase was assumed. The level of funding on the MFR basis was 93 per cent. and 119 per cent. and the employer contribution rates over the average remaining service lives of the schemes' members take account of the deficit and the surplus respectively. At the date of the actuarial assessment the aggregated market value of the schemes' assets was £29.9 million.

Costs in respect of the schemes are charged to the profit and loss account so as to spread them over employees' working lives with the Group. The cost in the year, which has been assessed in accordance with the advice of qualified actuaries, was £1.6 million (2000: £1.8 million). There is also a pension commitment to a past director amounting to £4,000 per annum, and pensions to the widows of former directors amounting to £13,000 per annum.

For FRS 17 purposes the actuarial valuations carried out as at 1 May 1999 have been updated to 30 December 2001 by a qualified independent actuary. The major assumptions used were:

	Per annum
Salary increases	4.50%
Pensions in payment increases	2.50%
Discount rate	5.75%
Inflation rate	2.50%

The fair value of the assets of the schemes and their expected rate of returns were:

	Fair value of the assets at 30 December 2001 £m	*Long term rate of return expected at 30 December 2001*
Equities	21.0	7.75%
Bonds	8.0	5.00%
	29.0	

The following amounts at 30 December 2001 were measured in accordance with the requirements of FRS 17.

	2001 £m
Fair value of assets	29.0
Present value of the schemes' liabilities	(33.9)
Deficit in schemes	(4.9)
Related deferred tax asset	1.5
Net pensions liability	(3.4)

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss reserve at 30 December 2001 would both have been reduced by £3.4 million to £1,153.1 million and £138.7 million respectively.

B) Defined contribution pension schemes

The Group operates defined contribution pension schemes for certain of its employees. The schemes have a membership of 143 employees (2000: 87 employees). Costs are charged to the profit and loss account in the year in which they are payable and amounted to £0.4 million (2000: £0.3 million) for the year.

22. Capital Commitments

	2000 £m	*2001 £m*
Contracted but not provided in the accounts	**16.6**	**1.3**

23. Lease Commitments

	2000 £m	*2001 £m*
Commitments under non-cancellable operating leases to pay rentals during the next year:		
Land and buildings		
Expiring within two to five years	3.3	2.9
Expiring after five years	5.5	5.6
	8.8	8.5
Plant and machinery		
Expiring within two to five years	2.0	2.1
	10.8	**10.6**

24. Contingent liability

Thistle Hotels Plc is party to cross guarantee and set-off arrangements with subsidiary companies in respect of certain of those companies' bank overdrafts and loans. The potential liability as at 30 December 2001 amounts to £174.0 million (2000: £174.0 million).

25. Related Party Transactions

A non-executive director, Arthur Hayes, is an executive director of Royal & Sun Alliance Insurance Group Plc with whom the Group insures certain categories of risk associated with its business on arm's length commercial terms. The Group paid £1.0 million (2000: £0.7 million) to the Royal & Sun Alliance Insurance Group Plc during the year.

26. Principal Subsidiary Undertakings at 30 December 2001

	Percentage of capital and voting rights held by Group undertakings	
	Ordinary %	*Preference %*
Arden Hotel (Stratford-upon-Avon) Limited	100	
Castle Ross Hotels Limited	100	
Gale Six Limited	100	
Highlife Value Breaks Limited	100	
Kingsmead Hotels Limited	100	
London Park Hotels Limited (formerly London Park Hotels plc) **	100	100
LPH Angus Limited *	100	
LPH Grand Limited *	100	
LPH London Park Limited *	100	
Mount Charlotte Hotels Limited	100	100
Pinewood Hotel Limited	100	
Thistle Hotels (Caledonia) Limited *	100	

* Shares held 100 per cent. by subsidiary undertakings. ** Shares held 57 per cent. by subsidiary undertakings.

The Company and its subsidiary undertakings are incorporated and operate in Great Britain and are registered in England, except Castle Ross Hotels Limited and Thistle Hotels (Caledonia) Limited which are registered in Scotland.

All subsidiary undertakings are included in the consolidated accounts.

The principal activity of Highlife Value Breaks Limited is the operation of tours and leisure breaks. The principal activity of Thistle Hotels (Caledonia) Limited is the marketing of the Group's London based hotels. The principal activity of the remaining companies set out above is the ownership and operation of hotels in the UK.

27. Post balance sheet event

On 12 March 2002 the Company announced the sale, subject to shareholder approval, of 37 hotel businesses for a consideration of £600.4 million. The Group will continue to manage the hotels under the Thistle brand on behalf of the new owners under a 30 year management contract and will receive management fee income. The following unaudited financial information in respect of the 37 hotel businesses sold was disclosed in the circular to shareholders: turnover and gross profit for the year ended 30 December 2001 of £140.8 million (2000: 143.4 million) and £42.1 million (2000: £47.7 million) respectively and net assets at 30 December 2001 of £609.7 million (2000: £601.6 million) comprising tangible fixed assets of £606.9 million (2000: £606.1 million) and net current liabilities of £0.2 million (2000: £4.5 million).

Full details of the disposal are given in the circular to shareholders dated 12 March 2002.

Five year record

	1997 £m	*1998 £m*	*1999 £m*	*2000 £m*	*2001 £m*
Turnover	325.3	328.6	304.7	324.6	305.3
Operating profit before exceptional items	112.5	120.3	103.0	105.4	82.9
Exceptional items charged to operating profit	-	(19.1)	-	-	-
Operating profit after exceptional items	112.5	101.2	103.0	105.4	82.9
Profit/(loss) on sale of tangible fixed assets	1.3	(17.7)	2.4	1.2	3.6
Provision for loss on sale of tangible fixed assets	-	(3.0)	-	-	-
Interest payable	(33.2)	(33.7)	(37.7)	(38.4)	(37.4)
Profit before taxation	80.6	46.8	67.7	68.2	49.1
Taxation	(4.3)	(16.3)	(13.3)	(13.4)	(9.0)
Profit for the financial year	76.3	30.5	54.4	54.8	40.1
Dividends	(25.9)	(25.5)	(115.5)	(24.6)	(24.6)
Transfer to/(from) reserves	50.4	5.0	(61.1)	30.2	15.5
EBITDA	127.1	134.8	128.8	134.7	115.5
Capital expenditure (cash flow)	50.0	55.7	63.0	66.3	38.3
Net assets	1,314.3	1,226.8	1,110.3	1,141.0	1,156.5
Earnings per share	12.4p	5.0p	10.8p	11.4p	8.3p
Adjusted earnings per share	12.1p	11.9p	10.4p	11.1p	7.6p

The results for 2001, 2000 and 1999 are after charging additional depreciation under FRS 15 of £12.0 million, £10.8 million and £9.0 million respectively. The results for 1998 and 1997 are as previously reported.

EBITDA is defined as earnings before interest, tax, depreciation and amortisation and exceptional items.

Adjusted earnings per share is based on the Group's profit for the financial year before exceptional items (which include the profit/(loss) on sale of tangible fixed assets and the provision for loss on sale of tangible fixed assets) and on the weighted average number of shares in issue.

PROPERTY OVERVIEW

Introduction

The Hotels that are mortgaged pursuant to the Debentures (subject to the position regarding the Consent Hotels stated above) are listed under "Portfolio of Hotels".

The tenure of each of the Hotels is as referred to in the appendix to the valuation certificate provided by HVS International and DTZ and in this Property Overview.

Valuation

HVS International of 14, Hallam Street, London W1W 6JG and DTZ of One Curzon Street, London W1A 5PZ have together provided a valuation certificate dated 1st April, 2002 in respect of the Hotels. HVS International and DTZ have confirmed that they are not aware of any change in circumstances since the date of their valuation certificate that would have a material effect upon their valuation of the Hotels.

HVS International, a specialist international consulting company, was established in 1980. It is the only real estate consulting company devoted exclusively to the hotel industry. Operating on an international basis, the company has evaluated or appraised over 9,000 hotels in some 55 countries worldwide. In Europe, HVS International has forged an association with DTZ. DTZ is a leading property advisory company providing a full range of services on a local, regional and global level to investors and owners across all sectors of the real estate market. DTZ has over 6,500 staff operating from 125 offices in 33 countries. Within the main commercial centres of the United Kingdom, the company has a total staff of 1,200 and a regional network of 23 offices in 14 locations.

Redevelopment and Residential Appraisal

The Property Owner is obliged, pursuant to the terms of the Credit Agreement, to apply for Planning Permission in respect of the Thistle Lancaster Gate and either one of the Thistle Kensington Park or Thistle Kensington Palace (together the "**Redevelopment Properties**") within a specified number of days of the completion of the sale and purchase of certain of the leasehold and all of the freehold Hotels, and within a longer specified period of such date to apply for Planning Permission in relation to whichever of the latter two Hotels referred to above is not the subject of the initial application. The Property Owner has undertaken to use its best endeavours to obtain the Planning Permission.

"**Planning Permission**" is defined, under the Credit Agreement, as outline planning permission for development (whether or not subject to conditions) for residential purposes in accordance with an application previously approved in writing by the Security Trustee (such approval not to be unreasonably withheld or delayed).

The Property Owner has also undertaken within 30 days of any such Planning Permission being granted, to ensure that the relevant Hotel is disposed of and that an amount in excess of the amount of the Loan attributable to that property is repaid. Such amount shall be between 115 per cent. and 260 per cent. of the attributable Loan Amount. The provisions agreed between the Property Owner and Operator relating to the termination of an Operating Agreement on a redevelopment are referred to below.

DTZ has, in addition to the valuation certificate, concluded a residential appraisal of the Redevelopment Properties. The appraisal analyses each of the Redevelopment Properties and evaluates the proposed redevelopment to be undertaken.

DTZ's summary of the Redevelopment Properties is that such properties provide very good residential development opportunities. In their appraisal, DTZ anticipate that the Redevelopment Properties would generate significant interest from developers and would command premium values if put to the market. The appraisal does, however, indicate that the current drive to create "affordable housing" in London may be an issue in the redevelopment of these Redevelopment Properties.

The Thistle Lancaster Gate

The Thistle Lancaster Gate is a five and six storey period building located on Bayswater Road, London, opposite Hyde Park. It is intended that the property be converted into quality residential apartments with an average size of 1,500 square feet per apartment.

The Thistle Kensington Park and the Thistle Kensington Palace

The Thistle Kensington Park and the Thistle Kensington Palace are two separate buildings located within yards of each other on De Vere Garden, London, each being within close proximity of Hyde Park. The Thistle Kensington Palace also has a return frontage onto Kensington High Street with views over Kensington Gardens to the north. It is also intended that these properties be converted into quality residential apartments, each with an average size of 1,500 square feet per apartment.

Tenure and Headlease Rents (England and Wales)

There are, in total, 25 Hotels situated in England and Wales of which 15 are freehold properties. A further two are substantially freehold and the remainder are held on headleases which have unexpired terms ranging from seven years to 132 years. The current annual rents payable in respect of such properties range from a peppercorn to £750,000 (approximately).

One of the Hotels (Thistle Brighton) is subject to a turnover rent, namely a rent being a proportion (1.525 per cent.) of the gross income relating to the hotel for the relevant period. Since the amount of rent payable therefore depends upon the actual trading results for such period and cannot be calculated in advance, rent is payable on a quarterly basis at the level previously payable with provision for adjustment after the end of the relevant financial year.

The headleases (except where the rent payable is nominal only) provide for a quarterly payment on account of rent. In cases where the rent can only be determined after the end of the year in question (for example where the rent is calculated on a "geared" or turnover basis) the quarterly payment will be on account of the full annual rent. In such cases, there may therefore be a delay of six to 12 months before the final amount of rent from any one year can be finalised.

As well as rent, the headleases usually require reimbursement of monies incurred by the relevant landlord in supplying services for the benefit of the Hotel in question, including the cost of insuring the premises.

Tenure and Headlease Rents (Scotland)

There are in total seven Scottish Hotels (and, in relation to one of the Scottish Hotels, an ancillary office premises which is also located in Scotland). Four of the Scottish Hotels are feudal (similar to freehold in England). Title to the office premises (at 15-16 Union Terrace, Aberdeen, adjacent to Thistle Aberdeen Caledonian) is also feudal. The remaining three Scottish Hotels are held on headleases which have terms unexpired from 39 years to 104 years. The current annual rents for these Hotels are linked to a percentage of gross revenue, subject to current annual base rents of between £30,000 and £140,000.

The headleases provide for quarterly payments in advance or arrear on account of rent. As the rents are linked to turnover, the quarterly payment will be on account of the full annual rent. There may therefore be a delay before the final amount of rent from any one year can be finalised. (See also "Risk factors – Forfeiture on Insolvency").

Occupational tenancies (England and Wales)

There are a small number of leases or underleases affecting parts of some of the English Hotels. These range from leases of roof areas for the installation of telecommunications masts and other apparatus and leases of areas for electricity switch rooms or sub-stations to leases of shops or concessions. The aggregate annual rents payable by the tenants under such leases amounts to approximately £170,000, although additional payments may be due in respect of contributions to the cost of the provision of services.

Occupational Tenancies (Scotland)

There are a small number of leases or sub-leases affecting parts of some of the Scottish Hotels. These range from a lease of a sub-station site to leases of take-away sandwich shops, car-rental businesses and beauty treatment rooms. The aggregate annual rents payable by the tenants under such leases or sub-leases currently amounts to approximately £58,000, although additional payments may be due in respect of contributions to the cost of the provision of services.

Insurance

Under some of the headleases under which the leasehold Hotels are held, the relevant landlord is obliged to insure the premises against comprehensive risks and (where the rent payable is a material amount) loss of rent. The tenant will be liable to repay to the landlord the cost of the insurance premium in such cases. The landlord must, if the premises are damaged by any insured risk, rebuild or reinstate the same.

In the case of the majority of the Hotels, however, the Operator (see "Acquisition and Operation of the Hotels – Operating Agreements" below) is responsible for insuring the premises (with the interest of MSMS as security trustee noted on the policy, as discussed above) against the following risks:

(a) loss or damage by such risks as are usually insured against in respect of similar properties used for similar purposes;

(b) business interruption as a result of damage or destruction;

(c) public liability;

(d) employer's liability;

(e) employee fidelity; and

(f) other insurances as available and as reasonably required by the Property Owner.

Whilst the Operating Agreements do not specifically require insurance in respect of acts of terrorism, the Credit Agreement does, and the Property Owner (pursuant to (f) above) has required such cover to be put in place by the Operator, which has been done.

The cost of insurance forms part of the annual operating expenses for each Hotel. Insurance proceeds paid relating to damage to the structure of the Hotel, in most circumstances, must be applied in rebuilding/reinstating the same, but such proceeds may, at the option of the Security Trustee if not used for rebuilding/reinstatement, be applied in or towards prepayment of the Loan where the relevant insurance policy or any occupational leases do not prohibit such use of such funds. However, pursuant to the Operating Agreements insurance proceeds are to be used to reinstate a Hotel save that the Property Owner has the right, pursuant to the Operating Agreements, if more than 30 per cent. of a Hotel is damaged or destroyed, to terminate the relevant Operating Agreement upon payment of the appropriate fee (see "Acquisition and Operation of the Hotels – Operating Agreements" below).

Environmental Report

The environmental due diligence undertaken on behalf of MSDW Bank by Environ (UK) Limited was of a "desktop" nature only save in relation to the Thistle Aberdeen Airport Hotel where fuller investigation revealed a relatively minor environmental risk. At Thistle Aberdeen Airport certain oil contamination was identified in 2001 and the cause identified as leaking pipework. The pipework has been replaced but it is estimated the outstanding clean up of the site will cost £50,000. In connection with the sale of the Target Companies, Thistle has agreed to pay costs of remediation in an amount not exceeding £50,000.

Financial Information Relating to the Hotel Businesses

The following consolidated information relates to the financial performance of the Hotels for the four financial years ended 30th December, 2001:

Financial performance figures (EBITDA, ADR and RevPAR)

Consolidated Hotels Summary Statistics
All Values in Sterling (£)

	1998	1999	2000	2001
	Actual	Actual	Actual	Actual
Occupancy	67.6%	70.6%	70.1%	68.6%
Average Daily Rate	58.0	56.4	56.9	58.2
RevPAR	39.2	39.8	39.9	39.9
		All Values in £m		
Room Revenues	71.9	71.8	75.7	74.8
Total Dept. Revenues	124.4	124.0	130.3	128.5
Total Dept. Expenses	(46.7)	(47.6)	(50.2)	(49.9)
Total Variable Costs	(16.2)	(16.8)	(18.2)	(19.0)
Total Fixed Expenses	(5.6)	(5.6)	(6.6)	(7.2)
EBITDA	**55.9**	**53.9**	**55.3**	**52.4**

Source: Thistle Hotels Plc

Capital Expenditure on the Hotels

During its initial public offering in 1996, Thistle announced that it was in the third year of a five year redevelopment programme. A significant proportion of this redevelopment expenditure was focused on the London portfolio and upgrading many of the original Mount Charlotte Investments properties to the Thistle brand. In 1998, a portfolio of 29 unbranded hotels was sold and a further 11 hotels were subsequently disposed of, leaving a more homogeneous portfolio appealing to a focused market segment. However, in certain markets, such as Aberdeen where Thistle operates four properties, it may be more appropriate to offer a broader range of rooms to access as diverse a customer base as possible and to optimise yield management.

Further, Thistle invested a substantial amount in the Hotels since 1998 in order to achieve a consistency in the product, to promote the identity of the Thistle brand and to introduce branded leisure (Otium), restaurant (Gengis, Oak and Avocado) and coffee shop (Co.motion) concepts across a part of the portfolio.

The Property Owner, in conjunction with HVS International, has identified a number of capital expenditure projects which it believes would improve the performance and/or penetration of individual Hotels and approximately £11.5 million out of the Loan Amount was reserved to execute those projects in the next 12 months. See further "Acquisition and Operation of the Hotels". A material part of such sum has already been so applied or has been made available to the Operator, but the balance is currently being held in an account of the Property Owner pending application.

Market Overview and Competition

The United Kingdom tourism and hotel market is usually considered in two separate parts: London and the provinces. While each of the sub-sectors categorised above represent similar product- and customer-type, the general market expectations for City Centre, Provincial, Scottish and Provincial Airports (the "**UK Provincial Market**") are governed by the domestic United Kingdom economy, whereas the London Hotels are much more exposed to international demand factors.

The United Kingdom mid-market sector comprises approximately 300,000 rooms from higher end budget hotels through to solid four-star product. Approximately one-third of the United Kingdom mid-market sector is branded. The limited service or "budget" hotels were originally introduced into the United

Kingdom in 1985 as room-only accommodation adjacent to road-side services. This market has grown rapidly to include city-centre locations, some integrated food and beverage, larger hotel sizes and additional facilities and amenities. The first class hotel market, which includes upper 4-star hotels and the 5-star market excluding luxury hotels, focuses on a more international product and customer-base. This product is only present in selected provincial locations.

Thistle operates towards the upper end of the mid-market sector, offering a solid, full-service 3- to 4-star product.

UK Provincial Mid-Market Hotel Sector

The performance of the United Kingdom mid-market hotel sector is strongly correlated to the overall economic condition of the United Kingdom economy. Performance in 2001 suffered due to the impact of foot and mouth disease and a slowdown in the global economy (decreasing the number of in-bound visitors) and the step-change in global travel patterns following September 11th, 2001 had a material impact on international arrivals. However, the robust performance in United Kingdom GDP, supported by seven cuts to base rates, and showing 2.3 per cent. growth, contributed to a robust performance in the United Kingdom provincial hotel sector.

The United Kingdom provincial mid-market hotel sector is fragmented, with relatively low brand penetration. The leading provincial participants are set out in the table below:

Rank	Brand	No. of Rooms	No. of Hotels	Average Rooms per Hotel
1	Best Western	14,355	306	47
2	Holiday Inn	11,561	84	138
3	Hilton	9,868	63	157
4	Marriott	7,961	51	156
5	Queens Moat House	5,709	39	146
6	Ramada	5,206	53	98
7	Thistle	4,616	33	140

Source: Morgan Stanley & Co. International Limited

Since Best Western is more of a marketing consortium than an operator, Holiday Inn can be considered the leading United Kingdom provincial mid-market brand, following its purchase of the Posthouse portfolio last year. Hilton's position as a leading United Kingdom provincial brand was consolidated through the acquisition of Stakis in 1999 and Marriott's (operated by Whitbread under a master franchise) position was consolidated through its acquisition of Swallow in 2000. Further consolidation of the sector is expected.

London Mid-Market Hotel Sector

London's position as a major international financial centre and tourist destination increases its exposure (relative to the provinces) to the global economy, to international business travel and to in-bound U.S. air traffic in particular. Performance in 2001 suffered due to the decreasing number of international arrivals, initially reacting to the slowdown in the global economy and then, more markedly, following September 11th, 2001. Although less affected than the upscale market which focuses on international business guests, the spare capacity in the market resulted in a 10-15 per cent. decline in the revenues per available room ("**RevPAR**") over 2000 levels. Timing of any recovery will depend, *inter alia*, on improvements in the U.S. economy and, to some extent, whether there is an escalation of hostilities resulting from the events occurring on September 11th, 2001.

The London mid-market hotel sector is fragmented with approximately 35,000 branded rooms, less than two-thirds of which are represented by the leading seven brands. The leading participants are set out in the table below:

Rank	Brand	No. of Rooms	No. of Hotels	Average Rooms per Hotel
1	Thistle	5,420	20	271

Rank	Brand	No. of Rooms	No. of Hotels	Average Rooms per Hotel
2	Hilton	4,973	15	332
3	Holiday Inn	3,418	13	263
4	Imperial London Hotels	3,090	6	515
5	Marriott	1,604	6	267
6	Millennium	1,385	4	346
7	Radisson Edwardian	1,330	8	166

Source: Morgan Stanley & Co. International Limited

Thistle is thus the leading brand in London with approximately 15 per cent. of the branded mid-market sector.

PORTFOLIO OF HOTELS

The Hotels contained in the portfolio comprise of 32 regional and London hotels. The Hotels can be segregated into four categories, each targeting a different market segment. These categories also reflect the nature of the hotels, their location and performance history. The categories consist of City Centre and London, Provincial, Scottish and Provincial Airports, each as further described below.

City Centre and London Hotels

The City Centre Hotels and Location

The City Centre Hotels are Thistle Birmingham City, Thistle Birmingham Edgbaston, Thistle Brighton, Thistle Bristol, Thistle Cardiff, Thistle Liverpool, Thistle Manchester and Thistle Newcastle.

These properties are centrally located in principal cities in the United Kingdom and consist of relatively larger hotels, with between 115 and 266 rooms per Hotel and conference facilities.

The City Centre Hotels account for approximately 27 per cent. of the total value of the portfolio as determined by HVS International and DTZ and with a total of 1,356 rooms represent almost 26 per cent. of the total rooms across the portfolio. The average occupancy levels for the City Centre Hotels for the period between 1998 and 2001 was approximately 68 per cent.

The London Hotels and Location

The London Hotels are Thistle Bloomsbury, Thistle Kensington Palace, Thistle Kensington Park and Thistle Lancaster Gate.

These properties are all located in central London, three of which are located close to Hyde Park and are earmarked for redevelopment to residential use, subject to the granting of the relevant planning permission. The Thistle Bloomsbury, which is not earmarked for residential redevelopment, is a relatively small hotel with 138 rooms. The other three London Hotels are regarded as being mid-sized by London standards with between 285 and 390 rooms per Hotel.

The performance of the London Hotels was marred after the events of September 11th, 2001 with total revenues for the period between October 2001 and January 2002 down by approximately 11 per cent. However, this downturn compares favourably to the downturn experienced by other London hotels as determined by Jones Lang Lasalle Hotel Research (generally down by 33 per cent.).

The London Hotels account for approximately 28 per cent. of the total value of the portfolio as determined by HVS International and DTZ and with a total of 1,166 rooms represent close to 23 per cent. of the total rooms across the portfolio. The average occupancy levels for the London Hotels for the period between 1998 and 2001 was approximately 68 per cent.

Tenure

Each of the City Centre Hotels is held with freehold title except for Thistle Birmingham City and the Thistle Brighton which are both leasehold. The lease of Thistle Birmingham City is due to expire in September 2020 and the lease of Thistle Brighton is due to expire in January 2135.

Each of the London Hotels is held with freehold title except for Thistle Kensington Palace which is leasehold. The lease on Thistle Kensington Palace is due to expire in September 2150.

The following information relates to the financial performance of the City Centre and London Hotels for the four financial years ended 30th December, 2001:

Financial performance figures (EBITDA, ADR and RevPAR)

City Centre and London Hotels Summary Statistics

All Values in Sterling (£)

	1998	1999	2000	2001
	Actual	Actual	Actual	Actual
Occupancy	72.0%	74.5%	74.4%	69.9%
Average Daily Rate	63.6	60.7	62.7	64.0
RevPAR	45.8	45.3	46.7	44.7
		All Values in £m		
Room Revenues	42.1	41.7	43.7	41.1
Total Dept. Revenues	64.3	63.6	65.6	61.6
Total Dept. Expenses	(23.0)	(23.1)	(23.4)	(22.4)
Total Variable Costs	(7.6)	(8.4)	(8.8)	(9.0)
Total Fixed Expenses	(2.4)	(2.4)	(2.7)	(3.1)
EBITDA	**31.3**	**29.7**	**30.8**	**27.1**

Source: Thistle Hotels Plc

Provincial Hotels

The Hotels and Location

The Hotels covered by this category are Thistle Brands Hatch, Thistle Cheltenham, Thistle Exeter, Thistle Haydock, Thistle Luton, Thistle Middlesbrough, Thistle St. Albans, Thistle Stevenage, Thistle Stratford-upon-Avon and Thistle Swindon.

These properties are well located in regional towns and leisure and tourism destinations in the United Kingdom. This category consists of Hotels with between 63 and 151 rooms per Hotel. The Hotels in this category also cater for the business community by providing conference facilities.

This category of Hotels accounts for approximately 20 per cent. of the total value of the portfolio as determined by HVS International and DTZ and with a total of 1,105 rooms represents approximately 22 per cent. of the total rooms across the portfolio. The average occupancy levels for this category of Hotels for the period between 1998 and 2001 was approximately 66 per cent.

Tenure

Each of the Hotels in this category is held with freehold title except for Thistle Luton, Thistle Middlesbrough, Thistle Stratford-upon-Avon and Thistle Swindon, which are all leasehold. The lease of Thistle Luton is due to expire in December 2069, the lease of Thistle Middlesbrough is due to expire in January 2096, the lease of Thistle Stratford-upon-Avon is due to expire in September 2009 and the lease of Thistle Swindon is due to expire in September 2064.

The following information relates to the financial performance of the Provincial Hotels for the four financial years ended 30th December, 2001:

Financial performance figures (EBITDA, ADR and RevPAR)

Provincial Hotels Summary Statistics
All Values in Sterling (£)

	1998	1999	2000	2001
	Actual	Actual	Actual	Actual
Occupancy	61.5%	68.3%	67.3%	66.1%
Average Daily Rate	55.0	55.2	53.5	56.2
RevPAR	33.8	37.7	36.0	37.1
		All Values in £m		
Room Revenues	13.0	13.3	14.4	14.9
Total Dept. Revenues	28.0	28.0	30.1	30.4
Total Dept. Expenses	(11.5)	(12.0)	(13.0)	(13.1)
Total Variable Costs	(4.4)	(3.9)	(4.6)	(4.8)
Total Fixed Expenses	(1.4)	(1.5)	(1.9)	(1.9)
EBITDA	**10.7**	**10.5**	**10.5**	**10.6**

Source: Thistle Hotels Plc

Scottish Hotels

The Hotels and Location

The Hotels covered by this category (being the Scottish Hotels with the exception of the two Provincial Airport Hotels in Scotland referred to below) are Thistle Aberdeen Altens, Thistle Aberdeen Caledonian, Thistle Glasgow, Thistle Inverness and Thistle Irvine.

These properties are all located in Scotland and are concentrated around Aberdeen and Glasgow. Together with the two airport Hotels in and around Aberdeen, Thistle has a strong market presence in the Aberdeen hotel market. The Hotels in this category all provide conference facilities.

This category of Hotels accounts for approximately 16 per cent. of the total value of the portfolio as determined by HVS International and DTZ and with a total of 839 rooms represents approximately 16 per cent. of the total rooms across the portfolio. The average occupancy levels for this category of Hotels for the period between 1998 and 2001 was approximately 66 per cent.

Tenure

Each of the Hotels in this category is held with feuhold title except for the Thistle Aberdeen Altens and the Thistle Glasgow which are both leasehold. The lease of Thistle Aberdeen Altens is due to expire in February 2104 and the lease of Thistle Glasgow is due to expire in January 2106.

The following information relates to the financial performance of the Scottish Hotels for the four financial years ended 30th December, 2001:

Financial performance figures (EBITDA, ADR and RevPAR)

Scotland Hotels Summary Statistics
All Values in Sterling (£)

	1998	1999	2000	2001
	Actual	Actual	Actual	Actual
Occupancy	63.8%	65.0%	66.7%	70.2%
Average Daily Rate	49.7	50.2	49.4	50.2
RevPAR	31.7	32.6	33.0	35.3
		All Values in £m		
Room Revenues	9.7	10.0	10.3	10.8
Total Dept. Revenues	18.5	19.1	20.0	21.1
Total Dept. Expenses	(7.0)	(7.1)	(7.7)	(8.3)
Total Variable Costs	(2.2)	(2.4)	(2.6)	(2.8)
Total Fixed Expenses	(0.9)	(0.9)	(1.0)	(1.1)
EBITDA	**8.4**	**8.7**	**8.8**	**8.9**

Source: Thistle Hotels Plc

Provincial Airport Hotels

The Hotels and Location

The Hotels covered by this category are Skean Dhu Dyce (Aberdeen), Thistle Aberdeen Airport, Thistle East Midlands Airport, Thistle Gatwick Airport and Thistle Manchester Airport. These properties are situated close to some of the main regional airports in the United Kingdom.

This category of Hotels accounts for approximately 10 per cent. of the total value of the portfolio as determined by HVS International and DTZ and with a total of 682 rooms represents close to 13 per cent. of the total rooms across the portfolio. The average occupancy levels for this category of Hotels for the period between 1998 and 2001 was approximately 65 per cent.

Tenure

Each of these Hotels is leasehold except for Skean Dhu Dyce (Aberdeen) and Thistle Manchester Airport, which each are held with freehold or, as appropriate, feuhold title. The lease of Thistle Aberdeen Airport is due to expire in December 2041, the lease of Thistle East Midlands Airport is due to expire in October 2137 and the lease of Thistle Gatwick Airport is due to expire in May 2067.

The following information relates to the financial performance of the Provincial Airport Hotels for the four financial years ended 30th December, 2001:

Financial performance figures (EBITDA, ADR and RevPAR)

Provincial Airport Hotel Summary Statistics
All Values in Sterling (£)

	1998	1999	2000	2001
	Actual	Actual	Actual	Actual
Occupancy	65.4%	65.4%	62.5%	65.6%
Average Daily Rate	48.4	46.3	46.6	49.4
RevPAR	31.7	30.3	29.1	32.4
		All Values in £m		
Room Revenues	7.1	6.8	7.3	8.0
Total Dept. Revenues	13.6	13.4	14.5	15.5
Total Dept. Expenses	(5.3)	(5.5)	(6.0)	(6.2)
Total Variable Costs	(2.0)	(2.1)	(2.2)	(2.4)
Total Fixed Expenses	(0.9)	(0.9)	(1.0)	(1.1)
EBITDA	**5.4**	**5.0**	**5.3**	**5.8**

Source: Thistle Hotels Plc

Share Sale Agreement

Pursuant to a Share Sale Agreement between, *inter alios*, Thistle and Gamma Four Limited (the "**Share Purchaser**") dated 12th March, 2002 (the "**Share Sale Agreement**"), Thistle agreed to sell to the Share Purchaser and the Share Purchaser agreed to purchase from Thistle all of the shares held by Thistle in Exitcluster Limited, Kingsmead Limited and London Park Hotels Limited (each a "**Target Company**" and together the "**Target Companies**"). These companies collectively, either directly or indirectly through certain wholly-owned subsidiaries, owned the Hotels and the Sale Hotels and carried on the hotel businesses in respect of each of them.

The payment made to Thistle pursuant to the Share Sale Agreement was £1 in cash plus the agreement to procure the repayment of approximately £555.4 million by the Target Companies or certain of their subsidiary undertakings (together the "**Sale Group**") of inter-company indebtedness due to Thistle, subject to certain adjustments in respect of working capital employed in the hotel businesses carried on by the Target Companies in respect of the Hotels (the "**Hotel Businesses**"). In addition, LPH London Park Limited, a member of the Sale Group, issued to Thistle a £45 million fixed interest loan note. This loan note is redeemable on the earliest of (a) 1st January, 2005, (b) upon the occurrence of a default on the part of LPH London Park Limited of its obligations under the loan note or an insolvency event in respect of the Employer or (c) the date falling three months after the grant of planning consent in respect of both the Thistle Kensington Park Hotel and the Thistle Kensington Palace Hotel (or if the court application is made for review of any planning consent, the date on which the review is finally disposed of by the court), provided that such redemption shall occur no earlier than 12th July, 2004. The obligations of the Employer under the loan note are guaranteed by the Share Purchaser, Euro & UK Property Limited (the "**Shareholder**") and Orb Estates Plc and secured by a second ranking charge over the shares in HPIJL (see "The Loan and the Related Security - Information on the Loan").

In connection with the sale of the Hotels, Thistle has given customary warranties and indemnities (including a tax indemnity) to the Share Purchaser, subject to limitation provisions, including a threshold amount of £6,000,000 (£4,500,000 in respect of claims under the tax covenant) that must be reached before any claims may be made and then only for the excess (only claims in excess of £100,000 being aggregated towards such threshold amounts). The maximum liability of Thistle in respect of these warranties and indemnities is £45 million. In addition, to be valid, claims made by the Share Purchaser must be notified to Thistle no later than 30th September, 2003 in respect of non-tax matters and not later than seven years after the date of completion of the sale of the Hotels in the case of claims relating to taxation.

The Share Purchaser has agreed to indemnify Thistle (Thistle and its subsidiary undertakings being the "**Thistle Group**") in respect of certain liabilities or potential liabilities to tax relating to a pre-sale reorganisation of the Thistle Group including certain tax liabilities of the Share Purchaser that may be recoverable from Thistle or a subsidiary undertaking of Thistle.

The Share Sale Agreement is governed by English law.

Pursuant to the sale of shares, the Shareholder owns all of the issued share capital of HPIJL which in turn owns all of the issued share capital of the Property Owner. The Shareholder also owns all of the issued share capital of the Share Purchaser which itself directly or indirectly owns all of the issued share capital of the Target Companies. The Employer owns all of the issued share capital of the Charging Companies.

The Property Owner has entered into two English Property Purchase Contracts and a Scottish Property Purchase Contract and London Park Hotels Limited (the Employer) has entered into an Asset Purchase Contract (the "**Property Contracts**") in connection with the purchase of the Hotels by the Property Owner and certain assets related to the Hotels. Pursuant to the Property Contracts, legal and beneficial title to all of the Hotels have been transferred to the Property Owner, save for the Consent Hotels (see "Risk Factors – Legal Title" above).

The Consent Hotels (identified below) are those leasehold Hotels where consent to assignment, charging or assignation to the Property Owner remains outstanding and a transfer of such Hotels between the current legal owner (in each case a Charging Company) and the Property Owner has not yet been completed. During the interim period, pending receipt of the necessary consents, the legal owner of the

relevant Consent Hotel has in each case entered into a third party charge incorporating a first legal mortgage over the relevant Consent Hotel (or a separate standard security in the case of Scottish Hotels that are Consent Hotels) providing additional security for the Borrowers' obligations under the Credit Agreement. Save in relation to Consent Hotels located in Scotland, the Property Owner has a beneficial interest in such Consent Hotels (the consideration for their purchase having been paid) and this interest is charged pursuant to the terms of the Property Owner Debenture. In relation to Consent Hotels situated in Scotland, the legal owner retains the absolute interest in such hotels which are charged pursuant to the standard securities. In relation to a small leasehold car parking area at the Thistle Stratford-upon-Avon, consent to both assignment and charging is required. A third party charge has not been entered into in relation to this leasehold property which will not be charged until the necessary consents have been obtained and the lease is assigned to the Property Owner. MSDW Bank do not consider this to be material in the context of the Loan as a whole and furthermore do not consider the car parking area to be material to the operations of the relevant Hotel.

The Consent Hotels are Thistle Birmingham City; Thistle East Midlands Airport; Thistle London Gatwick; Thistle Kensington Palace; Thistle Stratford-upon-Avon; Thistle Swindon; Thistle Luton; The Glasgow Thistle Hotel; Thistle Aberdeen Airport and Thistle Aberdeen Altens (the "**Consent Hotels**").

Certain of the Charging Companies retain legal title to leasehold Hotels that are beneficially owned by Thistle (the "**Retained Hotels**") and these will, as soon as consent to assignment of the Retained Hotels is obtained from the relevant landlord, be transferred to Thistle.

The security arrangements in relation to the Consent Hotels and Retained Hotels are described in more detail below (see "The Loan and the Related Security – Terms of the Debentures – Third Party Charges").

Operating Agreements

Operating Agreements between, *inter alios*, the Property Owner, Thistle and Thistle Hotels (Management) Limited (the "**Operator**") were entered into on 4th April, 2002 and amended by a Supplemental Agreement dated 4th April, 2002 (each operating agreement as so amended, an "**Operating Agreement**") and relate to the management of each of the Hotels by the Operator for a period of 30 years (subject to early termination in certain circumstances) from 4th April, 2002. The provisions of any Operating Agreement are overridden by provisions of the Relationship Agreement where such provisions of an Operating Agreement conflict with and are at variance with the provisions of the Relationship Agreement, as well as in certain other circumstances.

There is a separate Operating Agreement for each of the 32 Hotels. Each of the Operating Agreements is substantially in a similar form although there are in certain cases additional parties, where such parties have an interest in relevant land. Each Operating Agreement provides that the Property Owner, other than in limited circumstances, will bear the economic and other risks of operating the Hotel and will be solely liable for any operating loss and other costs and expenses relating to the Hotel. The Property Owner will, in addition to assuming responsibility for any such operating losses, provide sufficient working capital and funds in respect of furniture, fixtures and equipment (the latter being funded by regular payments from the Operating Account into the FF&E Reserve Account) to enable the Operator to maintain the efficient operation of the Hotel. The Property Owner is also responsible for providing funds for the cost of refurbishment, alteration and undertaking improvements to the Hotels in accordance with approved capital expenditures. An initial deposit of approximately £11.5 million was, on the Loan being drawn down, to be deposited in the Capex Account in accordance with the Credit Agreement (see "The Structure of the Accounts" below) and, whilst a material part of such sum has already been applied in carrying out capital improvements or has been made available to the Operator for such application, the balance will remain in the Capex Account pending such application. In the event that the Property Owner sells a Hotel (in which case, the consent of the Operator is required) then such sale must be subject to and with the benefit of the relevant Operating Agreement.

The Operator is required by each Operating Agreement to provide management services including: (i) the use of reasonable efforts to maximise patronage of the Hotel and the profitability of the Hotel; (ii) establishing all prices, rates and charges for all services or income of any nature from hotel operations in accordance with Thistle Group pricing policy; (iii) supervising the accounting procedures of the Hotel; (iv) monitoring the food and beverage operations to ensure that they are in line with the operating standards, practices and procedures applied in the United Kingdom by operators of similar 3 and 4 star hotels which are comparable in terms of location and amenities (the "**Hotel Operating Standard**"); (v) subject to a

limit on the amount to be so spent, supervising the marketing activities of the Hotel (including incorporating the Hotel into the international sales and marketing network of the Thistle Group); (vi) connecting the Hotel to the Thistle Group's central reservation service; (vii) maintaining proper records reflecting the results of the operations of the Hotel and preparing and submitting operating budgets to the Property Owner for approval; (viii) within budgetary limits, the repair and maintenance of the Hotel in good and safe operating condition in accordance with the Hotel Operating Standard; (ix) so far as reasonably practicable, obtaining and maintaining the licences and permits required for the operation and management of the Hotel and, so far as reasonably practicable, complying with all laws and regulations and other procedures applicable to the operation of the Hotel; (x) entering into contracts in connection with the operation, management, supervision and direction of the Hotel; (xi) engaging and discharging relevant employees on behalf of and for the account of the Employer and appointing or discharging the hotel manager in each of the Hotels; and (xii) generally performing all acts and entering into all agreements reasonably necessary in connection with the management of the Hotel in an efficient and proper manner; provided that the Operator is not required to perform any of its obligations under an Operating Agreement to the extent that it is prevented from doing so by any act or omission of the Property Owner, Employer or party having an interest in the relevant land. The Operator will operate the Hotels under the Thistle trade marks, using the existing name of each Hotel or such other name as the Operator and the Property Owner may agree from time to time.

The Operator is entitled to certain fees under each Operating Agreement, such fees comprising a basic management fee being a specified percentage of total revenues (compromising all Hotel revenues, receipts, income and proceeds of sales of every kind arising from the operation of the relevant Hotel including food, beverages and room revenue, but excluding certain items including added value and other taxes, service charges paid to employees and insurance proceeds (other than business interruption insurance proceeds) ("**Total Revenue**")) and a marketing fee being a specified percentage of room revenues (comprising revenue from the hiring of rooms, other than conference rooms, at the relevant Hotel). However, during the Guarantee Period, the Operator will only be entitled to receive an amount in respect of basic management fees and marketing fees equal to the amount by which Total Revenue less the cost of providing the management services (but excluding advertising, marketing and promotional costs incurred as part of the Thistle central marketing and advertising programme) ("**Operating Expenses**") for a Hotel ("**EBITDA**") (including for this purpose the amount of such basic management fees and marketing fees) exceed the stipulated minimum amount of EBITDA for that Hotel (the "**Minimum EBITDA**"). Pursuant to the Relationship Agreement, the Operator will, in the circumstances described below, be entitled to an incentive fee (see further "- Relationship Agreement" below). In addition, the Property Owner has agreed to indemnify the Operator and all its officers, agents and employees from and against all losses, damages and liabilities suffered or incurred by the Operator arising as a result of any breach by the Property Owner of its obligations under the relevant Operating Agreement or arising from the Operator's proper performance of its obligations under the relevant Operating Agreement. The Property Owner has also agreed in certain circumstances to indemnify the Operator against any employment costs where and to the extent that such employment costs are not regarded as being an Operating Expense.

During the period of the Operating Agreements, the Operator is required to procure that there is at all times insurance cover (with the interests of the Security Trustee noted on each policy, as discussed above) in respect of specified risks in relation to the Hotels, in each case to the extent such insurance is available and considered appropriate by the Property Owner and the Operator, each acting reasonably. Such insurance should, subject to the above, include insurance in respect of loss or damage, by such risks as are usually insured against in respect of similar properties for similar use, to buildings, contents and stock, business interruption resulting from loss or damage and general public and product liability arising from the ownership, occupation or operation of the Hotels. The cost of all insurance policies required by the Operating Agreements will be regarded as an Operating Expense (see further "Property Overview" above). If a Hotel is damaged or destroyed by fire, accident or other insured peril, the Property Owner should, subject to the following, reinstate the Hotel to substantially the condition it was in before such damage or destruction. However, if the cost of reinstatement exceeds 30 per cent. of the total value of the Hotel, the Property Owner may, subject to the payment of the required termination fee, terminate the relevant Operating Agreement. If the Property Owner does not reinstate the Hotel as aforesaid within three years of the occurrence of the damage or destruction, the Operator may terminate the relevant Operating Agreement.

The Property Owner is entitled to terminate an Operating Agreement if the Operator commits certain breaches under an Operating Agreement and may also, amongst other reasons, terminate an Operating Agreement on the giving of six months notice to the Operator that the Property Owner wishes to redevelop

a Hotel. If an Operating Agreement is terminated by reason of the destruction, expropriation (save where the Property Owner receives by way of compensation less than 50 per cent. of the book value of the Hotel) or redevelopment of the related Hotel or as a result of a Property Owner default or the occurrence of a Force Majeure Event, the Operator is entitled to a termination fee equal to four times the average annual management fees received by the Operator over the preceding three financial years (or, if the period since the execution of an Operating Agreement if less than three years, an amount calculated by reference to the management fees received by the Operator for each completed financial period since the execution of such Operating Agreement). Notwithstanding the above, if an Operating Agreement is terminated within one financial year of the entering into of such Operating Agreement, a higher termination fee is payable. The Operator has the right to terminate an Operating Agreement if the Property Owner unreasonably refuses or withholds any consent or approval, including approval of a budget with respect to expenditure, and the Operator is of the view that it would compromise the ability of the Operator to maintain and operate the Hotel in accordance with the Hotel Operating Standard. The Operator may also terminate an Operating Agreement for breach of the terms thereof by the Property Owner or if the Property Owner sells a Hotel in certain circumstances (including without the consent of the Operator).

Each of the Operating Agreements contains a force majeure provision which provides that if a party to such Operating Agreement is prevented, hindered or delayed from or in performing any of its obligations under that Operating Agreement, other than a payment obligation, by an event beyond the reasonable control of the affected party, that materially and adversely affects the ability of the affected party to perform its obligations under that Operating Agreement (including acts of terrorism, strikes, act of God, malicious damage, compliance with law or governmental order, fire, flood or storm) (each a "**Force Majeure Event**"), the affected party's obligations under that Operating Agreement will be suspended to the extent that it is so prevented, hindered or delayed while the Force Majeure Event continues. If the Force Majeure Event continues for a period of three months, a party may terminate such Operating Agreement.

The Property Owner has agreed not to sell, lease, assign or transfer the whole of its interest in a Hotel without the prior written consent of the Operator, such consent not to be unreasonably withheld. However, the parties to an Operating Agreement have acknowledged that such consent may be withheld by the Operator's sole discretion in the case of a sale, lease, assignment or transfer to any person (i) who is not of good business character, (ii) which is unable to perform the Property Owner's obligations under the relevant Operating Agreement and/or (iii) which is a competitor of the Operator. The Property Owner may grant security over a Hotel provided that the chargee enters into an agreement with the Operator that in the event it enforces such security it will not dispose of the Hotel except subject to and with the benefit of the relevant Operating Agreement and upon terms that the acquiror of the Hotel will assume all obligations and liabilities of the Property Owner.

The obligations of the Property Owner under the Operating Agreements are guaranteed by Euro & UK Property Limited and Orb Estates Plc, affiliates of the Property Owner, on a joint and several basis. The obligations of the Operator under the Operating Agreements are guaranteed by Thistle.

Each of the Operating Agreements is governed by English law.

Relationship Agreement

A Relationship Agreement between, *inter alios*, the Property Owner, Thistle and the Operator was entered into on 4th April, 2002 (and amended by a deed of variation dated 19th June, 2002) (the "**Relationship Agreement**") and governs certain aspects of the relationship between the Thistle Group and the Property Owner. The provisions of the Relationship Agreement are stated to override any provision contained in each Operating Agreement which conflicts or is at variance with the provisions of the Relationship Agreement and the provisions of the Relationship Agreement displace certain of the provisions of the Operating Agreements in certain other circumstances as well. In the event that the Property owner disposes of a Hotel, the Relationship Agreement would no longer apply to such Hotel, but the Operator should continue to have the benefit of and be bound by the terms of the relevant Operating Agreement.

For the period of the Guarantee Period, the Relationship Agreement contains a requirement upon the Operator to pay on a quarterly basis into the Agency Account an amount such that the aggregate EBITDA for the relevant part of a financial year at least equals (a) the aggregate Minimum EBITDA for that period less (b) the aggregate amounts previously paid by the Operator during such period. The amount of such

quarterly payments, if any, will be dependent upon trading results. If, during the Guarantee Period, the aggregate amount previously paid by the Operator in a financial year pursuant to the above exceeds the amount by which relevant aggregate Minimum EBITDA exceeds the relevant aggregate EBITDA figure then the Property Owner shall pay to the Operator the excess.

"**Guarantee Period**" means the period expiring on the earlier of the 10th anniversary of the date of the Relationship Agreement (or if earlier, the date on which the full Guarantee Amount is paid), the "**Guarantee Amount**" being at any time two times the aggregate Minimum EBITDA applicable at that time less any such amount previously paid. Thistle's maximum aggregate liability under this provision of the Relationship Agreement is capped at the Guarantee Amount. Following completion of the sale of the Sale Hotels, the aggregate Minimum EBITDA will be £41,570,729 per annum for a maximum of two years (i.e. £83,141,458 in total). The Guarantee Amount will be adjusted upon the termination of any Operating Agreement in respect of any Hotel.

Pursuant to the Relationship Agreement, the Operator may be entitled to receive, in addition to any management fee and marketing fee, an incentive fee. At the end of each quarter period, the Operator will calculate its entitlement to an incentive fee (the Property Owner being capable of objecting to such calculation) which in turn depends upon the annual aggregate EBITDA of the Hotels (adjusted to take account of certain items including management fees and marketing fees); the incentive fee being a percentage of the annual aggregate EBITDA in excess of certain thresholds.

For the period of one year from the date of the Relationship Agreement, no sums may be withdrawn from the FF&E Reserve Account into which the Property Owner has placed £5,500,000 and the Property Owner is required to maintain a balance in the FF&E Reserve Account of not less than £5,500,000 for the period of the Relationship Agreement. In addition, during the year following the date of the Relationship Agreement, the Property Owner is required to make the sum of approximately £11.5 million available for the capital expenditure programme set out in the Operating Agreements, such amount to be deposited in the Capex Account out of the proceeds of the Loan. Whilst a material part of such sum has already been applied in carrying out capital improvements or has been made available to the Operator for such application, the balance will remain available for such purposes.

The Relationship Agreement also contains terms which are designed to ensure that the Hotels are provided with marketing services (the Operator agreeing that there will be no discrimination between the marketing services for the Hotels and those for the hotels owned by the Thistle Group), purchasing services, technological support, property and building management support and accounting support. Thistle has undertaken in favour of the Property Owner to procure that there is no material discrimination between the level of management and operation of the Hotels to the level of management and operation of other hotels owned or operated by the Thistle Group.

The obligations of the Property Owner under the Relationship Agreement are unconditionally guaranteed by Euro & UK Property Limited and Orb Estates Plc on a joint and several basis. The obligations of the Operator under the Relationship Agreement are guaranteed by Thistle. As security for Thistle's payment obligations in relation to Minimum EBITDA pursuant to the Relationship Agreement, Thistle procured the delivery of the two Letters of Credit on the signing of the Relationship Agreement and Thistle has agreed, subject to the Property Owner paying all fees incurred by Thistle in procuring and maintaining the Letters of Credit, to maintain the Letters of Credit for the Guarantee Period.

The Relationship Agreement is governed by English law.

Minimum EDITDA

The following table sets out the Minimum EBITDA for each of the categories of Hotels:

	Minimum EBITDA **All Values in Sterling (£)**
City Centre and London	22,065,003
Provincial	8,393,317
Scotland	6,903,106
Provincial Airports	4,209,303
Total	**41,570,729**

THE LOAN AND THE RELATED SECURITY

For the purposes of this section, any reference to the "**Lender**" should be construed as a reference to MSDW Bank and, following assignment of the Loan to the Issuer, a reference to the Issuer.

1. Origination of the Loan

The Loan was drawn down on 11th March, 2002, pursuant to the Credit Agreement dated 8th March, 2002 (as subsequently amended by a supplemental agreement and an amendment and restatement agreement, each dated 28th June, 2002).

2. Legal Due Diligence

Following the approval in principle by MSDW Bank of the loan facility, certain legal due diligence procedures were followed. Details of these procedures are set out below.

(A) General Information

MSDW Bank's external English legal advisers in relation to the origination of the Loan and in relation to Hotels situated in England and Wales were Messrs. Denton Wilde Sapte ("**Denton Wilde Sapte**"). Denton Wilde Sapte initially obtained (and, where reasonably possible, checked) general information relating to the facility offered under the Credit Agreement including details of the Borrowers' shareholders; any borrowings that they have entered into; the accounts to be operated in connection with the Loan; and management and insurance of the Hotels.

(B) Hotel Title Investigation

An important part of the legal due diligence process undertaken in connection with the origination of the Loan was to verify that the Property Owner (or relevant Charging Company, as appropriate) would have good title to the Hotels, free from any encumbrances or other matters which would be considered to be of a material adverse nature.

(a) Certificates of Title

The Borrowers' solicitors, in England (Messrs. Fladgate Fielder) and in Scotland (Messrs. Anderson Strathearn) prepared and issued certificates of title in relation to the Hotels.

Each certificate of title is in the form recommended by the City of London Law Society (with appropriate amendments in respect of the Scottish Hotels and subject to a small number of minor qualifications where relevant information was not available) which prescribes comprehensive information that is to be set out in relation to each Hotel.

(b) Reports on Certificates of Title

Denton Wilde Sapte in relation to the English Hotels reviewed the draft form of certificate to ensure that it had been issued in the City of London Law Society's format as agreed. Once the draft certificates of title were issued, they raised requisitions in case of omissions, ambiguities or material disclosures in the certificate of title and satisfied themselves in relation to any issues that arose from the certificates.

Denton Wilde Sapte then prepared a summary report for MSDW Bank in relation to the English Hotels, in each case confirming (if appropriate), approval of the form and content of the relevant certificate of title and highlighting any matters contained in the certificate which Denton Wilde Sapte considered should be drawn to the attention of MSDW Bank and its valuers.

Denton Wilde Sapte checked that the valuers providing the valuation of the Hotels had a copy of the certificates in relation to all the Hotels, and they cross checked and verified basic details relating to the English Hotels (namely tenure and term and rents for any occupational tenancies) set out in the valuation provided by the valuers.

In relation to Scottish Hotels, MSDW Bank appointed lawyers in Scotland (Messrs. Tods Murray W.S. ("**Tods Murray**")), to undertake a due diligence process analogous to that which Denton Wilde Sapte undertook in relation to the English Hotels.

(C) Environmental Report

In relation to each of the Hotels, MSDW Bank commissioned an environmental report (undertaken by Environ (UK) Limited). A brief reference to the results of these reports is set out in the sections headed "Property Overview – Environmental Report" and "Risk Factors – Environmental Risks" above.

(D) Capacity of Parties

In relation to the Property Owner, the Shareholder, the Employer and those of the Charging Companies, Denton Wilde Sapte have satisfied themselves at drawdown of the Loan that the relevant company is validly registered or incorporated, as the case may be, has sufficient power and capacity to enter into the transactions, whether it is subject to any existing mortgages or charges (and noting that there is no register of company security interests in Jersey) whether it is the subject of any insolvency proceedings, and generally that any formalities required to enter into the transaction with MSDW Bank have been (or would be by completion) completed.

In relation to HPIJL and the Share Purchaser, lawyers competent in Jersey, in relation to the Shareholder, lawyers competent in the British Virgin Islands ("**BVI**") and in relation to the Operator, lawyers competent in Scotland (in each case being the jurisdiction where the companies referred to are incorporated) were appointed to undertake, taking account of jurisdictional differences (and noting that there is no register of company security interests in Jersey), a similar process to that undertaken by Denton Wilde Sapte in relation to the Property Owner. The Jersey lawyers, BVI lawyers and Scots lawyers were required to deliver an appropriate legal opinion prior to drawdown of the Loan confirming, *inter alia*, that the choice of English law to govern the documentation (save in relation to the security over the Scottish Hotels and the security over the Jersey-situs assets) will be recognised and upheld.

(E) Reliance on Legal Due Diligence

The summary reports prepared by Denton Wilde Sapte and Tods Murray referred to above are addressed to MSDW Bank and the Security Trustee; they will not be addressed either to the Issuer or the Trustee. The Issuer will instead rely solely on the representations and warranties of MSDW Bank contained in the Loan Sale Agreement (see "Acquisition - Loan Sale Agreement" below) and will assign its rights under that agreement to the Trustee as part of the Issuer Security.

(F) Insurance

The Operator is obliged to insure the Hotels in the joint names of the Property Owner and itself against specified risks with the interest of the Security Trustee noted on the insurance policies. These obligations to insure the Hotels in relation to specified risks are contained in the Operating Agreements and the Credit Agreement respectively (see "Terms of the Loan – Undertakings" below and "Property Overview" above).

3. Drawdown and Post-Completion Formalities

Denton Wilde Sapte will ensure that all necessary English registration formalities and the service of notices are dealt with at drawdown of the Loan or, as appropriate, within any applicable priority or other time periods following drawdown. In relation to Jersey, Scotland and BVI, appropriate undertakings have been obtained from the relevant lawyers in each jurisdiction to attend to such matters in the same manner as necessary.

In relation to registrations at H.M. Land Registry, Denton Wilde Sapte obtained an unconditional undertaking from the solicitors to the Borrowers to make applications in respect of the registrations and forward the relevant charge certificate when the registration has been completed (and, in the meantime, to hold the deeds to the order of Denton Wilde Sapte on behalf of the Security Trustee).

In relation to the Hotels located in Scotland, Tods Murray obtained unconditional undertakings from the Borrowers' solicitors to make applications in respect of the registration or recording of the standard securities at the Land Registry of Scotland or the General Register of Sasines. The Charge Certificates and

other deeds will be forwarded to Tods Murray upon completion of the registration or recording. Pending such completion, the deeds of the Scottish Hotels will be held by the Borrowers' Scottish solicitors to their order on behalf of the Security Trustee.

4. Information on the Loan

The loan and security package in relation to the Loan comprises the Credit Agreement (as amended – see above) and, *inter alia*, a debenture from each of HPIJL (the "**HPIJL Debenture**"), the Property Owner (the "**Property Owner Debenture**") and London Park Hotels Limited (the "**Employer Debenture**") as well as third party charges from the Charging Companies and standard securities, where applicable, over the Scottish Hotels (the "**Third Party Charges**").

The Property Owner Debenture incorporates a first legal mortgage over the Hotels (other than the Scottish Hotels in relation to which Scottish Mortgages have been granted and the Consent Hotels where interim security is given by the Charging Companies by way of Third Party Charges (see "Acquisition and Operation of the Hotels")) together with first fixed charges over other property (including the Property Owner's beneficial interest in the Consent Hotels (other than the three Consent Hotels situated in Scotland)) of the Property Owner and a floating charge over all the Property Owner's assets (other than those previously charged by way of a fixed charge but extending over all assets situated in, or governed by the laws of, Scotland). In respect of the Property Owner's interest in the Borrowers' Accounts, security is constituted by the Bank Accounts Charge. Under the HPIJL and Employer Debentures, each chargor gives a first fixed charge over its interest in any real property which it owns or in which it has an interest (neither currently owns such property), or which it will own or in which it will have an interest in the future and certain other assets as well as a floating charge over all its assets (other than those charged by way of fixed charge).

The Shareholder, the Share Purchaser and the Charging Companies have entered into a subordination agreement with, *inter alios*, the Borrowers in order to subordinate any claim they or any of them may have against the Borrowers or any of the Charging Companies to any claim of the Lender or the Security Trustee in respect of liabilities arising under or in connection with the Finance Documents (as defined below).

Share charges or security interests have been given over all of the issued share capital of the Borrowers, the Share Purchaser and all of the shares in each of the Charging Companies and Target Companies. In relation to the shares in HPIJL, the Shareholder has granted a second ranking security interest over such shares in favour of Thistle to secure the obligations of LPH London Park Limited under the Loan Note; the first and second ranking charges are subject to a Deed of Priority.

The security documentation is described in more detail under "Terms of the Debentures" and "The Additional Related Security" below.

The Loan is scheduled (subject to any prepayment, see "Interest and Repayments" below) to be repaid on 5th May, 2005 (the "**Loan Redemption Date**").

The payments to be made by the Borrowers to the Debt Service Reserve Account pursuant to the terms of the Loan, and subject to there being cash available for such purposes, are set out in the following table:

Quarterly Period End Date	Amounts Payable to Debt Service Reserve Account
	(£)
5th August, 2002	-
5th November, 2002	-
5th February, 2003	2,750,000
5th May, 2003	3,000,000
5th August, 2003	3,250,000
5th November, 2003	3,500,000
5th February, 2004	3,750,000
5th May, 2004	4,000,000
5th August, 2004	4,250,000
5th November, 2004	4,500,000
5th February, 2005	4,750,000
5th May, 2005	5,000,000
Total	**38,750,000**

No payment will be made from the Agency Account into the Debt Service Reserve Account if there is less than £20,000,000 standing to the credit of the Agency Account. To the extent a transfer to the Debt Service Reserve Account would result in the credit to that account exceeding £10,000,000, such amounts shall instead be used to make a repayment of the Loan.

Interest is payable in relation to the Loan at a fixed rate, accrues daily and is payable quarterly in arrear. The interest rate is an aggregate of a fixed rate plus a margin, plus Mandatory Costs, if any, imposed by the Financial Services Authority in respect of sterling lending. The Loan contains various provisions as to voluntary and mandatory prepayment.

5. Terms of the Loan

The Credit Agreement is governed by English law. MSDW Bank is the initial Lender and is entitled to assign to the Issuer, without restriction, all or any of its rights under the Credit Agreement and its beneficial interest in the Security Trust.

A summary of the principal terms of the Credit Agreement is set out below. Words and expressions used in this section are either specifically defined below or elsewhere in this Offering Circular.

"**2QP Interest Cover Percentage**" means, on any relevant date, the proportion (expressed as a percentage) which EBITDA for the immediately preceding two quarterly periods (or, if less than two quarterly periods have elapsed, the EBITDA for the period from Completion to the relevant date) bears to the amount of interest payable on the Loan for the immediately preceding two Interest Periods (or, if interest has accrued for less than two Interest Periods, the interest which has accrued on the Loan for the period from Completion to the relevant date).

"**4QP Interest Cover Percentage**" means, on any relevant date, the proportion (expressed as a percentage) which EBITDA for the immediately preceding four quarterly periods (or, if less than four quarterly periods have elapsed, the EBITDA for the period from Completion to the relevant date) bears to the amount of the interest payable on the Loan for the immediately preceding four Interest Periods (or, if interest has accrued for less than four Interest Periods, the interest which has accrued on the Loan for the period from Completion to the relevant date).

"**Acquisition Agreement**" means the agreement relating to the purchase of the shares in the Target Companies by the Share Purchaser.

"**Acquisition Documents**" means:

(a) the Acquisition Agreement;

(b) each English Property Purchase Contract;

(c) the Scottish Property Purchase Contract;

(d) the Asset Purchase Contract;

(e) the Buyer Tax Covenant; and

(f) the Seller Tax Covenant.

"**Asset Purchase Contract**" means the contract relating to the purchase of the Hotel Business assets by the Employer.

"**Buyer Tax Covenant**" means the covenants given by the buyer in respect of tax matters pursuant to the terms of the Acquisition Agreement.

"**Charging Companies**" means Kingsmead Hotels Limited, Mount Charlotte Hotels Limited, LPH London Park Limited, Arden Hotel (Stratford-upon-Avon) Limited, Gale Six Limited, LPH Angus Limited, Picnic Basket Restaurants Limited and London Park Hotels Limited.

"**Completion**" means the completion of the purchase of the freehold properties and certain leasehold properties pursuant to the relevant English Property Purchase Contract.

"**English Property Purchase Contract**" means each contract for the purchase of the English Hotels by the Property Owner.

"**Environmental Report**" means the report prepared by Environ (UK) Limited relating to the Hotels.

"**FF&E Letter of Credit**" means a letter of credit in favour of the Security Trustee (which has not been issued but in respect of which a cash deposit in the amount of £5,500,000 has been provided).

"**Finance Document**" means the Credit Agreement, the Security Documents and any other document designated as such by the Lender and the Borrowers.

"**Gross Revenue**" means total revenues (comprising all Hotel revenues, receipts, income and proceeds of sales of every kind arising from the operation of the relevant Hotel including food, beverages and room revenue, but excluding certain items including added value and other taxes, service charges paid to employees and insurance proceeds (other than business interruption insurance proceeds) plus VAT.

"**Group**" means the Borrowers, the Charging Companies and the Target Companies; and "**Group Company**" means any one of them.

"**Headlease**" means a lease pursuant to which the Property Owner or a Charging Company holds a Hotel.

"**Initial Valuation**" means the valuation on the basis of open market value of the Borrowers' interest in all of the Hotels provided by (DTZ and HVS International) prior to the drawdown of the Loan.

"**Interest Cover Percentages**" means the 2QP Interest Cover Percentage and the 4QP Interest Cover Percentage.

"**Letters of Credit**" means the letters of credit in the agreed form executed by the Letters of Credit Provider in favour of the Security Trustee, as described in the Relationship Agreement.

"**Due Diligence Report**" means the report dated on or about the date of this Agreement prepared by Denton Wilde Sapte and addressed to the Lenders and the Security Trustee.

"**Loan Note**" means the £45,000,000 5 per cent. subordinated Loan Notes due 2005 issued by LPH London Park Limited.

"**Non Hotel Asset**" means any asset of the Borrowers or any of them which is not a Hotel or any furniture, fixture or equipment of a Hotel.

"**Permitted Encumbrance**" means any Security Interest created under the Finance Documents, any right of set-off or lien, in each case arising by operation of law, any retention of title to goods supplied to a Group Company in the ordinary course of its trading activities and the Share Charge in relation to HPIJL.

"**Permitted Indebtedness**" means Indebtedness outstanding under any Finance Document, any indebtedness subordinated pursuant to the Subordination Agreement, and indebtedness under the Loan Note;

"**Property Due Diligence Report**" means the reports or certificates of title in respect of the Hotels prepared by the Borrowers' solicitors.

"**Scottish Property Purchase Contract**" means the contract for the purchase of the Scottish Hotels by the Property Owner.

"**Security Documents**" means the HPIJL Debenture, the Property Owner Debenture, each Third Party Charge, each Scottish Mortgage, each supplemental debenture, the Subordination Agreement, each of the Share Charges, the Direct Agreement, the FF&E Letter of Credit, the Letters of Credit, the Bank Accounts Charge, the Acquisition Charge, the Employer Debenture, each supplemental assignment, the Priority Agreement and any other document creating security for the Borrowers' obligations under the Finance Documents.

"**Security Interest**" means any mortgage, standard security, pledge, lien, charge, assignment, hypothecation or security interest or any other agreement or arrangement having the effect of conferring security.

"**Seller Tax Covenant**" means the covenants given by the seller in respect of tax matters pursuant to the terms of the Acquisition Agreement.

"**Target Companies**" means Exitcluster Limited, London Park Hotels Limited and Kingsmead Hotels Limited.

(A) Amount of the Loan, Drawdown and Further Advances

The outstanding principal amount of the Loan (referred to herein as the "**Loan Amount**") when the loan was advanced was £598,000,000, but following the sale of the Sale Hotels and the consequential repayment in part of the Loan, the Loan Amount was reduced to £531,189,624. The amount of the Loan required to pay the purchase price for the Hotels and Sale Hotels was initially credited to an Escrow Account after which, following satisfaction of all of the relevant conditions precedent, it was applied towards financing the acquisition of the Hotels and Sale Hotels by the Property Owner.

The Credit Agreement places no obligation on the Lender, nor will there be any obligation upon the Issuer, to make any further advance to either Borrower and, following the sale to the Issuer of the Loan and the transfer of the beneficial interests in the Security Trust, the Servicer will not be permitted under the terms of the Servicing Agreement to agree to any amendment of the Credit Agreement that would allow any further advances to Borrowers to be made on behalf of the Issuer.

(B) Conditions Precedent to Drawdown

The Lender's obligation to advance the Loan to the Borrowers under the Credit Agreement was subject to its receiving, in the usual manner, certain documentation as a condition precedent to the drawdown and release of funds. The documentation required included, *inter alia*, constitutional documents in relation to the Borrowers, the Charging Companies and other parties to the Finance Documents; certified

copies of the Acquisition Documents and the due diligence reports (referred to above); all title deeds licences and consents relating to the Hotels and the Sale Hotels and the Operating Agreements and Relationship Agreement; evidence of insurance cover; duly executed Security Documents (and releases of any existing security); and all appropriate legal opinions.

The Lender's obligation to advance the Loan Amount was also contingent upon the representations and warranties (as described below) being correct at the date of the drawdown of the Loan (and immediately after the advance of the Loan Amount).

(C) Interest and Repayments

Interest is payable quarterly in arrear on Loan Payment Dates in respect of successive interest periods (each referred to herein as an "**Interest Period**").

The Loan is repayable in full on the Loan Redemption Date, subject to various provisions regarding prepayment in whole or in part.

The provisions regarding prepayment of the Loan permit the Borrowers to prepay the Loan on any Loan Payment Date (or at any other time provided an amount of interest as would have been payable on the amount prepaid if prepaid on the next Loan Payment Date will also be payable) in whole or in part (subject to a minimum amount of £250,000) on giving not less than 30 days' prior notice to the Lender and, under certain circumstances, subject to payment of certain agreed prepayment fees.

Such prepayment fees will not be payable in circumstances, *inter alia*, where the Borrowers prepay on account of an increase in the Lender's costs which have been passed on to it; or where the Borrowers are obliged to gross-up interest payable on the Loan; or on application of disposal proceeds of a Redevelopment Property (as defined below); or on application of the Debt Service Reserve Account surplus in prepayment of a part of the Loan; or on the disposal of the Redevelopment Properties.

The Borrowers have granted the Lender the right of first refusal on any refinancing of the Loan or any part of it on the same terms and conditions as may be offered by any other person.

(D) Accounts

The Borrowers are required to procure that the Borrowers' Accounts are opened in the name of the Property Owner. (See "The Structure of the Accounts – The Borrowers' Accounts" below).

In relation to each Hotel, an account has also been opened in the name of the Operator into which Gross Revenue is credited. The credit balance in each such account (being funds of the Property Owner to be held on trust by the Operator for the Property Owner pursuant to the terms of the Relationship Agreement) is paid by the Operator (via four regional accounts in the name of the Operator) into a central Operating Account. The only security granted over the Operating Accounts is pursuant to the floating charge element of the Property Owner's Debenture in respect of its beneficial interest in the monies held in such accounts (see "Risk Factors – Accounts").

The Agency Account, a master bank account to which the Property Owner has (subject to the terms of the Bank Accounts Charge) the sole signing authority has been opened by the Property Owner and on a daily basis the Operator is required to sweep from the Operating Account into the Agency Account all moneys other than (a) that required to ensure the uninterrupted and efficient operation of the Hotels and (b) sums payable to the Operator or to be available to the Operator in accordance with the Operating Agreements and the Relationship Agreement.

The accounts referred to above and the other accounts into which monies are obliged to be credited are referred to below as are the obligations to make payments into such accounts (see "The Structure of the Accounts – The Borrowers' Accounts" below).

(E) Disposal of Hotels

The Borrowers are permitted under the terms of the Credit Agreement, to dispose of a Hotel (a "**Released Property**") where the net disposal proceeds of the Released Property are 115 per cent. or more of the amount of the Loan attributed to that Released Property when initially advanced. However, in

relation to the Redevelopment Properties the Lender requires the net disposal proceeds to be a specified amount in excess of 115 per cent. of the amount of the Loan attributed to that Redevelopment Property (so as to reflect the enhanced value of such Hotels following the grant of such planning permission).

The net disposal proceeds of a Released Property must be applied in making a repayment of the Loan unless the net disposal proceeds exceed the amounts required to be repaid (referred to in the preceding paragraph) in which case such excess can either be transferred to the Borrowers as they direct or to the Sales Account.

On any disposal of a Non Hotel Asset, the net disposal proceeds are to be paid into the Debt Service Reserve Account.

(F) Representations and Warranties

The representations and warranties contained in the Credit Agreement are made to MSDW Bank as Lender by each Borrower in respect of itself and (as appropriate) each other security provider and each Target Company on the date of the Credit Agreement, the date of the request to drawdown funds and on each Loan Payment Date. The representations and warranties include, *inter alia*, statements to the following effect:

(a) each company is duly incorporated as a limited liability company and has the requisite power to enter into, perform and deliver the Finance Documents;

(b) no Loan Event of Default has occurred or might occur as a result of making the Loan and there is no litigation or other proceedings which might have a material adverse effect on the performance of its obligations under the Finance Documents;

(c) the information supplied to the Lender and/or Security Trustee in connection with the Finance Documents and provided for the purposes of valuations and the Property Due Diligence Report is true, complete and accurate;

(d) the Property Owner and the Charging Companies (as appropriate) are the legal and beneficial owners of the Hotels;

(e) the security conferred by each of the Security Documents constitutes a first priority security interest of the type described and no other Security Interest (other than a Permitted Encumbrance) exists over such assets;

(f) since the date of its incorporation, each company has only carried on business in connection with its ownership of the Hotels; and

(g) neither Borrower is required by any provision of law in its country of incorporation to pay interest otherwise than in full without deduction for tax or any other purpose.

(G) Undertakings

The Borrowers give various undertakings in the Credit Agreement (and in relation to Group Companies as appropriate) which take effect so long as any amount is outstanding under the Loan. The undertakings include, *inter alia*, the following:

(a) to provide accounts for each Group Company and provide financial information in relation to each Hotel as well as budgets for each financial year and such other financial information as the Security Trustee reasonably requests;

(b) to give notice of any Loan Event of Default under the Credit Agreement;

(c) not to permit or allow any security interest to arise over its assets and not to incur any other financial indebtedness other than Permitted Indebtedness;

(d) not to carry on any business other than the ownership and management of its respective interests in the Hotels;

(e) not, *inter alia*, to repay any principal or interest in relation to any other borrowings, nor to repay or redeem any of its share capital, nor to pay any dividend, save in certain specifically permitted circumstances;

(f) not to sell, transfer lease or otherwise dispose of any assets (save for short term occupational lease on normal commercial terms);

(g) to insure the Hotels on specified terms, and ensure that the interest of the Security Trustee is noted on each insurance policy;

(h) the Borrowers will preserve and enforce their rights under the Property Contracts and procure that the Shareholder does the same in relation to the Acquisition Agreement and Seller Tax Covenant and the Property Owner will preserve and enforce its rights, and perform and discharge its obligations and liabilities, under the Operating Agreements and the Relationship Agreement;

(i) the Property Owner will:

(i) apply for (and use best endeavours to obtain) Planning Permission in relation to Thistle Lancaster Gate and either one of Thistle Kensington Park or Thistle Kensington Palace within 180 days of their purchase, and within 364 days apply for (and use best endeavours to obtain) Planning Permission in relation to the remaining one hotel; and

(ii) within 30 days of the grant of Planning Permission, dispose of the relevant Hotel and make a part repayment of the Loan in the specified amount;

(j) the Borrowers will ensure that the Letters of Credit and the FF&E Letter of Credit are in full force and effect (or in the latter case, in the alternative, ensure that a £5,500,000 cash deposit is provided);

(k) the Borrowers undertake to apply the Capex Deposit in undertaking the capital expenditure specified in the Initial Valuation before 31st March, 2003;

(l) not to pay down the Loan Note nor pay any interest in respect of it; and

(m) the Borrowers will ensure that the Interest Cover Percentages exceed 110 per cent.

(H) Loan Events of Default

The Credit Agreement contains usual events of default (each a "**Loan Event of Default**") entitling the Lender to terminate the Loan and/or enforce its security. These include, *inter alia,* the following:

(a) the failure to pay on the due date any amount due under the Finance Documents;

(b) breach of obligations under the Finance Documents;

(c) any representation, warranty or statement is incorrect;

(d) any Borrower or any other Group Company or the Operator or Thistle, is deemed insolvent or unable to pay its debts or other insolvency acts or events occur;

(e) the Security Documents fail to create the intended Security Interests or the Subordination Agreement or the Direct Agreement or any Letter of Credit is not binding;

(f) the entire equity share capital of the Borrowers ceases to be beneficially wholly owned, either directly or indirectly, by the Shareholder, and the equity share capital of the other Group Companies ceases to be owned (within the Group) as specified in the Credit Agreement;

(g) an event occurs in relation to any Borrower or other Group Company or a Hotel which the Lender considers would materially adversely affect the Borrowers or any other Group Company's ability to comply with the Finance Documents; and

(h) if a Headlease is forfeit and action to seek relief from forfeiture (or the Scottish equivalent) is not diligently pursued or an action for relief is dismissed by the court.

It is agreed that certain events of default can be remedied by the appointment of a replacement Operator in accordance with the terms of the Credit Agreement.

6. Terms of the Debentures

Terms of the Debentures and Third Party Charges

HPIJL and the Property Owner have each entered into debentures (the HPIJL Debenture and the Property Owner Debenture respectively) and the Employer has entered into a debenture (the Employer Debenture), in each case in favour of the Security Trustee (together, the HPIJL Debenture, the Property Owner Debenture and the Employer Debenture, referred to as the "**Debentures**").

The Charging Companies which remain legal or heritable proprietors of Consent Hotels at Completion, have granted Third Party Charges to the Security Trustee over their legal entitlements to the Consent Hotels. The Debentures and the Third Party Charges provide security for all the obligations of the Borrowers to the Lender pursuant to the Credit Agreement and are drafted on a security trust basis so that the Security Trustee holds the security created pursuant to the Debentures and the Third Party Charges on trust for the Secured Parties, being the Lender and the Security Trustee.

(A) Creation of Security

Subject to the statements below regarding the Consent Hotels (over which security is granted in respect of the legal title by the Third Party Charges), the Property Owner has granted a first ranking charge by way of legal mortgage or standard security in favour of the Security Trustee over each Hotel and a first fixed charge over all estates or interests in freehold, feudal or leasehold property belonging to it (including its beneficial interest in the Consent Hotels other than the three Consent Hotels situated in Scotland which are subject to a fixed charge pursuant to the relevant standard security) or subsequently acquired by the Property Owner. The Property Owner has also granted a first fixed charge in respect of its interests in the English Property Purchase Contracts and the Scottish Property Purchase Contracts. Each of HPIJL and the Employer has granted a first fixed charge in favour of the Security Trustee over all estates or interests in freehold or leasehold property belonging to it (or subsequently acquired by it). Neither HPIJL or the Employer currently own any interest in real property.

In each of the Debentures, each chargor has, in addition to the security interests described in the preceding paragraph, granted first ranking fixed charges over, *inter alia*, the fixtures, fittings and equipment at the relevant Hotels and operating equipment at the relevant Hotels (the "**FF&E and Operating Equipment**"), its interest in moneys standing in any bank account (see also "The Additional Related Security – Bank Accounts Charge" below), the benefit of any insurance policies, its book and other debts, its goodwill, the benefit of all licences, consents and authorisations held in connection with its business and its uncalled share capital.

In addition, the Property Owner pursuant to the Property Owner Debenture and the Employer pursuant to the Employer Debenture assign by way of security to the Security Trustee their right, title and interest in each Operating Agreement and the Relationship Agreement.

Under each of the Debentures, each chargor has also granted a floating charge over all its assets (to the extent not charged by way of an effective fixed charge pursuant to the Debentures).

In relation to the Consent Hotels, a legal mortgage cannot be given by the Property Owner over a Consent Hotel until legal title has been transferred to the Property Owner, at which point appropriate supplemental security will be granted. The interim security over the Consent Hotels (comprising a legal mortgage or standard security in each case) will be created by the Third Party Charges granted by the relevant Charging Companies (see "Third Party Charges" below). The Third Party Charges will remain in

place until such time as the transfer of legal title to the Consent Hotels (and grant of supplemental security) occurs.

(B) Representations and Warranties

The Property Owner represents and warrants under the Property Owner Debenture that it will be the legal owner of the relevant Hotels (but not the Consent Hotels) from completion of registration or recording of title and that the Property Owner Debenture will create the security it purports to create (including, *inter alia*, a first legal mortgage over the Hotels other than the Scottish Hotels in respect of which the Property Owner has granted a standard security and other than the Consent Hotels).

Various representations and warranties are made in relation to "property". In the case of the Property Owner these representations and warranties relate to the Hotels (other than the Consent Hotels) and any subsequently charged property (which will encompass the Consent Hotels when legal title is acquired) and in the case of HPIJL relate to all the Hotels and any subsequently charged property. The representations and warranties include, *inter alia*, statements to the following effect:

(a) there is no subsisting breach of law/regulation nor any covenants, reservations, interests, etc. which would materially and adversely affect the property;

(b) that it has received no notice of any adverse claim of ownership of the property;

(c) there are no Security Interests (other than pursuant to the Finance Documents) in respect of the property;

(d) the property is in good repair (save where being refurbished);

(e) every consent, authorisation, licence or approval required in relation to the property (and the business conducted at the property) has been obtained and there is no material default in relation to any of them.

The Employer, pursuant to the terms of the Employer Debenture makes representations and warranties in respect of a number of customary matters (in broadly similar terms to those given by the Borrowers under the Credit Agreement), including in relation to due incorporation and the power and authority to perform and deliver the Finance Documents and that the Security Interests created by the Employer Debenture are first priority security interests.

In addition, the Employer gives representations and warranties in relation to "property" in similar terms to those given by the Borrowers as referred to above. It should be noted, however, that the Employer does not currently own any property and that such representations and warranties apply to any future acquired property only.

(C) Undertakings

Each of the Property Owner, HPIJL and the Employer gives similar or equivalent general undertakings as to a number of matters, including (save in relation to the reference at (b) below to "Gross Revenue and an aggregate Minimum EBITDA" and (d) below which are given by the Property Owner and HPIJL only), *inter alia*, the following:

(a) not to permit or allow any other Security Interest on any security asset or dispose of any security asset (save those subject to the floating charge disposed in the ordinary course of trade);

(b) to get in and realise book debts (including Gross Revenue and aggregate Minimum EBITDA);

(c) to comply in all material respects with all environmental laws and licences;

(d) to give notice to each occupational tenant of the assignment of rent pursuant to the debenture; and

(e) to notify the counterparties to each Operating Agreement and the Relationship Agreement of the security created over such agreements by the debenture.

In addition to the above undertakings, the Employer provides certain further general undertakings (similar to those provided by the Property Owner and HPIJL under the terms of the Credit Agreement) in relation, *inter alia*, to compliance with and performance of its obligations under the Finance Documents and in relation to the contracts of employment of the employees whose services are provided pursuant to an Operating Agreement.

Each of the Property Owner and HPIJL also give undertakings relating specifically to "property" (defined in each case as referred to above) which concern the following matters:

(a) to keep the property in good and substantial repair and the FF&E and Operating Equipment in a good state of repair and in good working order and condition;

(b) to comply with the terms of leases or agreements for leases of the property;

(c) to notify the Security Trustee on the acquisition of any property and to enter into a legal mortgage over the property in favour of the Security Trustee;

(d) to comply with any law or regulation relating to a security asset and on receipt of any notice to give the Security Trustee notice and confirm the steps it intends to take to comply with the same;

(e) to deposit all title deeds and documents relating to property with the Security Trustee; and

(f) subject to the terms of the Finance Documents (and save in respect of the Planning Permissions) not to make any application for planning permission or carry out any development on any part of the property without prior written consent of the Security Trustee (which shall not be unreasonably withheld).

The Employer gives similar property undertakings (but, as above, these do not relate to the Hotels but to any property the Employer may in future acquire) in the Employer Debenture.

(D) Enforceability

The security created by the Debentures is expressed to be enforceable immediately upon its execution and at any time after the occurrence of a Loan Event of Default. The charges confer upon the Security Trustee (and any receiver appointed by it) a wide range of powers in connection with the sale or disposal of the Hotels and their management, and each of them is granted powers of attorney on behalf of the chargors in connection with the enforcement of its security.

(E) Third Party Charges

The Charging Companies, that continue to retain legal title to the Consent Hotels, have in each case entered into a Third Party Charge in favour of the Security Trustee. The Third Party Charges create a first legal mortgage (or, in the case of Scottish Hotels which are Consent Hotels, a standard security) over the relevant Consent Hotel, (but not over any other property whether it is currently owned (see reference to Retained Hotels below) or is acquired in the future) and a first fixed charge over, *inter alia*, the FF&E and Operating Equipment relating to the Consent Hotel, the benefit of its interest in any insurance policies relating to the Consent Hotel, the book and other debts relating to the Consent Hotel, and the benefit of all licences, consents and authorisations held in connection with the Consent Hotel.

Those Charging Companies holding legal title to Scottish Hotels also grant a floating charge over all their other assets save in certain instances where they hold the legal title to the Retained Hotels which are excluded from the floating charge and which once consent to assignment has been obtained, will be transferred back to Thistle.

The representations and warranties and the undertakings given by the relevant chargors under the Third Party Charge are in the same form as those provided by the Employer under the Employer Debenture

(see above) and in addition the relevant chargor warrants that it is legal owner of the relevant Consent Hotel.

7. Direct Agreement

A separate direct agreement has been entered into between, *inter alios*, the Security Trustee, the Operator and Thistle (the "**Direct Agreement**"). The Property Owner, the Employer and certain associated companies will also be a party to this so as to acknowledge its terms and conditions. The Employer is a party to the Direct Agreement (as it is to the Operating Agreements and the Relationship Agreement) (together such agreements referred to in this paragraph as the "**Relevant Agreements**") since the benefit of the contracts of employment of the various employees working at the Hotels will be vested in it.

The provisions of the Direct Agreement cease as soon as the security granted to the Security Trustee is released in full. The main terms of the Direct Agreement are as follows:

(A) Consent to Security

The Operator formally consents to the creation of security in favour of the Security Trustee over, *inter alia*, the Operating Agreements, the Relationship Agreement and the Hotels.

(B) Step-in Rights

The Operator agrees not to terminate any Operating Agreement or the Relationship Agreement without giving the Security Trustee at least 20 working days' written notice (being the "Step-in" period). During this notice period, the Security Trustee may give further notice to the Operator to the effect that it (or a receiver appointed by it) intends to take over obligations of the Property Owner under the relevant agreement (which would include an obligation to pay further monies due to the Operator under the Relevant Agreements).

(C) Transfer

At any time during the step-in period (referred to above) the Security Trustee (or a receiver appointed by it) may procure the transfer of the rights and liabilities of the Property Owner and the Employer under the Relevant Agreements.

The Operator is obliged, at the request and cost of the Security Trustee, to enter into a further Direct Agreement with any new lender or mortgagee, previously approved by the Operator (not to be unreasonably withheld) on the occasion of any assignment of the Security Trustee's rights or a sale by the Security Trustee (or a receiver appointed by it) of the Property Owner's interest in the Hotels and/or obligations under any Relevant Agreement.

In the case of a sale or disposal of the Hotels by the Security Trustee (or a receiver appointed by it) the effect of the terms of the Relevant Agreements is that the Operator is required, at the cost of the Security Trustee (or its receiver) to enter into whatever further agreement is necessary to ensure that the benefit and burden of the relevant Operating Agreement can pass to a purchaser.

It is further specifically provided that certain particular provisions of the Relationship Agreement (namely those which enable Thistle to reduce its obligations to provide letters of credit for two years to an obligation to provide a letter of credit for one year) shall not apply in the case of any sale by the Security Trustee pursuant to its security enforcement powers.

(D) Operator's Undertaking

The Operator agrees:

(i) (save in respect of management fees and other monies specifically due to it pursuant to the Operating Agreements and/or Relationship Agreement which are due and unpaid) it will not exercise any right of set-off or counterclaim in respect of monies payable by it to the Property Owner;

(ii) not to take any action leading to the administration or winding up of the Property Owner or the Employer;

(iii) to forward to the Security Trustee copies of all notices relating to the breach of any of the provisions of any of the Operating Agreements or the Relationship Agreement; and

(iv) not, without the Security Trustee's prior written consent, to make any material amendment or variation of any of the Operating Agreements or Relationship Agreement and not, whilst the Security Trustee is exercising any step-in rights, unreasonably to withhold consent to or delay any approval required in connection with the performance of the Property Owner's or Employer's obligations.

(E) Security Trustee's Undertakings

The Security Trustee agrees:

(i) not to sell or dispose of any Hotel save in accordance with the provisions relating to such disposal contained in the Operating Agreements and the Relationship Agreement (see above);

(ii) to comply with the Employer's and Property Owner's obligations if it exercises its step-in rights;

(iii) not to interfere with the operation of any Operating Account (thereby enabling the Operator to operate the Hotel in accordance with its obligations); and

(iv) to observe the provisions of the Relationship Agreement relating to the application of amounts drawn under the Letters of Credit and the provision of new letters of credit.

8. The Additional Related Security

In addition to the Debentures and Third Party Charges, various further related security has been entered into and granted as briefly described below.

(A) Subordination Agreement

All liabilities and obligations (present or future) payable or owing by the Borrowers or any Charging Company, to the Shareholder or Share Purchaser (the "**Subordinated Liabilities**") will, pursuant to the Subordination Agreement, be fully subordinated to all amounts due to the Lender or the Security Trustee under the Credit Agreement and accordingly (save as referred to below) payment of any of the Subordinated Liabilities is conditional upon the Borrowers' having irrevocably paid in full all liabilities arising under the Credit Agreement or any of the other Finance Documents provided that whilst no Loan Event of Default is outstanding, and the Interest Cover Percentages are not less than 140 per cent., the Borrowers may repay Subordinated Liabilities out of surplus monies released to the Borrowers under and in accordance with the terms of the Credit Agreement.

Each of the Borrowers and the Charging Companies undertakes, *inter alia*, not to secure any part of the Subordinated Liabilities or repay or prepay all or any part of the Subordinated Liabilities (or any interest, fees or commission thereon) other than in accordance with the Subordination Agreement. The Shareholder and Share Purchaser will give the usual undertakings including, in particular, that it will not purport to exercise any rights of set off in respect of amounts payable by it or take any steps leading to the administration, winding up or dissolution of the Borrowers.

(B) Share Charges

Charges or security interests (in each case first ranking), in favour of the Security Trustee, have been granted over all of the issued share capital of each of the Borrowers, the Share Purchaser, each of the Charging Companies and Target Companies.

The Share Charges contain usual undertakings from the relevant chargors or grantors including, in particular, that the Shareholder will not create any other security interest over the shares, transfer or

dispose of the shares, take or permit action to amend rights attaching to the shares or the issue of further shares.

(C) Bank Accounts Charge

The Borrowers' Accounts which have been opened in the name of the Property Owner are the subject of a security interest agreement (subject to Jersey law as the accounts are held with the branch of a bank in Jersey) pursuant to which the Property Owner assigns by way of security, to the Security Trustee, its title to the Borrowers' Accounts and the account balances therein.

The provisions of the Bank Accounts Charge contain the usual undertakings and covenants including, in particular, to maintain and operate the Borrowers' Accounts in accordance with the provisions of the Credit Agreement free from encumbrances and rights of set-off.

(D) Acquisition Charge

Pursuant to the terms of the Acquisition Charge, the Share Purchaser as purchaser of the shares in the Target Companies assigns by way of security all its interests in the Acquisition Agreement and the Seller Tax Covenant. The Share Purchaser undertakes, *inter alia*, that it will not amend cancel or terminate either the Acquisition Agreement or Seller Tax Covenant (or claim or agree to any claim that either has been frustrated) and shall take all reasonable steps to preserve and enforce its rights under the Acquisition Agreement and Seller Tax Covenant.

(E) Priority Agreement

The Shareholder has provided to the Security Trustee a first ranking security interest over the shares in HPIJL (to secure amounts due under the Credit Agreement (the "**Senior Liabilities**") but has also provided to Thistle a second ranking security interest over the shares to secure LPH London Park Limited's obligations to Thistle under the Loan Note (the "**Junior Liabilities**"). The ranking of these charges is regulated by the terms of a priority agreement (the "**Priority Agreement**") in usual terms which provide, *inter alia*, that the Security Trustee's security interest shall rank at all times ahead in priority to the security interest in favour of Thistle (up to an amount equivalent to the original principal outstanding together with interest, legal and other costs, fees, charges and expenses) and it is confirmed that, provided no Loan Event of Default has occurred, Thistle is entitled to payment to it of amounts due pursuant to the Loan Note and available pursuant to the Credit Agreement.

Pursuant to the Priority Agreement, Thistle agrees that it will not take any action in relation to its Share Charge other than as provided for in the Priority Agreement and in particular Thistle will not (i) make any demand unless the Senior Liabilities have been repaid in full or the Security Trustee has taken steps to enforce its security or made demand; or (ii) unless the Senior Liabilities have been repaid in full, take any other steps to enforce its Share Charge or repayment of the Junior Liabilities without the Security Trustee's consent.

In addition, the Priority Agreement provides that, except with the consent of Thistle, the Borrowers, the Security Trustee and the Lender will not increase the principal amount due under the Loan Agreement, increase any interest, margin or fees under the Loan Agreement or amend the provisions of the Subordination Agreement prohibiting the grant of Security in relation to the Subordinated Liabilities.

The Borrowers and Shareholder provide usual undertakings not to prepay the Junior Liabilities or provide additional security for the Junior Liabilities so long as the Senior Liabilities remain outstanding and Thistle agrees not to obtain early payment or, *inter alia*, to take any action leading to the administration, winding up or dissolution of the Borrowers.

(F) Letters of Credit

It should be noted that in addition to the above described Related Security, the Lender also has the benefit of the Letters of Credit (the beneficiary of which in each case is the Security Trustee which will hold the same on trust for the Issuer) as the same are described below (see "The Loan and Related Security – Letters of Credit").

9. Scottish Mortgages

The Loan is partially secured over Scottish Hotels by way of first-ranking standard securities which is the only means of creating a fixed charge or security over heritable or long leasehold property in Scotland.

A statutory set of standard conditions is automatically imported into all standard securities, including the Scottish Mortgages. However, the majority of these standard conditions may be varied by agreement between the parties and have in fact been so varied in the terms of the Scottish Mortgages themselves. The standard conditions as varied will therefore form part of the mortgage conditions relating to any Scottish Mortgages.

The main provisions of the standard conditions which cannot be varied by agreement relate to enforcement. Generally, where a breach by a borrower entitles a lender to enforce the security an appropriate statutory notice must first be served. First, the lender may serve a "calling-up notice" requiring repayment, in which case the borrower has two months to comply with the notice and in default the lender may enforce its rights under the standard security by sale, entry into possession or the other remedies provided by statute. A court application for possession is only necessary if the borrower fails to vacate the property. Alternatively, in the case of remediable breaches, the lender may serve a "notice of default", in which case the borrower has only one month in which to comply with the notice, but also has the right to object to the notice by court application within 14 days of the date of service. In addition, the lender may in certain circumstances make a direct application to the court without the requirement of a preliminary notice. The appropriate steps for enforcement therefore depend on the circumstances of each case, and the Lender will in practice proceed with the remedy most likely to be effective in enforcing or protecting the security.

10. Acquisition

(A) Loan Sale Agreement

(a) Consideration

Pursuant to the Loan Sale Agreement, MSDW Bank will agree on the Closing Date to sell and the Issuer will agree to purchase the Loan, and MSDW Bank will assign to the Issuer its beneficial interests in the Security Trust created over the Related Security. The initial purchase consideration in respect of the Loan and the beneficial interests in the Security Trust will be £531,189,000. The initial consideration under the Loan Sale Agreement will be paid by the Issuer to MSDW Bank on the Closing Date.

On each Interest Payment Date prior to enforcement of the Issuer Security, the Issuer will pay to MSDW Bank (or to the person or persons then entitled thereto or to any component thereof), to the extent that the Issuer has funds, an amount by way of deferred consideration for the purchase of the Loan and the Related Security (the "**Deferred Consideration**"), if any, which is calculated in respect of the Collection Period ended on the Calculation Date immediately preceding such Interest Payment Date and which is equal to (a) the Prepayment Fees and any other amounts received as a result of the prepayment of the Loan (other than principal of or interest on the Loan) received during that Collection Period, plus (b) any amounts payable by the Swap Provider in the event of any "breakage" of the Swap Agreement during that Collection Period, plus (c) the Available Interest Receipts less an amount equal to the sum of the payments scheduled to be paid on such Interest Payment Date pursuant to items (i) through (x) set out in "Summary – Available Funds and their Priority of Application – Payments out of the Transaction Account prior to enforcement of the Notes – Available Interest Receipts" above, plus (d) excess Available Principal less an amount equal to the sum of the payments scheduled to be paid on such Interest Payment Date pursuant to items (i) through (v) set out in Summary – Available Funds and their Priority of Application – Payments out of the Transaction Account prior to enforcement of the Notes – Available Principal" above less (e) an amount equal to 0.01 per cent. of the Borrower Interest Receipts transferred by the Security Trustee, acting on the instructions of the Servicer, into the Transaction Account during that Collection Period, provided that the resulting amount shall not be less than nil. For avoidance of doubt, Prepayment Fees payable upon the sale of a Hotel following enforcement of the Loan and the Related Security will be applied as Prepayment Fees only upon satisfaction in full of the principal amount outstanding under the Loan and all interest accrued due and payable thereon. The right to receive the Deferred Consideration or any component of the Deferred Consideration is assignable, subject to the assignee agreeing to be bound by the terms of the Deed of Charge and Assignment.

(b) Registration and Legal Title

Within 15 Business Days of the Closing Date, written notice will be given to each Borrower of the transfer of the Loan to the Issuer and written notice will be given to the Security Trustee of the assignment of MSDW Bank's beneficial interests in the Security Trust to the Issuer and the Issuer's assignment by way of security of such beneficial interest to the Trustee.

(B) Representations and Warranties

Neither the Issuer nor the Trustee has made (or will make) any of the enquiries, searches or investigations which a prudent purchaser of the relevant security would normally make in relation to the Loan or Related Security purchased on the Closing Date. In addition, neither the Issuer nor the Trustee has made or will make any enquiry, search or investigation at any time in relation to compliance by MSDW Bank, the Servicer or any other person with respect to the provisions of the Loan Sale Agreement, the Servicing Agreement, the Deed of Charge and Assignment or in relation to any applicable laws or the execution, legality, validity, perfection, adequacy or enforceability of the Loan or the Related Security purchased on the Closing Date.

In relation to all of the foregoing matters concerning the Loan and the Related Security and the circumstances in which the advance was made to Borrowers prior to the assignment of the Loan to the Issuer, both the Issuer and the Trustee will rely entirely on the representations and warranties to be given by MSDW Bank to the Issuer and the Trustee which are contained in the Loan Sale Agreement.

If there is a material breach of any representation and/or warranty in relation to the Loan or Related Security (details of which are set out below) and such breach is not capable of remedy or, if capable of remedy, has not been remedied, MSDW Bank will be obliged, if required by the Issuer, to repurchase the Loan and to accept a reassignment of its beneficial interest in the Related Security from the Issuer for an aggregate amount equal to the outstanding principal amount under the Loan together with accrued interest and costs up to, but excluding, the date of the repurchase. The Issuer will have no other remedy in respect of such a breach unless MSDW Bank fails to repurchase the Loan, and to accept a reassignment of its beneficial interest in the Related Security in accordance with the Loan Sale Agreement.

The representations and warranties referred to will include, without limitation (but subject to disclosure in the Loan Sale Agreement and as disclosed in this Offering Circular), statements to the following effect:

(a) each Hotel constitutes property used for the operation of a hotel business (together with ancillary staff residential accommodation in certain cases) and is either freehold, feuhold or leasehold;

(b) in relation to each mortgage of property or standard security, the mortgagor had, as at the date of that mortgage or standard security, a good and marketable title to the fee simple absolute in possession or a term of years absolute in the relevant property or in relation to property in Scotland has good and marketable title thereto and (i) is the legal and beneficial owner of the relevant property or (ii) where legal and beneficial interests in the property are split, is the legal owner of the property and holds the beneficial interest on trust which beneficial interest is either overreached or charged;

(c) in relation to each English property, title to which is registered, the title has been registered at H.M. Land Registry with title absolute in the case of freehold property or absolute or good leasehold title in the case of leasehold property or, where registration at H.M. Land Registry is pending, an application for registration with such title has been delivered to H.M. Land Registry within the priority period conferred by an official search conducted against the relevant title at H.M. Land Registry before completion of the purchase of the property;

(d) in relation to each property situated in Scotland, title has been registered or recorded at the Registers of Scotland (with no exclusion of keeper's indemnity in relation to property registered in the Land Register of Scotland), or where registration or recording at the Registers of Scotland is pending, an application for registration or recording of such title has been delivered to the Registers of Scotland;

(e) each property was, as at the date of the relevant mortgage or standard security, held by the mortgagor free (save for the mortgage or standard security and other Related Security) from any encumbrance which would materially adversely affect such title or the value for mortgage purposes set out in the valuation (including any encumbrance contained in the leases relevant to such properties);

(f) in relation to any mortgage or standard security where registration or recording is pending at H.M. Land Registry or the Registers of Scotland, the Security Trustee for MSDW Bank took or is taking all reasonable steps to perfect its title to the mortgage or standard security and has an absolute right to be registered or recorded as proprietor or registered owner or heritable creditor of the mortgage or standard security as first mortgagee or first chargee or first ranking heritable creditor of the interest in the relevant Hotel which is subject to that mortgage or standard security;

(g) (A) the Loan constitutes a valid and binding obligation of, and is enforceable against, the Borrowers (B) subject only, in the case of mortgages or standard securities required to be registered or recorded at H.M. Land Registry or Registers of Scotland, to such registration for recording, each mortgage or standard security is a valid and subsisting first charge by way of legal mortgage or standard security on the property to which such mortgage or standard security relates, (C) subject as set out in (B) above, the Security Trustee has a good title to each mortgage or standard security at law and all things necessary to complete the relevant Security Trustee's title to each mortgage or standard security have been duly done at the appropriate time or are in the process of being done, (D) the Security Trustee is the legal (subject to necessary registrations or recordings), and MSDW Bank is the beneficial, owner of each mortgage or standard security, free and clear of all encumbrances, overriding interests (other than those to which the property is subject), claims and equities and there were at the time of completion of the relevant mortgage or standard security no adverse entries of encumbrances, or applications for adverse entries of encumbrances against any title at H.M. Land Registry or Registers of Scotland to any related Hotel which would rank higher in priority to the relevant Security Trustee's or MSDW Bank's interests therein; and (E) MSDW Bank is the legal and beneficial owner of each Loan free and clear of all encumbrances, claims and equities.

(h) prior to completion of the Loan and each mortgage or standard security, a report on title or certificate of title (addressed to MSDW Bank) in relation to the relevant property was obtained which initially or after further investigation disclosed nothing which would cause a reasonably prudent lender of money secured on commercial property to decline to proceed with the advance on its agreed terms;

(i) prior to the date of the Loan and each mortgage or standard security, the nature of, and amount secured by, the Loan and each mortgage or standard security and the circumstances of the Borrowers and Charging Companies would, as at that date, have been acceptable to a reasonably prudent lender of money secured on commercial property;

(j) MSDW Bank is not aware of any material default, material breach or material violation under the Loan or Related Security which has not been remedied, cured or waived (but only in a case where a reasonably prudent lender of money secured on commercial property would grant such a waiver) or of any outstanding material default, material breach or material violation by the Borrowers or Charging Companies under the Loan or Related Security, as the case may be, or of any outstanding event which with the giving of notice or lapse of any grace period would constitute such a default, breach or violation;

(k) pursuant to the terms of the Loan, the Borrowers are not entitled to exercise any right of set-off or counterclaim against MSDW Bank in respect of any amount that is payable under the Loan;

(l) MSDW Bank has not received written notice of any default of any occupational lease granted in respect of a property or of the insolvency of any tenant which would render the relevant Hotel unacceptable as security for the Loan secured by the relevant mortgage or standard security over the Hotel;

(m) as at the Closing Date, to the best of MSDW Bank's knowledge each Hotel is covered by a buildings insurance policy maintained in an amount which is equal to or greater than the

amount which a qualified surveyor or valuer engaged by MSDW Bank estimated to be equal to such Hotel's reinstatement value and the Security Trustee's interest has been noted or is in the course of being noted on each policy or otherwise included by the insurers under a "general interest noted" provision in the relevant policy; and

(n) MSDW Bank has undertaken all due diligence that a prudent commercial lender would undertake to establish and confirm that each of the Borrowers has not engaged since its formation or incorporation in any activity other than those incidental to its formation or incorporation entering into the Loan and Related Security and has not had since its incorporation nor does it have as at the Closing Date any material liability or assets other than the Loan and related property providing security for the Loan.

No warranties will be given in relation to any Related Security (other than legal mortgages and standard securities). Therefore, except to the limited extent of the aforementioned warranties, there can be no assurance that there will be any Related Security for the Loan or, if there is, that such Related Security will be of any value in connection with the enforcement of the Loan or will realise any moneys which can be applied in satisfaction of any amounts outstanding from the Borrowers under the Loan.

The Loan Sale Agreement contains a warranty from MSDW Bank to the Issuer and the Trustee to the effect that the information in this Offering Circular with regard to administration of the Loan, the Related Security, the Security Trustee, the properties and the relevant buildings insurance policies that is material in the context of the issue and the offering of the Notes, is true and accurate in all material respects and is not misleading in any material respect. Only the Issuer and the Trustee may rely upon this warranty from MSDW Bank.

11. Letters of Credit

The Letters of Credit Provider has provided the Letters of Credit in favour of the Security Trustee as beneficiary. The Security Trustee is entitled to draw an amount under each of the Letters of Credit up to £41,570,729 in relation to obligations of the Operator in respect of the Hotels. The Letters of Credit expire on 11th March, 2012 (the "**Longdated Letter of Credit**") and 10th March, 2003 (the "**Forward Start Letter of Credit**"), respectively. The Forward Start Letter of Credit should be extended each year (for a further year in the same amount less any amounts already drawn). If it is not extended then the amount of the Forward Start Letter of Credit can be drawn down and held as a cash deposit by way of security for Thistle's guaranteed obligations. On the sale of a Hotel Thistle as guarantor is obliged to provide letters of credit to the purchaser of such a Hotel in respect of an amount equivalent to twice the minimum EBITDA required in relation to that Hotel and the letters of credit in relation to the Hotels that the Property Owner continues to own shall be amended (or re-issued as appropriate) to reflect the changed circumstances.

Any written demand for payment under the Letters of Credit can be made where (i) Thistle are in breach of their payment obligations under the Relationship Agreement in so far as they relate to their guarantee of the obligations of the Operator under the Relationship Agreement to make payment of the Minimum EBITDA, or (ii) Thistle has had a receiver, administrative receiver, administrator, manager or official receiver appointed over its property or affairs or has gone into liquidation (other than for purposes of a solvent reconstruction or amalgamation), or (in the case of Forward Start Letter of Credit only) (iii) the Letters of Credit Provider has given notice that the Forward Start Letter of Credit is not to be renewed.

The issuance and maintenance of the Letters of Credit is subject to the payment of certain initial and annual fees. Pursuant to the Relationship Agreement, Thistle has agreed to be responsible at first instance for the payment of the Letters of Credit fees, Thistle then being entitled to seek reimbursement for those fees from the Property Owner. If, within 10 Business Days after the receipt of notice from Thistle, the Property Owner has not reimbursed Thistle for the required amount, then the Operator may withdraw such amount from the Operating Account.

THE STRUCTURE OF THE ACCOUNTS

1. The Borrowers' Accounts

Pursuant to the Relationship Agreement, each Hotel will have an operating account opened and maintained by the Operator in the name of the Operator into which gross revenues for such Hotel will be credited. The Operator will transfer daily the balance standing to the credit of such accounts (after paying all costs incurred by the Operator in providing its services pursuant to the Operating Agreements or sums payable to the Operator and which are available to the Operator in accordance with the Operating Agreements and the Relationship Agreement) to one of four regional operating accounts opened by the Operator which are also swept daily and the balances standing to the credit thereof are transferred to a central operating account. Each of the regional operating accounts and the central operating account are in the name of the Operator (each of these accounts are referred to collectively herein as the "**Operating Accounts**"); the funds in such Operating Accounts are to be held on trust by the Operator for the Property Owner pursuant to the terms of the Relationship Agreement.

Pursuant to the Credit Agreement, the Property Owner has opened the following sterling denominated bank accounts each with a bank previously notified to the Security Trustee:

(a) an "**Agency Account**" to which Property Owner has (subject to the terms of the Bank Accounts Charge) the sole signing authority and into which the Operator will transfer on a daily basis from the Operating Account all monies other than (a) that required to ensure the uninterrupted and efficient operation of the Hotels and (b) sums payable to the Operator or to be available to the Operator in accordance with the Operating Agreements and the Relationship Agreement;

(b) a "**Receipts Account**" in to which amounts will be deposited to cover, among other things, the repayments due on the Loan and any costs due but unpaid under the Finance Documents;

(c) a "**FF&E Reserve Account**" in to which amounts necessary to cover any future costs associated with the purchase and replacement of furniture, fixtures and equipment of the Hotel will be deposited from time to time;

(d) a "**FF&E Deposit Account**" in to which an amount of £5,500,000 has been deposited by way of security in lieu of the provision of the FF&E Letter of Credit;

(e) a "**Capex Account**" in to which the Capex Deposit is to be deposited**;**

(f) a "**Guarantee Reserve Account**" in to which an amount equal to the amount drawn down under the Letters of Credit is to be deposited;

(g) a "**Debt Service Reserve Account**" in to which the amounts as set out in the Credit Agreement will be deposited, from time to time, and released to pay scheduled interest and amortisation payment, to the extent that there are insufficient sums standing to the credit of the Receipts Account; and

(h) a "**Sales Account**" in to which the net proceeds of sale any Hotel are to be deposited.

On a daily basis, the Operator will transfer all monies standing to the credit of the Operating Account to the Agency Account, with the exception of those amounts which, pursuant to the Relationship Agreement, the Operator is entitled to retain (as mentioned above). The amounts which the Operator may retain are to cover operating expenses, amounts due to the Operator and amounts payable to the FF&E Reserve Account.

The Operator has provided authorised signatories in respect of the Operating Accounts and the Property Owner is only entitled to make withdrawals from such accounts when the Operator has defaulted in respect of any payment due by the Operator to the Property Owner.

The Property Owner shall also ensure that an amount of £11,484,600 (the "**Capex Deposit**") is deposited into the Agency Account in accordance with the terms of the Credit Agreement prior to its being applied or transferred to the Capex Account.

The Agency Account, the Receipts Account, FF&E Reserve Account, the FF&E Deposit Account, the Capex Account, the Guarantee Reserve Account, the Debt Service Reserve Account and the Sales Account are together referred to as the "**Borrowers' Accounts**".

Payments from the Agency Account will be transferred to:

(a) the Receipts Account every four weeks, in an amount equal to payments due under the Loan for such period, as such amounts are calculated pursuant to the Credit Agreement;

(b) the Operator (when such payment is due pursuant to the Credit Agreement) (i) every four weeks in an amount equal to a management fee and a marketing fee, and (ii) in relation to an incentive fee as and when such fee is due and payable;

(c) the FF&E Reserve Account, the Debt Service Reserve Account and the Guarantee Reserve Account, every quarter in the amount and manner outlined in the Credit Agreement;

(d) the Capex Account, in the amount and manner outlined in the Credit Agreement; and

(e) related third parties, in the amount and manner outlined in the Credit Agreement.

2. The Issuer's Accounts

The Transaction Account

Pursuant to the Cash Management Agreement, the Operating Bank will open and maintain an account in the name of the Issuer (the "**Transaction Account**") into which the Servicer will instruct the Security Trustee to transfer all amounts due from the Borrowers. The Cash Manager will make all other payments required to be made on behalf of the Issuer from the Transaction Account.

The Swap Collateral Cash Account and the Swap Collateral Custody Account

If the Swap Agreement Credit Support Document is entered into, cash amounts received by the Issuer pursuant to the Swap Agreement Credit Support Document will be paid into an interest bearing account in the name of the Issuer with the Operating Bank (the "**Swap Collateral Cash Account**") and securities received by the Issuer pursuant to the Swap Agreement Credit Support Document will be deposited into a custody account (the "**Swap Collateral Custody Account**"). Both the Swap Collateral Cash Account and the Swap Collateral Custody Account shall be held with the Operating Bank. From time to time, subject to the conditions to be specified in the Swap Agreement Credit Support Document, the Swap Provider will make transfers of collateral to the Issuer in support of its obligations under the Swap Agreement and the Issuer will be obliged to return such collateral in accordance with the terms of the Swap Agreement Credit Support Document.

The Swap Collateral Cash Account, the Swap Collateral Custody Account and the Transaction Account are together referred to as the "**Issuer's Accounts**".

The Stand-by Account

Any Stand-by Drawing which the Issuer may require from the Liquidity Facility Provider (see "Credit Structure — Liquidity Facility") will be credited to an account in the name of the Issuer (the "**Stand-by Account**") with the Operating Bank or, if the Operating Bank ceases to have an "A-1+" rating (or its equivalent) by S&P or a "P-1" rating (or its equivalent) by Moody's for its short-term, unguaranteed, unsecured and unsubordinated debt obligations (or such other short-term debt rating as is commensurate with the rating assigned to the Notes from time to time) (the "**Requisite Rating**"), the Liquidity Facility Provider or, if the Liquidity Facility Provider ceases to have the Requisite Rating, any bank which has the Requisite Rating.

SERVICING

Introduction

Pursuant to the Servicing Agreement, each of the Issuer, the Security Trustee and the Trustee will appoint MSMS as the Servicer and, in certain circumstances, the Special Servicer to be its agent to provide certain services in relation to the Loan and the Related Security. In performing their respective obligations under the Servicing Agreement, the Servicer and the Special Servicer must act in accordance with the "**Servicing Standard**", which requires the Servicer and the Special Servicer to act in accordance with the standard it would be reasonable to expect a reasonably prudent lender of money secured on commercial property to apply in servicing mortgages over commercial property which are owned by it, with a view to the timely collection of all sums due in respect of the Loan and, on the occurrence of a Loan Event of Default, the maximisation of recoveries available to the Noteholders as a collective whole (taking into account the likelihood of recovery of amounts due from the Borrowers, the timing of any such recovery and the costs of recovery). In so acting, neither the Servicer nor the Special Servicer may have any regard to any fees or other compensation to which the Servicer or Special Servicer may be entitled, any relationship the Servicer or Special Servicer may have with either Borrower or any other party to the transaction, the different payment priorities among the Notes or the ownership of any Note by the Servicer or Special Servicer or any affiliate thereof.

Each of the Servicer and the Special Servicer may become the owner or otherwise hold an interest in the Notes with the same rights as each would have if it were not the Servicer or Special Servicer, as the case may be. Any such interest of the Servicer or Special Servicer in the Notes will not be taken into account by any person when evaluating whether actions of the Servicer or Special Servicer were consistent with the Servicing Standard.

Loan Payments

On each Loan Payment Date, the Servicer is required to give instructions to the Security Trustee to withdraw funds from the Receipts Account and, if appropriate, the Debt Service Reserve Account, the Sales Account and the Guarantee Reserve Account in accordance with the terms of the Credit Agreement. The sums withdrawn will be transferred to the Transaction Account and will, on each Interest Payment Date, be applied by the Cash Manager in accordance with the Cash Management Agreement and the Deed of Charge and Assignment. See "Cash Management".

In addition, upon becoming aware of the existence of circumstances which would entitle the Security Trustee to make a demand under a Letter of Credit, the Servicer will require the Security Trustee to make such a demand and to deposit any amounts drawn under a Letter of Credit into the Guarantee Reserve Account.

On each Calculation Date and otherwise as required by the Issuer and the Trustee from time to time, the Servicer will calculate, with respect to the Collection Period then ended:

(a) Borrower Interest Receipts;

(b) Borrower Principal Receipts; and

(c) Prepayment Fees (if any),

transferred to the Transaction Account as described in the preceding paragraph and will determine which portions of Borrower Principal Receipts consist of Prepayment Redemption Funds, Final Redemption Funds and Principal Recovery Funds. The Servicer will also, from time to time, determine all Revenue Priority Amounts and all Principal Priority Amounts required to be paid by the Issuer.

Review of Borrowers

The Servicer is required to undertake an annual review of the Borrowers and the Loan in accordance with the Servicer's then-current servicing procedures and the Servicing Standard. The Servicer is authorised to conduct this review process more frequently if the Servicer has cause for concern as to the ability of the Borrowers to meet their financial obligations under the Credit Agreement. The Special

Servicer has agreed to assist the Servicer by providing such information as it may have available to it which may be needed by the Servicer for the carrying out of any such review.

The Servicer must also review the financial and other information provided by the Borrowers and the Operator to the Security Trustee in accordance with the Credit Agreement, the terms of the Related Security, the Operating Agreements, the Relationship Agreement and the Direct Agreement.

Quarterly Arrears Report

Within 10 Business Days after the end of each Interest Period, the Servicer will deliver a report to the Issuer, the Trustee, the Special Servicer, the Cash Manager and the Rating Agencies which will include, among other things, the following:

(a) a calculation of all collections in respect of the Loan, including Borrower Interest Receipts, Borrower Principal Receipts and Prepayment Fees;

(b) details if the Loan is 1-90 days in arrears, 91-180 days in arrears or over 180 days in arrears;

(c) details if enforcement of the Loan and the Related Security had begun at the end of the most recently ended Collection Period, including the total arrears balance of the Loan;

(d) details if enforcement procedures were completed and the amounts written-off;

(e) details of any breach of the Credit Agreement, the Related Security, the Operating Agreements, the Relationship Agreement or the Direct Agreement which is known to the Servicer, which breach is likely to prejudice the value of the Loan or the Related Security; and

(f) details of recoveries during the most recently ended Collection Period in respect of amounts previously written-off.

The Special Servicer has agreed to assist the Servicer by providing such information as it may have available to it which may be needed by the Servicer for the production of any such report. A summary of each such report produced (or, if more than one, the most recent report) will be included in the quarterly investor report available to Noteholders on request from the Trustee.

Arrears and Default Procedures

The Servicer and, for so long as the Loan is the Specially Serviced Loan, the Special Servicer will be responsible for the supervision and monitoring of payments falling due in respect of the Loan and each is required to take all reasonable steps to recover amounts due from the Borrowers. In the event of a Loan Event of Default, the Servicer and the Special Servicer, if appointed, will apply their respective procedures for the enforcement of the Loan and Related Security current from time to time (the "**Enforcement Procedures**"). The Enforcement Procedures may include the giving of instructions to the Security Trustee as to how to enforce the Related Security.

Upon the instructions of the Issuer, the Trustee, the Servicer or, as the case may be, the Special Servicer, the Security Trustee will, subject to the provisions of the Credit Agreement and the Related Security, appoint a receiver. If it does so, the Servicer and the Special Servicer are authorised by the Issuer, the Security Trustee and the Trustee to agree with the receiver a strategy for best preserving the Issuer's, Security Trustee's and Trustee's rights and securing any available money from the Hotels, which may in certain circumstances involve the receiver managing all or some of the Hotels (including the handling of payments) for a period of time and/or seeking to sell all or some of the Hotels to a third party. The Servicer or the Special Servicer, as the case may be, and the Security Trustee are required to use their best endeavours to ensure that any receiver so appointed sells the Hotels as soon as possible after such receiver's appointment.

If a Hotel is sold pursuant to the implementation of the Enforcement Procedures, the net proceeds of sale (after payment of the costs and expenses of the sale) will, together with any amount payable on any related insurance contracts, be applied against the sums owing from the Borrowers to the extent necessary to repay the Loan.

Modifications and exercise of Discretion

The Servicer and, in certain circumstances, the Special Servicer will be appointed to act on behalf of the Issuer and the Security Trustee in exercising their respective powers and discretions in respect of the Loan, the Related Security, the Operating Agreements, the Relationship Agreement and the Direct Agreement. In relation to the exercise of certain discretions as described under "Risk Factors – Factors Relating to the Notes – Ratings of Notes and Confirmations of Ratings", the Servicer and Special Servicer must notify the Rating Agencies and the Trustee in writing in advance of the manner in which they propose to exercise such discretions

To the extent that it is within the powers of the Lender or the Security Trustee to do so under the relevant documentation, the Servicer or the Special Servicer, as applicable, will be required to determine whether to agree to any request to waive, vary or amend any provisions of the Credit Agreement, the Related Security, the Operating Agreements, the Relationship Agreement or the Direct Agreement. In making any such determination, the Servicer or Special Servicer, as the case may be, must act in accordance with the Servicing Standard and must meet certain conditions which are specified in the Servicing Agreement. In particular, the restriction in the Credit Agreement on the ability of the Borrowers to assign, transfer or novate their obligations under the Loan to another borrower may not be waived unless the replacement borrower satisfies, in all relevant and material respects, the lending criteria that applied to the transferring Borrower.

Appointment of the Special Servicer and Operating Adviser

If (a) either of the Interest Cover Percentages is equal to or less than 110 per cent., or (b) any other Loan Event of Default occurs, the Trustee must convene a meeting of the Noteholders to determine whether to appoint the Special Servicer to act in relation to the Loan. If an Extraordinary Resolution is passed by the Noteholders requiring the Trustee to invite the Special Servicer to act, the Trustee will issue such an invitation. If the Special Servicer declines such appointment or if the Noteholders do not pass such an Extraordinary Resolution, the Servicer will continue to act in respect of the Loan, but will assume the obligations and rights of the Special Servicer in relation thereto including the right to receive the Special Servicing Fee. Such assumption of rights and obligations by the Servicer will be deemed to take effect on the day on which the Special Servicer is invited to act (in the event that such invitation is declined) or on the date on which the Servicer notifies the Trustee of the occurrence of the relevant Loan Event of Default.

Upon the Special Servicer being appointed or the Servicer assuming the rights and obligations of the Special Servicer, in relation to the Loan (as described in the preceding paragraph) the Loan will become the "**Specially Serviced Loan**".

Notwithstanding the appointment of the Special Servicer in respect of the Loan, the Servicer will continue to have certain limited responsibilities relating to the administration of the Loan, but will not be liable for the actions of the Special Servicer (if a person other than itself). If an Interest Cover Percentage of the Loan is equal to or less than 120 per cent. but greater than 110 per cent. then the Servicer will promptly give notice thereof to the Special Servicer and will consult with the Special Servicer in relation to the future servicing or exercise of rights in respect of the Loan and/or Related Security.

The holders of the most junior class of Notes outstanding at any time (the "**Controlling Party**") may elect to appoint an operating adviser (the "**Operating Adviser**") to represent its interests and to advise the Special Servicer about the following matters should the Loan become the Specially Serviced Loan: (a) appointment of a receiver or similar actions to be taken in relation to the Loan; (b) the amendment, waiver or modification of any term of the Credit Agreement which affects the amount payable by the Borrowers or the time at which any amounts are payable, or any other material term of the Credit Agreement or the Related Security; (c) any action taken in order to ensure compliance with environmental laws at a Hotel; and (d) the release of any part of the Related Security, or the acceptance of substitute or additional Related Security other than in accordance with the terms of the documentation relating to the Loan or the Related Security. Before taking any action in connection with the matters referred to in (a) to (d) above, the Special Servicer must notify the Operating Adviser of its intentions and must take due account of the advice and representations of the Operating Adviser, although if the Special Servicer determines that the Servicing Standard requires the Special Servicer to take immediate action, the Special Servicer may take whatever action it considers necessary without waiting for the Operating Adviser's response. If the Special Servicer does take such action and the Operating Adviser objects in writing to the actions so taken within 10 Business Days after being notified of the action and provided with all reasonably requested information,

the Special Servicer must take due account of the advice and representations of the Operating Adviser regarding any further steps the Operating Adviser considers should be taken in the interests of the Controlling Party but shall be under no obligation to implement such advice and representations. The Operating Adviser will be considered to have approved any action taken by the Special Servicer without the prior approval of the Operating Adviser if it does not object within 10 Business Days. Furthermore, the Special Servicer will not be obliged to obtain the approval of the Operating Adviser for any actions to be taken if the Special Servicer has notified the Operating Adviser in writing of the actions that the Special Servicer proposes to take with respect to the Loan and, for 60 days following the first such notice, the Operating Adviser has objected to all of those proposed actions and has failed to suggest any alternative actions that the Special Servicer considers to be consistent with the Servicing Standard.

The Operating Adviser and its officers, directors, employees and owners will have no liability to Noteholders for any advice given, or representations made, to the Special Servicer, or for refraining from the giving of advice or making of representations. The Operating Adviser (a) may have special relationships and interests that conflict with those of holders of one or more classes of Notes; (b) may act solely in the interests of the Controlling Party; (c) has no duties to Noteholders, except for the Controlling Party; (d) may act to favour the interests of the Controlling Party over the interests of other Noteholders; and (e) will violate no duty and incur no liability by acting solely in the interests of the Controlling Party. Notwithstanding the appointment of an Operating Adviser, the Special Servicer must act at all times in accordance with the Servicing Standard and the requirements of the Servicing Agreement.

Insurance

In the event that the Servicer is deemed to have assumed the rights and obligations of the Special Servicer in relation to the Loan, references in this section to the "Special Servicer" should be read and construed as references to the Servicer.

The Servicer will, on behalf of the Trustee, the Security Trustee and the Issuer, establish and maintain procedures to monitor compliance by the Borrowers with their obligations regarding the insurance of the Hotels. Upon becoming aware of any failure to pay an insurance premium when due, the Servicer or Special Servicer (in respect of the Specially Serviced Loan) will pay such premium in order to avoid the lapse of the policy. Furthermore, upon receipt of notice that any insurance policy has already lapsed or that any Hotel is otherwise not insured in accordance with the requirements of the Credit Agreement, the Servicer or the Special Servicer is required to arrange such insurance with an insurer with a "claims paying ability" or "financial strength" rating, as applicable, of at least "A+" from S&P and "A1" from Moody's (or such lower ratings as the Rating Agencies may confirm which will not result in the then current ratings of the Notes being downgraded, withdrawn or qualified). The Issuer must reimburse the Servicer and the Special Servicer in respect of any out-of-pocket costs incurred by them in paying premiums and/or arranging insurance coverage. See also "Risk Factors — Insurance".

Delegation by the Servicer and the Special Servicer

Each of the Servicer and the Special Servicer may, in certain circumstances, without the consent of the Issuer, the Security Trustee or the Trustee, sub-contract or delegate its obligations under the Servicing Agreement. Notwithstanding any sub-contracting or delegation of the performance of any of its obligations under the Servicing Agreement, the Servicer or the Special Servicer, as the case may be, will not be released or discharged from any liability thereunder and will remain responsible for the performance of its obligations under the Servicing Agreement by any sub-contractor or delegate.

Servicing Fee

Pursuant to the Servicing Agreement, the Issuer will pay to the Servicer (or the person then entitled to the Servicing Fee) on each Interest Payment Date a fee (the "**Servicing Fee**") at the rate of 0.10 per cent. per annum (exclusive of VAT) of the aggregate outstanding principal balance of the Loan (unless the Loan has become the Specially Serviced Loan in respect of which the Special Servicer is being paid the Special Servicing Fee) at the beginning of the Collection Period to which that Interest Payment Date relates. The Servicing Fee, or any part of such Servicing Fee, is assignable by the Servicer, subject to the assignee agreeing to be bound by the terms of the Deed of Charge and Assignment. Following any termination of MSMS's appointment as Servicer, the Servicing Fee will be paid to any substitute servicer appointed; provided that the Servicing Fee may be payable at a higher rate agreed in writing by the Trustee (but which

does not exceed the rate then commonly charged by providers of loan servicing services secured on commercial properties) to any substitute servicer.

Both before enforcement of the Notes and thereafter (subject to certain exceptions), the Issuer will pay the Servicing Fee to the Servicer and will, on the Interest Payment Date following the Interest Period in which they were incurred, reimburse the Servicer for all out-of-pocket costs, expenses and charges incurred by the Servicer in the performance of the services required to be provided by it under the Servicing Agreement. Prior to an enforcement of the Issuer Security, the Servicing Fee is payable in priority to payments on the Notes until the Interest Payment Date on which the aggregate Principal Amount Outstanding of the Notes, after providing for all amounts to be applied in redemption of the Notes or any class thereof on such Interest Payment Date, is less than 10 per cent. of the aggregate Principal Amount Outstanding of the Notes on the date of issuance thereof. On each Interest Payment Date following the Interest Payment Date referred to in the previous sentence and prior to enforcement of the Issuer Security, the Servicing Fee will be subordinated to the amounts payable on the Notes. Following enforcement of the Issuer Security, the Servicing Fee will be payable in priority to payments on the Notes. The order of priority of payment of the Servicing Fee and of reimbursement of the Servicer's costs, expenses and charges has been agreed with a view to procuring the continuing performance by the Servicer of its duties in relation to the Issuer, the Security Trustee, the Trustee, the Loan, the Related Security and the Notes. See "Credit Structure".

Special Servicing Fee and Liquidation Fee

If the Loan becomes the Specially Serviced Loan, the Issuer is required to pay to the Special Servicer or, (if it has assumed the rights and obligations of the Special Servicer), the Servicer has been appointed, the Special Servicer, a fee (a "**Special Servicing Fee**") equal to 0.15 per cent. per annum (exclusive of VAT) of the outstanding principal amount of the Loan, for the period commencing on the date the Loan becomes the Specially Serviced Loan and ending on the earlier of the completion of the Enforcement Procedures in respect of the Loan and the date on which both Interest Cover Percentages in respect of the Loan have been maintained at or above 110 per cent. for a period of three consecutive months. The Special Servicing Fee will accrue on a daily basis over such period and will be payable on each Interest Payment Date commencing with the Interest Payment Date following the date on which such period begins and ending on the Interest Payment Date following the end of such period. No Servicing Fee will be payable in respect of the Loan while the Special Servicing Fee is payable. In addition to the Special Servicing Fee, the Servicer or, if it has been appointed, the Special Servicer will be entitled to a fee (a "**Liquidation Fee**") equal to up to 1 per cent. (exclusive of VAT) of the proceeds (net of costs and expenses of sale), if any, arising on any sale of a Hotel which is sold in accordance with the Enforcement Procedures while the Loan is the Specially Serviced Loan. The Liquidation Fee will be negotiated (subject to a maximum fee of 1 per cent. of net proceeds, as described above) and agreed by the Controlling Party and the Special Servicer from time to time and notified to the Trustee and the Servicer in writing, and will be payable out of Principal Recovery Funds on the Interest Payment Date immediately following the receipt of such net proceeds.

The Special Servicer will be entitled to reimbursement of its out-of-pocket costs, expenses and charges in the same manner and in the same order of priority as the Servicer, as described under "Servicing Fee" above.

Ability to Purchase the Loan and Related Security

The Issuer has, pursuant to the Servicing Agreement, granted to the Servicer the option to purchase the Loan and the Related Security on any Interest Payment Date on which the then aggregate Principal Amount Outstanding of all the Notes would be less than 10 per cent. of their Principal Amount Outstanding as at the Closing Date. The Servicer must give the Issuer and Trustee not more than 60 nor less than 30 day's written notice of its intention to purchase the Loan and the Related Security. The purchase price to be paid by the Servicer to the Issuer will be an amount equal to the then principal amount outstanding of the Loan, plus accrued but unpaid interest on the Loan. Should the Servicer exercise its option to purchase the Loan and the Related Security, the Issuer and the Swap Provider have agreed that the Swap Agreement will also be novated to the Servicer.

Termination of Appointment of Servicer or Special Servicer

The appointment of the Servicer or the Special Servicer under the Servicing Agreement may be terminated by the Trustee following a termination event, by voluntary termination or by automatic termination.

The Trustee may terminate the Servicer's or Special Servicer's appointment under the Servicing Agreement upon the occurrence of a termination event in respect of that entity, including, *inter alia*, a default in the payment on the due date of any payment to be made by it under the Servicing Agreement, or, in certain circumstances, a default in performance of any of its other material covenants or obligations under the Servicing Agreement, or in the event that an order is made or an effective resolution passed for its winding up, or if it becomes insolvent. On the termination of the appointment of the Servicer or, as the case may be, the Special Servicer by the Trustee, the Trustee may, subject to certain conditions (including, but not limited to, the prior written approval of the Rating Agencies), appoint a substitute servicer or, as the case may be, substitute special servicer. If the appointment of the Special Servicer is terminated in respect of the Loan (otherwise than by reason of the Loan ceasing to be the Specially Serviced Loan) and a successor is not appointed in accordance with the Servicing Agreement, the Servicer will assume the rights and obligations of the Special Servicer in respect of the Loan.

In addition, by an Extraordinary Resolution passed by the Noteholders, the Noteholders may require the Trustee to terminate the appointment of the person then acting as Special Servicer and to appoint as successor thereto the entity specified in the relevant Extraordinary Resolution.

Each of the Servicer and the Special Servicer may terminate its appointment upon not less than three months' prior written notice to each of the Issuer, the Security Trustee, the Trustee and the Servicer or the Special Servicer (whichever is not purporting to give notice) provided that a qualified substitute servicer or substitute special servicer, as the case may be, shall have been appointed and agreed to be bound by the Servicing Agreement (including, but not limited to, those provisions as to the fees, costs and expenses) and the Deed of Charge and Assignment, such appointment to be effective not later than the date of termination, and provided further that the Rating Agencies have provided written confirmation that the then applicable ratings of the Notes will not be qualified, downgraded or withdrawn as a result thereof unless otherwise agreed by an Extraordinary Resolution of separate class meetings of each class of the Noteholders.

On termination of its appointment, the Servicer or the Special Servicer, as the case may be, will forthwith deliver to the Trustee or, as the Trustee directs, all documents, information, computer stored data and moneys held by it in relation to its appointment as Servicer or the Special Servicer, as the case may be, and will be required to take such further action as the Trustee may reasonably direct to enable the services of the Servicer or the Special Servicer, as the case may be, to be performed by a substitute thereof.

The Servicing Agreement will terminate automatically at such time as neither the Issuer nor the Security Trustee nor the Trustee has any further interest in the Loan or the Related Security or, if later, upon discharge of all of the liabilities of the Issuer to the Secured Parties.

Indemnification of Receivers

Pursuant to the Servicing Agreement, the Security Trustee has authorised the Servicer and the Special Servicer, as necessary, to give a receiver appointed pursuant to the Debentures an indemnity on their behalf provided that the indemnity is required by the receiver as a condition of its appointment or continued appointment and reasonable endeavours to appoint a suitably qualified and experienced receiver without the provision of such an indemnity have been taken by the Security Trustee (or the entity giving instructions to the Security Trustee) and provided further that the terms of any indemnity would be acceptable to a reasonably prudent lender acting in accordance with the Servicing Standard.

General

In addition to the duties described above, the Servicer is required under the Servicing Agreement to perform duties customary for a servicer of mortgage loans such as retaining or arranging for the retention of loan and property deeds and other documents in safe custody and software licensing and sub-licensing.

Neither the Servicer nor the Special Servicer will be liable for any obligation of a Borrower or any other person (other than the Security Trustee under the Direct Agreement) under the Credit Agreement, the Related Security or any other document, have any liability to any third party for the obligations of the Issuer or the Trustee under the Notes or any of the documents listed under paragraph 12 of "General Information" (the "**Relevant Documents**") or have any liability to the Issuer, the Trustee, the Noteholders or any other person for any failure by the Issuer to make any payment due by it under the Notes or any of the Relevant Documents unless such failure by the Issuer results from a failure by the Servicer or the Special Servicer, as the case may be, to perform its obligations under the Servicing Agreement.

The Servicer may also advise the Issuer as to whether to exercise its option to redeem the Notes pursuant to Condition 6(*d*).

CASH MANAGEMENT

Cash Manager

Pursuant to an agreement to be entered into on or prior to the Closing Date among the Issuer, the Servicer, the Special Servicer, the Trustee, the Cash Manager, the Operating Bank and MSDW Bank (the "**Cash Management Agreement**"), each of the Issuer and the Trustee will appoint AIB International Financial Services Limited (the "**Cash Manager**") to be its agent to provide certain cash management services in relation to, *inter alia*, the Transaction Account, as are more particularly described below. The Cash Manager will undertake with the Issuer and the Trustee that in performing the services to be performed and in exercising its discretion under the Cash Management Agreement, the Cash Manager will exercise the same level of skill, care and diligence as it would apply if it were the beneficial owner of the moneys to which the services relate and that it will comply with any directions, orders and instructions which the Issuer or the Trustee may from time to time give to the Cash Manager in accordance with the provisions of the Cash Management Agreement.

Operating Bank and Issuer's Accounts

Pursuant to the Cash Management Agreement, Allied Irish Banks, p.l.c. (as the Operating Bank) will open and maintain certain accounts in the name of the Issuer. The Transaction Account and the Stand-by Account will be opened on or before the Closing Date. If the Swap Agreement Credit Support Document is entered into, the Swap Collateral Cash Account and, if required, the Swap Collateral Custody Account will be opened at that time. The Operating Bank has agreed to comply with any direction of the Cash Manager, the Issuer or the Trustee to effect payments from the Transaction Account, the Stand-by Account or the Swap Collateral Cash Account if such direction is made in accordance with the mandate governing the applicable account.

Calculation of Amounts and Payments

Under the Servicing Agreement, the Servicer and the Special Servicer are required to instruct the Security Trustee (in accordance with the Credit Agreement) to transfer monies from the Receipts Account and, if required, the Debt Service Reserve Account, the Sales Account and the Guarantee Reserve Account into the Transaction Account. In addition, all payments made by the Swap Provider and/or the Swap Guarantor (other than those contemplated by the Swap Agreement Credit Support Document) and all drawings under the Liquidity Facility will be paid into the Transaction Account. See "Servicing" and "Credit Structure — The Swap Agreement" and "— Liquidity Facility". Once such funds have been credited to the Transaction Account, the Cash Manager may invest such sums in Eligible Investments pending their distribution on the next following Interest Payment Date in accordance with the Deed of Charge and Assignment and the Cash Management Agreement, as described below.

On each Calculation Date (being the second Business Day prior to the relevant Interest Payment Date), the Cash Manager is required to determine, on the basis of information provided by the Servicer, the various amounts required to pay interest and principal due on the Notes on the forthcoming Interest Payment Date and all other amounts then payable by the Issuer, and the amounts available to make such payments. In addition, the Cash Manager will calculate the Principal Amount Outstanding and the Pool Factor (each as defined in Condition 6(*f*)) for each class of Notes for the Interest Period commencing on such forthcoming Interest Payment Date and the amount of each Note Principal Payment due on the next following Interest Payment Date, in each case pursuant to Condition 6(*f*).

All payments required to be made by the Issuer to the Swap Provider under the Swap Agreement will be paid from the Transaction Account. After payment has been made to the Swap Provider under the Swap Agreement, on each Interest Payment Date, the Cash Manager will determine and pay on behalf of the Issuer, out of the Available Interest Receipts and Available Principal determined by the Cash Manager to be available for such purposes, each of the payments required to be paid pursuant to and in the priority set forth in the Deed of Charge and Assignment. In addition, the Cash Manager will, from time to time, pay on behalf of the Issuer all Revenue Priority Amounts and all Principal Priority Amounts required to be paid by the Issuer, as determined by the Servicer.

The Cash Manager will make all payments required to carry out an optional redemption of Notes pursuant to Condition 6(*c*), Condition 6(*d*) or Condition 6(*e*), in each case according to the provisions of the relevant Condition. See further "Terms and Conditions of the Notes".

In the event that the Cash Manager determines, on any Calculation Date, that an Interest Shortfall or an Accrued Interest Shortfall will arise in respect of the Loan on the next following Interest Payment Date (as to which, see further "Credit Structure – Liquidity Facility" below), the Cash Manager is required to submit a notice of drawdown under the Liquidity Facility Agreement. If the Cash Manager fails to submit a notice of drawdown when it is required to do so, then either the Issuer or, if the Issuer fails to do so, the Trustee may submit the relevant notice of drawdown.

Ledgers

The Cash Manager will maintain the following ledgers:

(a) the Interest Ledger;

(b) the Principal Ledger;

(c) the Liquidity Ledger;

(d) the Prepayment Fee Ledger; and

(e) the Swap Breakage Receipts Ledger.

In addition, the Cash Manager will maintain such other ledgers as the Issuer, the Trustee, the Servicer or the Special Servicer may from time to time request.

The Cash Manager will from time to time in accordance with the payments made:

(a) credit the Interest Ledger with all Borrower Interest Receipts transferred and credited to the Transaction Account (the amount of which shall have been notified by the Servicer to the Cash Manager in accordance with the Servicing Agreement) and debit the Interest Ledger with all payments made out of Borrower Interest Receipts;

(b) credit the Principal Ledger with all Borrower Principal Receipts transferred and credited to the Transaction Account (the amount of which shall have been notified by the Servicer to the Cash Manager in accordance with the Servicing Agreement) and debit the Principal Ledger with all payments made out of Available Prepayment Redemption Amount, Available Final Redemption Amounts and Available Principal Recovery Funds;

(c) credit the Liquidity Ledger with any transfer made pursuant to item (i)(K) or item (ix) in "Summary — Available Funds and their Priority of Application — Payments out of the Transaction Account prior to Enforcement of the Notes — (b) Available Interest Receipts", or item (i) in "Summary — Available Funds and their Priority of Application — Payments out of the Transaction Account prior to Enforcement of the Notes — (c) Available Principal" and debit the Liquidity Ledger with all drawings under the Liquidity Facility;

(d) credit the Prepayment Fee Ledger with all Prepayment Fees transferred and credited to the Transaction Account (the amount of which shall have been notified by the Servicer to the Cash Manager in accordance with the Servicing Agreement) and debit the Prepayment Fee Ledger with all payments made out of Prepayment Fees; and

(e) credit the Swap Breakage Receipts Ledger with all Swap Breakage Receipts transferred and credited to the Transaction Account and debit the Swap Breakage Receipts Ledger with all payments made out of Swap Breakage Receipts.

Cash Manager Quarterly Report

Pursuant to the Cash Management Agreement, the Cash Manager has agreed to deliver to the Issuer, the Trustee, the Servicer and the Rating Agencies a report in respect of each Calculation Date in which it will notify the recipients of, *inter alia*, all amounts received in the Transaction Account and payments made with respect thereto and all entries made in the relevant ledgers.

Delegation by the Cash Manager

The Cash Manager may, in certain circumstances, without the consent of the Issuer or the Trustee, sub-contract or delegate its obligations under the Cash Management Agreement. Notwithstanding any sub-contracting or delegation of the performance of any of its obligations under the Cash Management Agreement, the Cash Manager will not be released or discharged from any liability thereunder and will remain responsible for the performance of its obligations under the Cash Management Agreement by any sub-contractor or delegate.

Fees and Expenses

Pursuant to the Cash Management Agreement, the Issuer will pay to the Cash Manager on each Interest Payment Date a cash management fee. The Issuer will also reimburse the Cash Manager and the Operating Bank for all out-of-pocket costs and expenses properly incurred by them in the performance of the services to be provided by them under the Cash Management Agreement as Cash Manager and Operating Bank, respectively. Any successor cash manager will receive remuneration on the same basis.

Both before enforcement of the Notes and thereafter (subject to certain exceptions), amounts payable by the Issuer to the Cash Manager and the Operating Bank will be payable in priority to payments due on the Class A Notes. This order of priority has been agreed with a view to procuring the continuing performance by each of the Cash Manager and the Operating Bank of their duties in relation to the Issuer, the Trustee, the Loan, the Related Security and the Notes.

Termination of Appointment of the Cash Manager

The appointment of AIB International Financial Services Limited as Cash Manager under the Cash Management Agreement may be terminated by virtue of its resignation or its removal by the Issuer or the Trustee. The Issuer or the Trustee may terminate the Cash Manager's appointment upon not less than three months' written notice or immediately upon the occurrence of a termination event, including, *inter alia*, (i) a failure by the Cash Manager to make when due a payment required to be made by the Cash Manager on behalf of the Issuer, or (ii) a default in the performance of any of its other duties under the Cash Management Agreement which continues unremedied for ten Business Days, or (iii) a petition is presented or an effective resolution passed for its winding up or the appointment of an administrator, examiner or similar official. On the termination of the Cash Manager by the Trustee, the Trustee may, subject to certain conditions, appoint a successor cash manager.

The Cash Manager may resign as Cash Manager upon not less than six months' written notice of resignation to each of the Issuer, the Servicer, the Special Servicer, MSDW Bank, the Operating Bank and the Trustee provided that a suitably qualified successor Cash Manager shall have been appointed.

Termination of Appointment of the Operating Bank

The Cash Management Agreement requires that the Operating Bank be, except in certain limited circumstances, a bank which is an Authorised Entity. If Allied Irish Banks, p.l.c. ceases to be an Authorised Entity, the Operating Bank will give written notice of such event to the Issuer, the Servicer, the Special Servicer, the Cash Manager and the Trustee and will, within a reasonable time after having obtained the prior written consent of the Issuer, the Servicer, the Special Servicer and the Trustee and subject to establishing substantially similar arrangements to those contained in the Cash Management Agreement, procure the transfer of the Transaction Account and each other account held by the Issuer with the Operating Bank to another bank which is an Authorised Entity. If at the time when a transfer of such account or accounts would otherwise have to be made, there is no other bank which is an Authorised Entity or if no Authorised Entity agrees to such a transfer, the accounts need not be transferred until such time as there is a bank which is an Authorised Entity or an Authorised Entity which so agrees, as the case may be.

An "**Authorised Entity**" is an entity the short-term unsecured, unguaranteed and unsubordinated debt obligations of which are rated at least at the Requisite Rating or, if at the relevant time there is no such entity, any entity approved in writing by the Trustee.

If, other than in the circumstances specified above, the Cash Manager wishes the bank or branch at which any account of the Issuer is maintained to be changed, the Cash Manager is required to obtain the

prior written consent of the Issuer and the Trustee, and the transfer of such account will be subject to the same directions and arrangements as are provided for above.

CREDIT STRUCTURE

The Loan and the Related Security and the structure of the transaction and the other arrangements for the protection of the Noteholders, in the light of the risks involved, have been reviewed by the Rating Agencies. The ratings assigned by the Rating Agencies to each class of Notes are set out in "Summary — The Notes — Ratings". A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the organisation assigning such ratings. The ratings of the Notes are dependent upon, among other things, the short term unsecured, unguaranteed, unsubordinated debt ratings of the Liquidity Facility Provider, the Letters of Credit Provider and the Swap Guarantor. Consequently, a qualification, downgrade or withdrawal of any such ratings may have an adverse effect on the ratings of the Notes.

The principal risks associated with the Notes and the manner in which they are addressed in the structure are set out below. Attention is also drawn to the section of this Offering Circular entitled "Risk Factors" for a description of certain risks in respect of the Loan and Related Security.

1. Liquidity, Credit and Basis Risk

The Issuer is subject to:

(a) the risk of delay arising between the scheduled Loan Payment Dates and the receipt of payments due from the Borrowers. This risk is addressed in respect of the Notes through the ability of the Issuer to seek drawings under the Liquidity Facility Agreement to cover certain third party expenses and shortfalls in Borrower Interest Receipts and by the liquidity support provided to classes of Notes by those classes of Notes (if any) ranking lower in priority to that class;

(b) the risk of default in payment and the failure by the Security Trustee, the Servicer or the Special Servicer, on behalf of the Issuer, to realise or to recover sufficient funds under the enforcement procedures in respect of the Loan and Related Security in order to discharge all amounts due and owing by the Borrowers in respect of the Loan. This risk is addressed in respect of the Notes by the credit support provided to classes of Notes by those classes of Notes (if any) ranking lower in priority to that class;

(c) the risk of the interest rates payable by the Borrowers on the Loan being less than that required by the Issuer in order to meet its commitments under the Notes and its other obligations. This risk is addressed by the Interest Rate Swap Transaction (see "The Swap Agreement" below), and indirectly by the ability of the Issuer to seek drawings under the Liquidity Facility Agreement to cover certain third party expenses; and

(d) the risk of movements in foreign exchange rates as a result of the Class E3 Notes being denominated in dollars, and the Loan being denominated in sterling. This is addressed by the Dollar Swap Transaction. See "The Swap Agreement" below.

2. Liabilities under the Notes

The Notes and interest thereon will not be obligations or responsibilities of any person other than the Issuer. In particular, the Notes will not be obligations or responsibilities of, or be guaranteed by, MSDW Bank or any associated entity of MSDW Bank, or of or by the Managers, the Servicer, the Special Servicer, the Cash Manager, the Trustee, the Security Trustee, the Corporate Services Provider, the Share Trustee, the Paying Agents, the Agent Bank, the Registrar, the Liquidity Facility Provider, the Swap Provider, the Swap Guarantor, the Depository, the Exchange Agent or the Operating Bank or any company in the same group of companies as those parties listed above and none of such persons accepts any liability whatsoever in respect of any failure by the Issuer to make payment of any amount due on the Notes.

On each Interest Payment Date, payments of interest on the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes, respectively, will be due and payable only if and to the extent that there are sufficient funds available to the Issuer to pay interest on the Class A Notes and other liabilities of the Issuer ranking higher in priority to interest payments on the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes, respectively, as provided in "Summary — Available Funds and their Priority of Application— Payments out of the Transaction Account prior to Enforcement of the Notes —

Available Interest Receipts", and which have been paid or provided for in full. To the extent that there are insufficient funds available to the Issuer on any Interest Payment Date to pay in full interest otherwise due on any one or more classes of junior-ranking Notes then outstanding, after making the payments and provisions ranking higher in priority to the relevant interest payment, as the case may be, such interest will not then be due and payable but subject, in the case of the Class D Notes and the Class E Notes, to the following paragraph, will become due and payable, together with accrued interest thereon, on subsequent Interest Payment Dates, but only if and to the extent that funds are available therefor.

The Issuer's obligation to pay interest in respect of each of the Class D Notes and the Class E Notes is limited, on each Interest Payment Date, to an amount equal to the lesser of (a) the Interest Amount (as defined in Condition 5(*d*)) in respect of such class of Notes for that Interest Payment Date, and (b) the result of (i) the Available Interest Receipts in respect of such Interest Payment Date (including, for avoidance of doubt, the amount available for drawing by way of Interest Drawings and Accrued Interest Drawings under the Liquidity Facility Agreement on such Interest Payment Date), minus (ii) the sum of all amounts payable out of Available Interest Receipts on such Interest Payment Date in priority to the payment of interest on such class of Notes (the amount calculated under (b) in respect of an Interest Payment Date being the "Adjusted Interest Amount" for such class of Notes on that Interest Payment Date). No amount will be payable by the Issuer in respect of the amount, on any Interest Payment Date, by which the Interest Amount in respect of the Class D Notes and/or the Class E Notes, as applicable, exceeds the Adjusted Interest Amount in respect of such class, the debt that would otherwise be represented by such shortfall will be extinguished, and the affected Noteholders will have no claim against the Issuer in respect thereof.

The Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes will provide credit support for the Class A Notes. Funds which are available in respect of payments of principal on the Notes as described in the definitions of Available Prepayment Redemption Funds, Available Final Redemption Funds and Available Principal Recovery Funds in Condition 6(*b*) will be applied first, in paying principal on the Class A Notes until all the Class A Notes have been redeemed in full and only then will payments of principal on the Class B Notes, the Class C Notes, the Class D Notes, the Class E1 Notes, the Class E2 Notes and the Class E3 Notes become payable, as provided in "Summary — Available Funds and their Priority of Application — Payments out of the Transaction Account prior to Enforcement of the Notes — Available Principal".

3. Post-Enforcement Priority of Payments

The Issuer Security will become enforceable upon the Trustee giving a Note Enforcement Notice. Following enforcement of the Issuer Security, the Trustee will be required to apply all funds received or recovered by it in accordance with the following order of priority (in each case, only if and to the extent that the payments and provisions of a higher priority have been made in full), all as more fully set out in the Deed of Charge and Assignment:

(i) in or towards satisfaction of any amounts due and payable by the Issuer to (a) *pari passu* and *pro rata*, the Trustee, the Security Trustee and any receiver appointed under the Deed of Charge and Assignment and any amounts due and payable to any receiver appointed under the Loan and/or the Related Security; then (b) to the Swap Provider in respect of amounts due or overdue to it under the Swap Agreement, as supplemented by the Swap Agreement Credit Support Document, if entered into, including payments due to be made by the Issuer following an early termination of the Swap Agreement (other than amounts due and payable under the Dollar Swap Transaction and other than payments to be made by the Issuer referred to in (vii) below); then (c) *pari passu* and *pro rata*, the Paying Agents, the Exchange Agent and the Agent Bank in respect of amounts properly paid by such persons to the Noteholders and not paid by the Issuer under the Agency Agreement or the Exchange Rate Agency Agreement; then (d) the Servicer and the Special Servicer in respect of any Servicing Fee or any Special Servicing Fee and any other amounts (including any amounts due in respect of any Liquidation Fee) due to the Servicer and the Special Servicer pursuant to the Servicing Agreement, in each case as between the Servicer and the Special Servicer *pari passu* and *pro rata*; then (e) the Cash Manager under the Cash Management Agreement; then (f) the Corporate Services Provider under the Corporate Services Agreement; then (g) the Share Trustee under the Declaration of Trust; then (h) amounts due to the Depository under the Depository Agreement; then (i) the Operating Bank under the Cash Management Agreement; and then (j) amounts due to the Liquidity Facility Provider under and in accordance with the Liquidity Facility Agreement;

(ii) in or towards payment of (a) interest due or overdue (and all interest due on such overdue interest) on the Class A Notes; and after payments of all such sums (b) all amounts of principal due or overdue on the Class A Notes and all other amounts due in respect of the Class A Notes until the outstanding principal balance of the Class A Notes is reduced to zero;

(iii) in or towards payment of (a) interest due or overdue (and all interest due on such overdue interest) on the Class B Notes; and after payments of all such sums (b) all amounts of principal due or overdue on the Class B Notes and all other amounts due in respect of the Class B Notes until the outstanding principal balance of the Class B Notes is reduced to zero;

(iv) in or towards payment of (a) interest due or overdue (and all interest due on such overdue interest) on the Class C Notes; and after payments of all such sums (b) all amounts of principal due or overdue on the Class C Notes and all other amounts due in respect of the Class C Notes until the outstanding principal balance of the Class C Notes is reduced to zero;

(v) in or towards payment of (a) interest due or overdue (and all interest due on such overdue interest) on the Class D Notes; and after payments of all such sums (b) all amounts of principal due or overdue on the Class D Notes and all other amounts due in respect of the Class D Notes until the outstanding principal balance of the Class D Notes is reduced to zero;

(vi) in or towards payment of (a) *pari passu* and *pro rata* interest due or overdue (and all interest due on such overdue interest) on the Class E1 Notes and the Class E2 Notes and to the Swap Provider under the Dollar Swap Transaction in respect of payments due to the Issuer to enable the payment of interest on the Class E3 Notes; and after payments of all such sums (b) *pari passu* and *pro rata* all amounts of principal due or overdue on the Class E1 Notes and the Class E2 Notes and to the Swap Provider under the Dollar Swap Transaction in respect of payments due to the Issuer to enable the payment of principal on the Class E3 Notes and all other amounts due in respect of the Class E1 Notes, Class E2 Notes and Class E3 Notes until the outstanding principal balance of the Class E Notes is reduced to zero;

(vii) in or towards satisfaction of any amounts due and payable by the Issuer to the Swap Provider under the Swap Agreement in respect of any payments due by the Issuer following an early termination of the Swap Agreement as a result of an event of default under the Swap Agreement in respect of which the Swap Provider is the Defaulting Party (as defined in the Swap Agreement);

(viii) in or towards satisfaction of all amounts then owed or owing to MSDW Bank under the Loan Sale Agreement on any account whatsoever; and

(ix) any surplus to the Issuer or other persons entitled thereto.

An amount equal to all Prepayment Fees and Swap Breakage Receipts, together with any other amounts received as a result of the prepayment of the Loan (other than principal of or interest on the Notes), will be paid to MSDW Bank or the person or persons then entitled thereto. Upon enforcement of the Issuer Security, the Trustee will have recourse only to the rights of the Issuer to the Loan and the Related Security and all other assets constituting the Issuer Security. Other than (a) as provided in the Loan Sale Agreement for material breach of warranty in relation to the Loan and, in certain limited circumstances, the Related Security (as to which, see further "The Loan and the Related Security — Representations and Warranties") and breach of other provisions specified therein, and (b) in relation to the Servicing Agreement and the Subscription Agreement for breach of the obligations of MSMS or MSDW Bank set out therein, the Issuer and/or the Trustee will have no recourse to MSMS or MSDW Bank.

The terms on which the Issuer Security will be held will provide that, upon enforcement, certain payments (including all amounts payable to any receiver and the Trustee, all amounts due to the Servicer or the Special Servicer in respect of the Servicing Fee, Special Servicing Fee and Liquidation Fees, the Cash Manager, the Corporate Services Provider, the Share Trustee, the Operating Bank, the Depository, all payments due to the Swap Provider under the Swap Transactions (other than in respect of amounts specified at item (vii) above) and all payments due to the Liquidity Facility Provider under the Liquidity Facility Agreement) will be made in priority to payments in respect of interest and principal on the Class A Notes. Upon enforcement of the Issuer Security, all amounts owing to the Class A Noteholders will rank higher in priority to all amounts owing to the Class B Noteholders. All amounts owing to the Class B

Noteholders will rank higher in priority to all amounts owing to the Class C Noteholders. All amounts owing to the Class C Noteholders will rank higher in priority to all amounts owing to the Class D Noteholders. All amounts owing to the Class D Noteholders will rank higher in priority to all amounts owing to the Class E Noteholders. All amounts owing to the Class E1 Noteholders, the Class E2 Noteholders and the Class E3 Noteholders will rank *pari passu*.

If the net proceeds of realisation of, or enforcement with respect to, the Issuer Security are not sufficient to make all payments due in respect of the Notes, the other assets (if any) of the Issuer, other than any surplus arising on the realisation of or enforcement with respect to any remaining security, will not be available for payment of any shortfall arising therefrom (which will be borne in accordance with the terms of the Deed of Charge and Assignment). All claims in respect of such shortfall, after realisation of or enforcement with respect to all of the Issuer Security, will be extinguished and the Trustee, the Noteholders and the Secured Parties will have no further claim against the Issuer in respect of such unpaid amounts. Each Noteholder, by subscribing for or purchasing Notes, is deemed to accept and acknowledge that it is fully aware that, save as aforesaid, (i) upon enforcement of the Issuer Security, its right to obtain repayment in full is limited to the Issuer Security, and (ii) the Issuer has duly and entirely fulfilled its repayment obligation by making available to the Noteholder its relevant part of the proceeds of realisation or enforcement with respect to the Issuer Security in accordance with the Deed of Charge and Assignment and all claims in respect of such shortfall will be extinguished.

4. Liquidity Facility

On the Closing Date, the Issuer will enter into the Liquidity Facility Agreement with the Liquidity Facility Provider and the Trustee, whereby the Liquidity Facility Provider will provide a 364-day committed loan facility, which will be renewable as described below and which will permit drawings to be made by the Issuer of up to an initial aggregate amount of £22,500,000. However, on any Interest Payment Date on which 6 per cent. of the then outstanding aggregate principal amount of the Loan equals less than £22,500,000 the liquidity facility commitment will be reduced to such an amount, provided that the liquidity facility commitment will not at any time be less than the lesser of £10,000,000 and 10 per cent. of the then outstanding aggregate principal amount of the Loan.

If on any Business Day the Cash Manager determines that there will be a shortfall in the amount available to pay the Revenue Priority Amount due from the Issuer to a third party other than MSDW Bank (an "**Expenses Shortfall**"), the Cash Manager may, on behalf of the Issuer, make a drawing under the liquidity facility on the next Business Day in an amount equal to the relevant Expenses Shortfall.

On each Calculation Date, the Cash Manager will determine whether an Interest Shortfall or Accrued Interest Shortfall will arise in respect of the Loan on the next following Interest Payment Date and, if so, will make Interest Drawings and Accrued Interest Drawings as required, on the day immediately preceding that Interest Payment Date. Each such drawing will be in an amount equal to the relevant shortfall (subject to any Appraisal Reduction, as described below) and will be credited to the Transaction Account.

An "**Interest Shortfall**" will arise in respect of the Loan on an Interest Payment Date if the Borrower Interest Receipts received in respect of the Loan during the relevant Collection Period (other than voluntary prepayments of interest) were less than the Scheduled Interest Receipts for that Collection Period.

An "**Accrued Interest Shortfall**" will arise in respect of the Loan on an Interest Payment Date if the Borrower Interest Receipts received in respect of the Loan during a Collection Period are insufficient to cover (a) the Scheduled Interest Receipts for the Loan in that Collection Period; plus (b) the outstanding amount of any Interest Drawings and Expenses Drawings previously made in respect of the Loan; plus (c) the amount of any interest which will have accrued on outstanding Interest Drawings, Expenses Drawings and Accrued Interest Drawings.

The "**Scheduled Interest Receipts**" for the Loan in a Collection Period include all payments of interest, fees (other than Prepayment Fees) breakage costs, expenses, commissions and other sums due and payable by the Borrowers during that Collection Period (other than any payments in respect of principal). The amount of Scheduled Interest Receipts due in a Collection Period will be calculated on the assumption that the Borrowers have made all prior payments under the Credit Agreement when due (but taking into account, for the avoidance of doubt, any prepayment made by the Borrowers). However, if on any Interest Payment Date there are insufficient funds available under the Liquidity Facility to enable the Issuer to

draw the amount it would otherwise be entitled to draw in respect of an Interest Shortfall (i.e. there is a "**Liquidity Facility Deficiency**"), the "Scheduled Interest Receipts" due from the Borrowers during the Collection Period immediately following that Interest Payment Date will be calculated on the assumption that the Borrower Interest Receipts for the prior Collection Period were reduced by the amount of the Liquidity Facility Deficiency.

If completion of the Enforcement Procedures takes place in respect of the Loan during a Collection Period, all outstanding Interest Drawings, Accrued Interest Drawings and drawings to cover Expenses Shortfalls (together "**Liquidity Drawings**") will be repaid in full on the next following Interest Payment Date. If completion of the Enforcement Procedures does not take place in respect of the Loan, any outstanding Liquidity Drawings will be repaid on each Interest Payment Date as follows:

(1) Interest Drawings will be repayable in an amount equal to the amount (if any) by which Borrower Interest Receipts received during the immediately preceding Collection Period exceed the Scheduled Interest Receipts due in such Collection Period;

(2) Expenses Drawings will be repayable in an amount equal to the amount (if any) by which Borrower Interest Receipts received during the immediately preceding Collection Period exceed the aggregate of Scheduled Interest Receipts due in such Collection Period plus the amount of Interest Drawings repayable on the relevant Interest Payment Date; and

(3) Accrued Interest Drawings will be repayable in an amount equal to the amount (if any) by which Borrower Interest Receipts received during the immediately preceding Collection Period exceed the aggregate of Scheduled Interest Receipts due in such Collection Period plus the amount of Interest Drawings and Expenses Drawings repayable on the relevant Interest Payment Date.

To the extent that the excess of Borrower Interest Receipts over Scheduled Interest Receipts received during a Collection Period is insufficient to fully repay the Liquidity Drawings then outstanding, any Borrower Principal Receipts received during that Collection Period shall be applied towards such repayment before being applied to payments in respect of the Notes.

Not later than the earliest to occur of (i) the date 120 days after the occurrence of any non-payment with respect to the Loan if such non-payment remains uncured, (ii) the date 90 days after an order is made or an effective resolution is passed for the winding up of either Borrower or an administration order is granted or an administrative receiver or other receiver, liquidator or other similar official is appointed in relation to either Borrower or a Hotel, provided such order, resolution or appointment is still in effect, (iii) the effective date of any modification to the maturity date, interest rate, principal balance, amortisation term or payment frequency of the Loan, other than the extension of the date that a final principal payment is due for a period of less than six months and (iv) the date 30 days following the date the Loan becomes the Specially Serviced Loan, the Special Servicer is required to obtain an appraisal by a member of the Royal Institute of Chartered Surveyors (if the outstanding principal balance of the Loan is greater than £50,000,000) or an internal valuation (if the outstanding principal balance of the Loan is equal to or less than £50,000,000) of the Hotels, unless such an appraisal or valuation had previously been obtained within the preceding twelve months. As a result of such appraisal or internal valuation, an "**Appraisal Reduction**" may be created, being an amount, calculated as of the first Calculation Date that is at least 15 days after the date on which the appraisal or valuation is obtained or performed, equal to the excess, if any, of (a) the sum of (i) the outstanding principal balance of the Loan, (ii) all unpaid interest on the Loan, (iii) all currently due and unpaid taxes and assessments (net of any amount escrowed for such items), insurance premiums, and, if applicable, ground rents in respect of the Hotels, over (b) 90 per cent. of the appraised value of the Hotels as determined by such appraisal or valuation. An Appraisal Reduction will be reduced to zero as of the date that the Loan is brought current under the then current terms of the relevant Credit Agreement for at least three consecutive months, paid in full, liquidated, repurchased or otherwise disposed of. Notwithstanding the foregoing, if an internal valuation of the Hotels is performed, the Appraisal Reduction will equal the greater of (a) the amount calculated in the second preceding sentence and (b) 15 per cent. of the outstanding principal balance of the Loan. The creation of an Appraisal Reduction will proportionately reduce the amount available to be drawn by way of Interest Drawings under the Liquidity Facility Agreement.

The Liquidity Facility Agreement may be renewed until the earlier of 10th May, 2007 or such date the principal balance of the Loan has been reduced to zero. The Liquidity Facility Agreement will provide that

if at any time the rating of the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the Liquidity Facility Provider falls below the Requisite Rating, or the Liquidity Provider refuses to renew the Liquidity Facility Agreement, then the Issuer may require the Liquidity Facility Provider to pay into a designated bank account of the Issuer (the "**Stand-by Account**") maintained with an appropriately rated bank an amount (a "**Stand-by Drawing**") equal to its undrawn commitment under the Liquidity Facility Agreement. In the event that the Cash Manager makes a Stand-by Drawing, the Cash Manager is required, prior to the expenditure of the proceeds of such drawing as described above, to invest such funds in Eligible Investments.

"**Eligible Investments**" means (i) sterling denominated government securities or (ii) sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper); provided that in all cases such investments will mature at least one business day prior to the next Interest Payment Date and the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being a bank or licensed EU credit institution) are rated "A-1+" by S&P or "P-1" by Moody's or are otherwise acceptable to the Rating Agencies.

Amounts standing to the credit of the Stand-by Account will be available to the Issuer for drawing in respect of an Interest Drawing, an Accrued Interest Drawing or an Expenses Drawing, as described above, and otherwise in the circumstances provided in the Liquidity Facility Agreement.

All payments due to the Liquidity Facility Provider under the Liquidity Facility Agreement (other than in respect of any amounts due thereunder which are described in item (ix) of "Summary — Available Funds and their Priority of Application — Payments out of Transaction Account prior to Enforcement of the Notes — Available Interest Receipts") will rank higher in priority to payments of interest and principal on the Notes.

5. The Swap Agreement

On or before the Closing Date, the Issuer will enter into the Swap Agreement with the Swap Provider and the Swap Transactions pursuant thereto (each as described below). The obligations of the Swap Provider under the Swap Agreement will be guaranteed by the Swap Guarantor.

The Issuer will enter into the Swap Transactions, pursuant to the Swap Agreement, with the Swap Provider in order to protect itself against interest rate risk arising in respect of the Loan and in order to protect itself against currency risk as a result of the Class E3 Notes being denominated in dollars. The Swap Transactions to be entered into are:

(i) an interest rate swap transaction (the "**Interest Rate Swap Transaction**") in order to protect the Issuer against interest rate risk arising due to a difference in the interest rates applicable to the Loan and to the Notes; and

(ii) the currency swap transaction (the "**Dollar Swap Transaction**") in order to protect the Issuer against currency risk arising as a result of the Class E3 Notes being denominated in dollars and consequently principal of and interest on the Class E3 Notes being payable in dollars and the Loan being denominated in sterling.

Under the terms of the Interest Rate Swap Transaction, the Issuer will pay to the Swap Provider on each Interest Payment Date an amount equal to the excess (if any) of an amount determined by reference to the fixed rate payments payable by the Borrowers during the relevant Collection Period ("X") over an amount determined by reference to three-month sterling LIBOR (or, in the case of the first Interest Period, when the applicable interest rate will be determined by reference to LIBOR for one-month sterling LIBOR) ("Y") and the Swap Provider will pay to the Issuer an amount equal to the excess (if any) of Y over X.

Under the terms of the Dollar Swap Transaction, the Issuer will pay to the Swap Provider on the Closing Date the net proceeds received on the issue of the Class E3 Notes and will receive in exchange a set sterling amount. On each Interest Payment Date a dollar payment equal to the amounts payable by the Issuer on the Class E3 Notes will be paid by the Swap Provider to the Issuer and the Issuer will make a corresponding sterling payment to the Swap Provider. The relevant dollar/sterling exchange rate has been set at £1=U.S.$1.545 .

The Dollar Swap Transaction is scheduled to terminate on the 10th May, 2007, subject to adjustment for non-business days. In addition, the Swap Transactions may be terminated in accordance with certain termination events and events of default, some of which are more particularly described below. In the event that the Dollar Swap Transaction is terminated, the Issuer will still be obliged to pay interest and principal on the Class E3 Notes.

Subject to the following, the Swap Provider and the Swap Guarantor are obliged only to make payments under the Swap Transactions to the extent that the Issuer makes the corresponding payments thereunder. Furthermore, a failure by the Issuer to make timely payment of amounts due from it under the Swap Transactions will constitute a default thereunder and entitle the Swap Provider to terminate the Swap Transactions.

The Swap Provider will be obliged to make payments under the Swap Agreement without any withholding or deduction of taxes unless required by law. If any such withholding or deduction is required by law, the Swap Provider will be required to pay such additional amount as is necessary to ensure that the net amount actually received by the Issuer will equal the full amount the Issuer would have received had no such withholding or deduction been required or, if such withholding or deduction is a withholding or deduction which will or would be or become the subject of any tax credit, allowance, set-off, repayment or refund to the Swap Provider, the Issuer shall use all reasonable endeavours to reach agreement to mitigate the incidence of tax on the Swap Provider. The Issuer is similarly obliged to make payments under the Swap Agreement without any withholding or deduction of taxes unless required by law and is similarly obliged to pay additional amounts and the Swap Provider is similarly obliged to use reasonable endeavours to reach agreement to mitigate the incidence of tax on the Issuer. Such additional amounts will be payable in priority to amounts payable on the Notes.

The Swap Agreement will provide, however, that if due to action taken by a relevant taxing authority or brought in a court of competent jurisdiction or any change in tax law either the Issuer or the Swap Provider will, or there is a substantial likelihood that it will, on the next Interest Payment Date, be required to pay additional amounts in respect of tax under the Swap Agreement or will, or there is a substantial likelihood that it will, receive payment from the other party from which an amount is required to be deducted or withheld for or on account of tax (a "**Tax Event**"), the Swap Provider will use its reasonable efforts to transfer its rights and obligations to another of its offices, branches or affiliates or a suitably rated third party to avoid the relevant Tax Event. If no such transfer can be effected, the Swap Transactions may be terminated. If the Swap Transactions are terminated and the Issuer is unable to find a replacement swap provider, the Issuer may redeem all of the Notes in full. Such redemption will be made by the Issuer to the extent of an amount equal to the then aggregate Principal Amount Outstanding of each class of Notes then outstanding plus interest accrued and unpaid thereon. See "Terms and Conditions of the Notes — Condition 6(*e*)". The Swap Agreement will contain certain other limited termination events and events of default which will entitle either party to terminate it. In the event that the Loan is repurchased by MSDW Bank pursuant to the Loan Sale Agreement or purchased by the Servicer pursuant to the Servicing Agreement, the Swap Transactions will not be terminated, but the rights and obligations of the Issuer under the Swap Transactions will, in accordance with the terms of the Swap Agreement, be transferred to MSDW Bank or the Servicer, as the case may be.

The Swap Provider may, at its own discretion and at its own expense, novate its rights and obligations under the Swap Agreement (including the Swap Transactions) to any third party provided the Rating Agencies have provided written confirmation that such third party's (or its guarantor's) long-term unsecured, unsubordinated debt obligations are such that the then applicable ratings of the Notes will not be qualified, downgraded or withdrawn and provided further that such third party agrees to be bound by, *inter alia*, the terms of the Deed of Charge and Assignment, on substantially the same terms as the Swap Provider.

6. Swap Guarantor Downgrade Event

If the rating of the short-term unsecured, unsubordinated debt obligations of the Swap Guarantor falls below "A-1" by S&P or "P-1" by Moody's at any time, then the Swap Provider is required to comply with the requirements set out in the Swap Agreement which may require the execution of the Swap Agreement Credit Support Document, if it has not already been executed, and the delivery to the Security Trustee of collateral (which collateral may be in the form of cash or securities) in respect of its obligations under the Interest Rate Swap Transaction in an amount or value determined in accordance with the most recent applicable swap collateral guidelines published by the Rating Agencies. In addition, if the rating of the

long-term unsecured, unsubordinarted debt obligations of the Swap Guarantor falls below "BB" by S&P at any time, then the Swap Provider is required to comply with the further requirements set out in the Swap Agreement which may require the delivery to the Security Trustee of additional collateral in an amount or value as aforesaid in respect of its obligations under the Dollar Swap Transaction.

7 Swap Agreement Credit Support Document to be entered into upon Swap Guarantor Downgrade

If at any time the Swap Provider is required to provide collateral in respect of any of its obligations under the Swap Agreement, the Issuer and the Swap Provider will enter into a collateral agreement in the form of a 1995 ISDA Credit Support Annex (Bilateral Form — Transfer) or in such other form acceptable to the Issuer (the "**Swap Agreement Credit Support Document**"). The Swap Agreement Credit Support Document will provide that, from time to time, subject to the conditions specified in the Swap Agreement Credit Support Document, the Swap Provider will make transfers of collateral to the Issuer in support of its obligations under the Swap Agreement and the Issuer will be obliged to return such collateral in accordance with the terms of the Swap Agreement Credit Support Document. References in this Offering Circular to the Swap Agreement Credit Support Document are references to such agreement as and when entered into between the Issuer and the Swap Provider.

Collateral amounts that may be required to be posted by the Swap Provider pursuant to the Swap Agreement Credit Support Document may be delivered in the form of cash or securities. Cash amounts will be paid into the Swap Collateral Cash Account and securities will be transferred to the Issuer's Swap Collateral Custody Account. References in this Offering Circular to the Swap Collateral Cash Account and to the Swap Collateral Custody Account and to payments from such accounts are deemed to be a reference to and to payments from such accounts as and when opened by the Issuer.

If the Swap Collateral Cash Account and the Swap Collateral Custody Account are opened, amounts equal to any amounts of interest on the credit balance of the Swap Collateral Cash Account, or equivalent to distributions received on securities held in the Swap Collateral Custody Account, are required to be paid to the Swap Provider in accordance with the terms of the Swap Agreement Credit Support Document and the Deed of Charge and Assignment in priority to any other payment obligations of the Issuer, other than to the Trustee and for a receiver following the enforcement of the Notes. The obligation of the Issuer in respect of any return of securities posted as collateral pursuant to the Swap Agreement Credit Support Document in the form of a 1995 ISDA Credit Support Annex (Bilateral Form — Transfer) is to return "equivalent securities".

8 Swap Guarantee

The Swap Provider's obligations under the Interest Rate Swap Transaction and the Dollar Swap Transaction are guaranteed pursuant to, and subject to the terms of, the Swap Guarantee provided by the Swap Guarantor. In the event that MSCS ceases (other than by virtue of its own default) to be the Swap Provider or it is replaced by a suitably rated third party, MSDW will cease to be the Swap Guarantor.

ESTIMATED AVERAGE LIVES OF THE NOTES AND ASSUMPTIONS

The average lives of the Notes cannot be predicted as the actual rate at which the Loan will be repaid or prepaid and a number of other relevant factors are unknown.

Calculations of possible average lives of the Notes can be made based on certain assumptions. For example, based on the assumptions (none of which are predictable) that:

(a) the Loan is not sold by the Issuer;

(b) the Loan does not default, prepay or is enforced;

(c) the Swap Agreement will not be terminated; and

(d) the Closing Date is 11th July, 2002,

then the approximate percentage of the initial principal amount outstanding of the Notes on each payment date of the Notes and the approximate average lives of the Notes would be as follows:

Payment Date of Notes	Class A Notes	Class B Notes	Class C Notes	Class D Notes	Class E1 Notes	Class E2 Notes	Class E3 Notes
			(per cent.)				
Closing Date	100	100	100	100	100	100	100
10th August, 2002	100	100	100	100	100	100	100
10th November, 2002	100	100	100	100	100	100	100
10th February, 2003	100	100	100	100	100	100	100
10th May, 2003	100	100	100	100	100	100	100
10th August, 2003	100	100	100	100	100	100	100
10th November, 2003	100	100	100	100	100	100	100
10th February, 2004	100	100	100	100	100	100	100
10th May, 2004	100	100	100	100	100	100	100
10th August, 2004	100	100	100	100	100	100	100
10th November, 2004	100	100	100	100	100	100	100
10th February, 2005	100	100	100	100	100	100	100
10th May, 2005	0	0	0	0	0	0	0
Average Life (years)	2.8	2.8	2.8	2.8	2.8	2.8	2.8
First Principal Payment Date	10th May, 2005	10th May, 2005	10th May, 2005	10th May, 2005	10th May, 2005	10th May, 2005	10th May, 2005
Last Principal Payment Date	10th May, 2005	10th May, 2005	10th May, 2005	10th May, 2005	10th May, 2005	10th May, 2005	10th May, 2005

If, however, the possible average lives of the Notes were to be calculated on the basis of the following assumptions (none of which are predictable):

(a) the Loan is not sold by the Issuer;

(b) the Loan does not default, prepay or is enforced;

(c) the Swap Agreement will not be terminated;

(d) all payments have been made into the Debt Service Reserve Account as required by the Credit Agreement and no amount standing to the credit of the Debt Service Reserve Account has been applied toward payment of interest on the Loan; and

(e) the Closing Date is 11th July, 2002,

then the appropriate percentage of the initial principal amount outstanding of the Notes on each payment date of the Notes and the appropriate average lives of the Notes would be as follows:

Payment Date of Notes	Class A Notes	Class B Notes	Class C Notes	Class D Notes	Class E1 Notes	Class E2 Notes	Class E3 Notes
			(per cent.)				
Closing Date	100	100	100	100	100	100	100
10th August, 2002	100	100	100	100	100	100	100
10th November, 2002	100	100	100	100	100	100	100
10th February, 2003	100	100	100	100	100	100	100
10th May, 2003	100	100	100	100	100	100	100
10th August, 2003	100	100	100	100	100	100	100
10th November, 2003	99	100	100	100	100	100	100
10th February, 2004	97	100	100	100	100	100	100
10th May, 2004	96	100	100	100	100	100	100
10th August, 2004	94	100	100	100	100	100	100
10th November, 2004	92	100	100	100	100	100	100
10th February, 2005	90	100	100	100	100	100	100
10th May, 2005	0	0	0	0	0	0	0
Average Life (years)	2.8	2.8	2.8	2.8	2.8	2.8	2.8
First Principal Payment Date	10th November, 2003	10th May, 2005	10th May, 2005	10th May, 2005	10th May, 2005	10th May, 2005	10th May, 2005
Last Principal Payment Date	10th May, 2005	10th May, 2005	10th May, 2005	10th May, 2005	10th May, 2005	10th May, 2005	10th May, 2005

The average lives of the Notes are subject to factors largely outside the control of the Issuer and consequently no assurance can be given that any of the estimates above will in fact be realised and they must therefore be viewed with considerable caution.

The day count fraction used for the above was "30/360", being the number of days in the relevant period divided by 360 (the number of days being calculated on the basis of a year of 360 days with 12 30-day months).

DESCRIPTION OF THE NOTES AND THE DEPOSITORY AGREEMENT

General

Each class of Notes will be represented by a Reg S Global Note and two Rule 144A Global Notes in bearer form (all such Global Notes being herein referred to as the "**Global Notes**"). The Global Notes will be deposited with or to the order of JPMorgan Chase Bank, New York as Depository pursuant to the terms of the Depository Agreement. The Depository will (i) register a certificateless depository interest in respect of one of the Rule 144A Global Notes for each class of Notes in the name of DTC or its nominee, (ii) register a certificateless depository interest in respect of the other Rule 144A Global Note for each class of Notes in the name of JPMorgan Chase Bank, London, as common depositary (the "**Common Depositary**") for the account of Euroclear and Clearstream, Luxembourg and (iii) issue a certificated depository interest in respect of each Reg S Global Note to the Common Depositary. All of the certificated and certificateless depository interests ("**CDIs**") will represent a 100 per cent. interest in the underlying Global Note relating thereto. The Depository, acting as agent of the Issuer, will maintain a book entry system in which it will register DTC or its nominee as the owner of the certificateless depository interests referred to in (i) above and the Common Depositary or a nominee of the Common Depositary as owner of the certificated depository interests and the certificateless depositary interests referred to in (ii) and (iii) above.

Upon confirmation by the Common Depositary that the Depository has custody of the Reg S Global Notes and the Rule 144A Global Notes to be held by the Common Depositary, Euroclear or Clearstream, Luxembourg, as the case may be, will record Book-Entry Interests representing beneficial interests in the relevant CDIs attributable to the Reg S Global Notes and the Rule 144A Global Notes relating thereto.

Upon confirmation by DTC that the Depository has custody of the Rule 144A Global Notes to be held by or on behalf of DTC or its nominee and upon acceptance by DTC of the CDIs pursuant to the DTC Letter of Representations sent by the Depository and the Issuer to DTC, DTC will record Book-Entry Interests representing beneficial interests in the relevant CDIs attributable to the Rule 144A Global Notes relating thereto.

For the avoidance of doubt, all references in this section to a "**Book Entry Interest**" in a Global Note are construed as a reference to a Book Entry Interest in the CDI attributable to such Global Note.

Book-Entry Interests in respect of Global Notes will be recorded in original denominations of £50,000 and integral multiples of £100 in excess thereof or, in the case of the Class E3 Notes, U.S.$50,000 and integral multiples of U.S.$100 in excess thereof. Ownership of Book-Entry Interests in respect of Global Notes will be limited to persons that have accounts with DTC, Euroclear or Clearstream, Luxembourg or persons that hold interests in the Book-Entry Interests through participants, including, as applicable, banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with DTC, Euroclear or Clearstream, Luxembourg, either directly or indirectly. Indirect participants will also include persons that hold beneficial interests through such indirect participants. Book-Entry Interests will not be held in definitive form. Instead, DTC, Euroclear and Clearstream, Luxembourg, as applicable, will credit the participants' accounts with the respective Book-Entry Interests beneficially owned by such participants on each of their respective book-entry registration and transfer systems. The accounts to be credited will be designated by Morgan Stanley & Co. International Limited. Ownership of Book-Entry Interests will be shown on, and transfers of Book-Entry Interests or the interests therein will be effected only through, records maintained by DTC, Euroclear or Clearstream, Luxembourg (with respect to the interests of their participants) and on the records of participants or indirect participants (with respect to the interests of their participants). The laws of some jurisdictions or other applicable rules may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may therefore impair the ability of persons within such jurisdiction or otherwise subject to the laws thereof to own, transfer or pledge Book-Entry Interests.

So long as the Depository or its nominee is the holder of the Global Notes underlying the Book Entry Interests, the Depository or such nominee, as the case may be, will be considered the sole Noteholder for all purposes under the Trust Deed. Except as set forth below under "Issuance of Definitive Notes", participants or indirect participants will not be entitled to have Notes registered in their names, will not receive or be entitled to receive physical delivery of Notes in definitive bearer or registered form and will not be considered the holders thereof under the Trust Deed. Accordingly, each person holding a Book-Entry Interest must rely on the rules and procedures of the Depository and DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and indirect participants must rely on the procedures of the participant or

indirect participants through which such person owns its interest in the relevant Book-Entry Interests to exercise any rights and obligations of a holder of Notes under the Trust Deed (see "Action in Respect of the Global Notes and the Book-Entry Interests" below).

Unlike legal owners or holders of the Notes, holders of the Book-Entry Interests will not have the right under the Trust Deed to act upon solicitations by the Issuer of consents or requests by the Issuer for waivers or other actions from Noteholders. Instead, a holder of Book-Entry Interests will be permitted to act only to the extent it has received appropriate proxies to do so from DTC, Euroclear or Clearstream, Luxembourg (as the case may be) and, if applicable, their participants. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable holders of Book-Entry Interests to vote on any requested actions on a timely basis. Similarly, upon the occurrence of an Event of Default (as defined in Condition 10) under the Notes, holders of Book-Entry Interests will be restricted to acting through DTC, Euroclear, Clearstream, Luxembourg and the Depository unless and until Definitive Notes are issued in accordance with the Terms and Conditions. There can be no assurance that the procedures to be implemented by DTC, Euroclear and Clearstream, Luxembourg and the Depository under such circumstances will be adequate to ensure the timely exercise of remedies under the Trust Deed.

The CDIs issued in representation of the Reg S Global Notes and the Rule 144A Global Notes held by the Common Depositary may not be transferred except as a whole by the Common Depository to a successor of the Common Depositary or its nominee. The CDIs issued in representation of the Rule 144A Global Notes held by or on behalf of DTC may not be transferred except as a whole by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC or by DTC or any such nominee to a successor of DTC or a nominee of such successor.

Purchasers of Book-Entry Interests in a Global Note pursuant to Rule 144A will hold Book-Entry Interests in the Rule 144A Global Note relating thereto. Investors may hold their Book-Entry Interests in respect of a Rule 144A Global Note directly through (i) DTC if they are participants in such system, or indirectly through organisations which are participants in such system; Euroclear and Clearstream, Luxembourg are such participants, or (ii) Euroclear and Clearstream, Luxembourg, if they are account holders in such systems, or indirectly through organisations which are account holders in such systems. All Book-Entry Interests in the Rule 144A Global Notes held by or on behalf of DTC will be subject to the procedures and requirements of DTC and all Book-Entry Interests in the Rule 144A Global Notes held by the Common Depositary will be subject to the procedures and requirements of Euroclear and Clearstream, Luxembourg.

Purchasers of Book-Entry Interests in a Global Note pursuant to Reg S will hold Book-Entry Interests in the Reg S Global Note relating thereto. Investors may hold their Book-Entry Interests in respect of a Reg S Global Note directly through Euroclear or Clearstream, Luxembourg (in accordance with the provisions set forth under "Transfer and Transfer Restrictions" below), if they are account holders in such systems, or indirectly through organisations which are account holders in such systems. After the expiration of the Note Distribution Compliance Period (as defined under "Transfer and Transfer Restrictions" below) but not earlier, investors may also hold such Book-Entry Interests through organisations, other than Euroclear or Clearstream, Luxembourg, that are participants in the DTC system. Euroclear and Clearstream, Luxembourg will hold Book-Entry Interests in each Reg S Global Note on behalf of their account holders through securities accounts in the respective account holders' names on Euroclear's and Clearstream, Luxembourg's respective book-entry registration and transfer systems.

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to certain procedures to facilitate transfer of Book-Entry Interests among participants of DTC and account holders of Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any of their respective agents will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg or their respective participants or account holders of their respective obligations under the rules and procedures governing their operations.

Payments on Global Notes

Payment of principal of and interest on the Global Notes will be made to the Depository as the holder thereof. All such amounts will, subject as provided below, be payable by a paying agent, in pounds sterling or, in the case of the Class E3 Notes, dollars. Upon receipt of any payment of principal of or interest on a Global Note, the Depository will distribute all such payments to (in the case of the Reg S Global Notes and

Rule 144A Global Notes held by the Common Depositary) the nominee for the Common Depositary and (in the case of the Rule 144A Global Notes held by or on behalf of DTC) the nominee for DTC. All such payments will be distributed without deduction or withholding for any taxes, duties, assessments or other governmental charges of whatever nature except as may be required by law. If any such deduction or withholding is required to be made, then neither the Issuer nor any other person will be obliged to pay additional amounts in respect thereof.

In accordance with the rules and procedures for the time being of Euroclear or, as the case may be, Clearstream, Luxembourg, after receipt of any payment from the Depository to the Common Depositary, the respective systems will promptly credit their participants' accounts with payments in amounts proportionate to their respective ownership of Book-Entry Interests as shown in the records of Euroclear or of Clearstream, Luxembourg. In the case of DTC, upon receipt of any payment from the Depository, DTC will promptly credit its participants' accounts with payments in amounts proportionate to their respective ownership of Book-Entry Interests as shown on the records of DTC. The Issuer expects that payments by participants to owners of interests in Book-Entry Interests held through such participants or indirect participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such participants or indirect participants. None of the Issuer, the Trustee or any other agent of the Issuer or the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of a participant's ownership of Book-Entry Interests or for maintaining, supervising or reviewing any records relating to a participant's ownership of Book-Entry Interests.

DTC is unable to accept payments denominated in pounds sterling in respect of the Global Notes. Accordingly, holders of beneficial interests in Rule 144A Global Notes (other than the Class E3 Rule 144A Global Note) held through DTC who wish payments to be made to them outside DTC must, in accordance with the Depository Agreement, notify DTC not less than 15 days prior to each Interest Payment Date (i) that they wish to be paid in pounds sterling and (ii) of the relevant bank account details into which such pounds sterling payments are to be made.

If such instructions are not received by DTC, the Exchange Agent will, pursuant to the Exchange Rate Agency Agreement, exchange the relevant pounds sterling amounts for which it has not received contrary instructions from the Depository (acting on the instructions of DTC) into dollars at the highest exchange rate offered for such pounds sterling by three recognised foreign exchange dealers (which may include the Exchange Agent) in New York City chosen by the Exchange Agent and approved by the Issuer, and the relevant Noteholders will receive the dollar equivalent of such pounds sterling payment converted at such exchange rate. In the event that bid quotations for exchange rates are unavailable, the Exchange Agent will, upon notifying the Issuer, cease to have any further responsibility with respect to such payments. In addition, in certain cases, the appointment of the Exchange Agent may be terminated without a successor being appointed. In such cases, Noteholders may experience delays in obtaining payment.

Information Regarding DTC, Euroclear and Clearstream, Luxembourg

DTC, Euroclear and Clearstream, Luxembourg have informed the Issuer as follows:

DTC is a limited-purpose trust company organised under the New York Banking Law, a "banking organisation" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of section 17A of the Exchange Act. DTC was created to hold securities of its participants and to facilitate the clearance and settlement of transactions among its participants in such securities through electronic book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations, some of whom (and/or their representatives) own DTC.

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and

Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

The Issuer understands that under existing industry practices, if either the Issuer or Trustee requests any action of owners of Book-Entry Interests or if an owner of a Book-Entry Interest desires to give instructions or take any action that a holder is entitled to give or take under the Trust Deed, DTC, Euroclear or Clearstream, Luxembourg, as the case may be, would authorise the participants owning the relevant Book-Entry Interests to give instructions or take such action, and such participants would authorise indirect participants to give or take such action or would otherwise act upon the instructions of such indirect participants.

Redemption

In the event that any Global Note (or portion thereof) is redeemed, the Depository will deliver all amounts received by it in respect of the redemption of such Global Note to the nominee of the Common Depositary (in the case of a Reg S Global Note and the Rule 144A Global Note held by Euroclear and Clearstream, Luxembourg) and to the nominee of DTC (in the case of a Rule 144A Global Note held by DTC or its nominee) and, upon a final payment, surrender such Global Note to or to the order of a Paying Agent for cancellation. The redemption price payable in connection with the redemption of Book-Entry Interests will be equal to the amount received by the Depository in connection with the redemption of the Global Note (or portion thereof) relating thereto. For any redemptions of a Global Note in part, selection of the Book-Entry Interests relating thereto to be redeemed will be made by DTC, Euroclear or Clearstream, Luxembourg, as the case may be, on a *pro rata* basis (or on such other basis as DTC, Euroclear or Clearstream, Luxembourg deems fair and appropriate) provided that only Book-Entry Interests in the original principal amount of £50,000 and integral multiples of £100 in excess thereof (or, in the case of the Class E3 Notes, U.S.$50,000 and integral multiples of U.S.$100 in excess thereof) or integral multiples of such original principal amount will be redeemed. Upon any redemption in part, the Depository will cause the relevant Paying Agent to mark down or to cause to be marked down the schedule to such Global Note by the principal amount so redeemed.

Transfer and Transfer Restrictions

All transfers of Book-Entry Interests will be recorded in accordance with the book-entry systems maintained by DTC, Euroclear or Clearstream, Luxembourg, as applicable, pursuant to customary procedures established by each respective system and its participants. See "General" above.

Each Rule 144A Global Note will bear a legend substantially identical to that appearing in paragraph (3) under "Transfer Restrictions", and no Rule 144A Global Note nor any Book-Entry Interest in such Rule 144A Global Note may be transferred except in compliance with the transfer restrictions set forth in such legend. A Book-Entry Interest in a Rule 144A Global Note of one class may be transferred to a person who takes delivery in the form of a Book-Entry Interest in the Reg S Global Note of the same class, whether before or after the expiration of the Note Distribution Compliance Period, only upon receipt by the Depository of a written certification from the transferor (in the form provided in the Depository Agreement) to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Reg S or Rule 144 under the Securities Act (if available) and that, if such transfer occurs prior to the expiration of the Note Distribution Compliance Period, the interest transferred will be held immediately thereafter through Euroclear or Clearstream, Luxembourg.

Each Reg S Global Note will bear a legend substantially identical to that appearing in paragraph (5) under "Transfer Restrictions". Until and including the 40th day after the later of the commencement of the offering of the Notes and the closing date for the offering of the Notes (the "**Note Distribution Compliance Period**"), Book-Entry Interests in a Reg S Global Note may be held only through Euroclear or Clearstream, Luxembourg, unless transfer and delivery is made through a Rule 144A Global Note of the same class. Prior to the expiration of the Note Distribution Compliance Period, a Book-Entry Interest in a Reg S Global Note of one class may be transferred to a person who takes delivery in the form of a Book-Entry Interest in a Rule 144A Global Note of the same class only upon receipt by the Depository of written

certification from the transferor (in the form provided in the Depository Agreement) to the effect that such transfer is being made to a person whom the transferor reasonably believes is purchasing for its own account or for an account or accounts as to which it exercises sole investment discretion and that such person and such account or accounts is a qualified institutional buyer within the meaning of Rule 144A, in each case in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

Any Book-Entry Interest in a Reg S Global Note of one class that is transferred to a person who takes delivery in the form of a Book-Entry Interest in a Rule 144A Global Note of the same class will, upon transfer, cease to be represented by a Book-Entry Interest in such Reg S Global Note and will become represented by a Book-Entry Interest in such Rule 144A Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to Book-Entry Interests in a Rule 144A Global Note for as long as it remains such a Book-Entry Interest. Any Book-Entry Interest in a Rule 144A Global Note of one class that is transferred to a person who takes delivery in the form of a Book-Entry Interest in the Reg S Global Note of the same class will, upon transfer, cease to be represented by a Book-Entry Interest in such Rule 144A Global Note and will become represented by a Book-Entry Interest in such Reg S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to Book-Entry Interests in a Reg S Global Note as long as it remains such a Book-Entry Interest.

Issuance of Definitive Notes

Holders of Book-Entry Interests in a Global Note will be entitled to receive Definitive Notes representing Notes of the relevant class in registered form in exchange for their respective holdings of Book-Entry Interests only if:

(i) (in the case of CDIs in Reg S Global Notes and Rule 144A Global Notes held by the Common Depositary) either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is in existence; or

(ii) (in the case of CDIs in Rule 144A Global Notes held by or on behalf of DTC) DTC has notified the Issuer that it is at any time unwilling or unable to continue as the holder with respect to the CDIs, or is at any time unwilling or unable to continue as, or ceases to be, a clearing agency registered under the Exchange Act and a successor to DTC registered as a clearing agency under the Exchange Act is not appointed by the Issuer within 90 days of such notification or cessation; or

(iii) the Depository notifies the Issuer at any time that it is unwilling or unable to continue as Depository and a successor Depository previously approved by the Trustee in writing is not appointed by the Issuer within 90 days of such notification; or

(iv) the owner of a Book-Entry Interest requests such exchange in writing delivered through either DTC, Euroclear or Clearstream, Luxembourg to the Issuer, following an Event of Default under the Notes; or

(v) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom or any other jurisdiction or of any political sub-division thereof or of any authority therein or thereof having power to tax, or in the interpretation or administration of such laws or regulations which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Notes which would not be required if the Notes were in definitive registered form.

Any Definitive Notes issued in exchange for Book-Entry Interests in a Global Note will be registered by the Registrar in such name or names as the Depository instructs the Registrar based on the instructions of Euroclear or Clearstream, Luxembourg (in the case of Reg S Global Notes and Rule 144A Global Notes held by the Common Depositary) or DTC (in the case of Rule 144A Global Notes held by and on behalf of DTC). It is expected that such instructions will be based upon directions received by DTC, Euroclear or Clearstream, Luxembourg from their participants with respect to ownership of the relevant Book-Entry Interests. In no event will Definitive Notes be issued in bearer form.

Action in Respect of the Global Notes and the Book Entry Interests

Not later than 10 days after receipt by the Depository of any notices in respect of the Global Notes or any notice of solicitation of consents or requests for a waiver or other action by the holder of the Global Notes or holders of Book Entry Interests, the Depository will deliver to DTC, Euroclear and Clearstream, Luxembourg a notice containing (a) such information as is contained in such notice, (b) a statement that at the close of business on a specified record date DTC, Euroclear and Clearstream, Luxembourg will be entitled to instruct the Depository as to the consent, waiver or other action, if any, pertaining to the Book Entry Interests or the Global Notes and (c) a statement as to the manner in which such instructions may be given. Upon the written request of DTC, Euroclear and Clearstream, Luxembourg, as applicable, the Depository is required to endeavour, insofar as practicable, to take such action regarding the requested consent, waiver or other action in respect of the Book Entry Interests or the Global Notes in accordance with any instructions set forth in such request. DTC, Euroclear or Clearstream, Luxembourg are expected to follow the procedures described under "General" above with respect to soliciting instructions from their respective participants. The Depository will not exercise any discretion in the granting of consents or waivers or the taking of any other action in respect of the Book Entry Interests or the Global Notes.

Reports

The Depository will immediately, and in no event later than 10 days from receipt, send to DTC, Euroclear and Clearstream, Luxembourg a copy of any notices, reports and other communications received in relation to the Issuer, the Global Notes or the Book Entry Interests. All notices regarding the Global Notes will be sent to Euroclear, Clearstream, Luxembourg, DTC and the Depository. In addition (so long as the Notes are admitted to trading on the Irish Stock Exchange and the rules of the Irish Stock Exchange so require), notices regarding the Notes will be published in a leading newspaper having a general circulation in Ireland, which is expected to be The Irish Times and (for so long as the Notes are admitted to the Official List and the rules of the Irish Stock Exchange require) notices regarding the Notes will be notified to the Company Announcement Office.

Action by Depository

Subject to certain limitations, upon the occurrence of an Event of Default with respect to the Notes while represented by Global Notes the Depository will notify the holders thereof and, if requested in writing by DTC, Euroclear or Clearstream, Luxembourg, as applicable, (acting on the instructions of their respective participants in accordance with their respective procedures) the Depository will take any such action as requested by them, subject to, if required by the Depository, such reasonable security or indemnity from the participants against the costs, expenses and liabilities that the Depository might properly incur in compliance with such request.

Charges of Depository and Indemnity

The Issuer has agreed to pay all charges of the Depository under the Depository Agreement. The Issuer has also agreed to indemnify the Depository against certain liabilities incurred by it under the Depository Agreement.

Amendment and Termination

The Depository Agreement may be amended by agreement among the Issuer, the Depository and the Trustee and without the consent of the holders of Book Entry Interests (i) to cure any inconsistency, omission, defect or ambiguity in the Depository Agreement; (ii) to add to the covenants and agreements of the Depository or the Issuer; (iii) to effect the assignment of the Depository's rights and duties to a qualified successor; (iv) to comply with the Securities Act, the Exchange Act or the U.S. Investment Company Act 1940, as amended; or (v) to modify, alter, amend or supplement the Depository Agreement in any other manner that is not adverse to the holders of Book Entry Interests. Except as set forth above, no amendment that adversely affects the holders of the Book Entry Interests may be made to the Depository Agreement without the consent of the holders of the Book Entry Interests.

Upon the issuance of Definitive Notes, the Depository Agreement will terminate.

Resignation or Removal of Depository

The Depository may at any time resign as Depository upon 90 days' written notice delivered to each of the Issuer and the Trustee. The Issuer may remove the Depository at any time upon 90 day's written notice. No removal of the Depository and no appointment of a successor Depository will become effective until (i) the acceptance of appointment by a successor Depository or (ii) the issuance of Definitive Notes.

Obligation of Depository

The Depository will only be liable to perform such duties as are expressly set out in the Depository Agreement. The Depository Agreement contains provisions relieving the Depository from liability and permitting it to refrain from acting in certain circumstances. The Depository Agreement also contains provisions permitting any entity into which the Depository is merged or converted or with which it is consolidated or any successor in business to the Depository to become the successor depository.

TERMS AND CONDITIONS OF THE NOTES

The following are the terms and conditions of the Notes in the form (subject to amendment) in which they will be set out in the Trust Deed.

The £240,000,000 Class A Commercial Mortgage Backed Floating Rate Notes due 2007 (the "**Class A Notes**"), the £100,000,000 Class B Commercial Mortgage Backed Floating Rate Notes due 2007 (the "**Class B Notes**"), the £43,000,000 Class C Commercial Mortgage Backed Floating Rate Notes due 2007 (the "**Class C Notes**"), the £88,000,000 Class D Commercial Mortgage Backed Floating Rate Notes due 2007 the "**Class D Notes**"), the £35,000,000 Class E1 Commercial Mortgage Backed Floating Rate Notes due 2007 (the "**Class E1 Notes**"), the £8,000,000 Class E2 Commercial Mortgage Backed Floating Rate Notes due 2007 (the "**Class E2 Notes**") and the U.S.$26,557,000 Class E3 Commercial Mortgage Backed Floating Rate Notes due 2007 (the "**Class E3 Notes**" and, together with the Class E1 Notes and the Class E2 Notes, the "**Class E Notes**" and, the Class E Notes together with the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes, the "**Notes**" (as more fully defined below)) of HOTELoC plc (the "**Issuer**") are constituted by a trust deed dated on or about 11th July, 2002 the "**Trust Deed**", which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time so modified) and made between the Issuer and JPMorgan Chase Bank, London Branch (the "**Trustee**", which expression includes its successors or any further or other trustee under the Trust Deed) as trustee for the holders for the time being of the Notes. Any reference to a "**class**" of Notes or of Noteholders shall be a reference to any, or all of, the respective Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E1 Notes, the Class E2 Notes and the Class E3 Notes or any or all of their respective holders, as the case may be.

The security for the Notes is created pursuant to, and on terms set out in, a deed of charge and assignment dated on or about 11th July, 2002 (the "**Deed of Charge and Assignment**", which expression includes such Deed of Charge and Assignment as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time so modified) and made between, *inter alios*, the Issuer and the Trustee. By an agency agreement dated on or about 9th July, 2002 (the "**Agency Agreement**", which expression includes such agency agreement as from time to time modified in accordance with the provisions therein contained and any agreement, deed or other document expressed to be supplemental thereto as from time to time so modified) and made between, *inter alios*, the Issuer, the Trustee and AIB International Financial Services Limited, in its separate capacities under the same agreement as principal paying agent (the "**Principal Paying Agent**", which expression shall include any other principal paying agent appointed in respect of the Notes), agent bank (the "**Agent Bank**", which expression shall include any other agent bank appointed in respect of the Notes) and registrar (the "**Registrar**", which expression shall include any other registrar appointed in respect of the Notes) (the Principal Paying Agent being, together with any further or other paying agents for the time being appointed in respect of the Notes, the "**Paying Agents**" and, together with the Agent Bank and the Registrar, the "**Agents**"), provision is made for, *inter alia*, the payment of principal and interest in respect of the Notes.

The statements in these Terms and Conditions (the "**Conditions**" and any reference to a "**Condition**" shall be construed accordingly) include summaries of, and are subject to, the detailed provisions of the Trust Deed, the Agency Agreement, the Deed of Charge and Assignment, the Depository Agreement, the Exchange Rate Agency Agreement and the Master Definitions Agreement (each as defined below). Copies of the Trust Deed, the Agency Agreement, the Deed of Charge and Assignment, the Depository Agreement, Exchange Rate Agency Agreement and Master Definitions Agreement (each as defined herein) are available for inspection by the Noteholders at the principal office for the time being of the Trustee, being at the date hereof at Trinity Tower, 9 Thomas More Street, London E1W 1YT and at the specified office of each of the Paying Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of and definitions contained in the Trust Deed, the Agency Agreement, the Deed of Charge and Assignment, the depository agreement dated on or about 11th July, 2002 between the Issuer, the Trustee and JPMorgan Chase Bank, New York Office, in its capacity as Depository (the "**Depository Agreement**", which expression includes such depository agreement as from time to time so modified in accordance with the provisions therein contained and any agreement, deed or other document expressed to be supplemental thereto as from time to time so modified, and the "**Depository**", respectively), the exchange rate agency agreement dated on or about 11th July, 2002 between the Issuer, AIB International Financial Services Limited, in its capacity as exchange agent (the "**Exchange Agent**", which expression shall include any other exchange agent appointed in respect of

the Notes), the Trustee and the Depository (the "**Exchange Rate Agency Agreement**", which expression includes such exchange rate agency agreement as from time to time so modified in accordance with the provisions therein contained and any agreement, deed or other document expressed to be supplemental thereto as from time to time so modified) and a master definitions agreement dated on or about 11th July, 2002 made between, *inter alios*, the Issuer and the Trustee (the "**Master Definitions Agreement**", which expression includes such master definitions agreement as from time to time modified in accordance with the provisions therein contained and any agreement, deed or other document expressed to be supplemental thereto as from time to time so modified) and the documents referred to in each of them.

The issue of the Notes was authorised by resolution of the board of directors of the Issuer passed on or about 9th July, 2002.

1. Global Notes

(a) Rule 144A Global Notes

The Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E1 Notes, the Class E2 Notes and the Class E3 Notes initially offered and sold in the United States of America (the "**United States**") to qualified institutional buyers (as defined in Rule 144A ("**Rule 144A**")) under the United States Securities Act of 1933, as amended, (the "**Securities Act**") in reliance on Rule 144A will initially be represented by two separate global notes in bearer form for each class of Note (collectively, the "**Rule 144A Global Notes**"). The Rule 144A Global Notes will be deposited with or to the order of the Depository pursuant to the terms of the Depository Agreement. The Depository will register (i) a certificateless depository interest in respect of one of the Rule 144A Global Notes of each class of Notes in the name of The Depository Trust Corporation ("**DTC**") or its nominee and (ii) a certificateless depository interest in respect of the other Rule 144A Global Note of each class of Notes in the name of JPMorgan Chase Bank, London (the "**Common Depositary**") for the account of Euroclear Bank S.A./N.A. (as operator of the Euroclear System) ("**Euroclear**", which term includes any successor operator of the Euroclear System) and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**").

(b) Reg S Global Notes

The Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E1 Notes, the Class E2 Notes and the Class E3 Notes initially offered and sold outside the United States to non-U.S. persons in reliance on Regulation S ("**Reg S**") under the Securities Act will initially be represented by a separate global note in bearer form for each class of Note (collectively, the "**Reg S Global Notes**" and, together with the Rule 144A Global Notes, the "**Global Notes**"). The Reg S Global Notes will each be deposited with or to the order of the Depository pursuant to the terms of the Depository Agreement. The Depository will issue a certificated depository interest in respect of each Reg S Global Note to the Common Depositary for the account of Euroclear and Clearstream, Luxembourg.

(c) Form and Title

Each Global Note will be issued in bearer form without coupons or talons.

The Depository or its nominee shall, for so long as it is holder of the Global Notes and, except as otherwise required by law, be treated as its absolute owner for all purposes (including the making of any payments), regardless of any notice of ownership, theft or loss thereof, or of any trust or other interest therein or of any writing thereon.

Ownership of interests in the Rule 144A Global Notes ("**Restricted Book-Entry Interests**") will be limited to persons that have accounts with DTC and/or Euroclear and/or Clearstream, Luxembourg or persons that hold interests through such participants. Ownership of interests in the Regulation S Global Notes (the "**Unrestricted Book-Entry Interests**" and, together with the Restricted Book-Entry Interests, the "**Book Entry Interests**") will be limited to persons who have accounts with Euroclear and/or Clearstream, Luxembourg or persons that hold interests through such participants. Book-Entry Interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry by DTC, Euroclear and Clearstream, Luxembourg and their participants and in accordance with the provisions of the Depository Agreement.

2. Definitive Notes

(a) Issue of Definitive Notes

A Global Note will be exchanged for definitive Notes of the relevant class in registered form ("**Definitive Notes**") in an aggregate principal amount equal to the Principal Amount Outstanding (as defined in Condition 6(*f*)) of the relevant Global Note only if, 40 days or more after the Closing Date, any of the following circumstances apply:

(i) in the case of a Reg S Global Note or a Rule 144A Global Note in respect of which the Depository has issued a certificated depository interest to, or registered a certificateless depository interest in the name of, Euroclear or Clearstream, Luxembourg or the Common Depositary for their account, either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is in existence; or

(ii) in the case of a Rule 144A Global Note in respect of which the Depository has registered a certificateless depository interest in the name of DTC or its nominee, DTC has notified the Issuer that it is unwilling or unable to continue as the holder with respect to such certificateless depository interest, or is at any time unwilling or unable to continue as, or ceases to be, a clearing agency registered under the Securities Exchange Act of 1934 of the United States of America (the "**Exchange Act**") and a successor to DTC registered as a clearing agency under the Exchange Act is not appointed by the Issuer within 90 days of such notification or cessation; or

(iii) the Depository notifies the Issuer at any time that it is unwilling or unable to continue as depository and a successor to the Depository previously approved by the Trustee in writing is not appointed by the Issuer within 90 days of such notification; or

(iv) the owner of a Book-Entry Interest requests such exchange in writing delivered through either DTC, Euroclear or Clearstream, Luxembourg to the Issuer, following an Event of Default (as defined in Condition 10(*a*)); or

(v) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom or any other jurisdiction or any political sub-division thereof or of any authority therein or thereof having the power to tax, or in the interpretation or administration of such laws or regulations, which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Notes which would not be required if the Notes were in definitive registered form.

If Definitive Notes are issued, the Book-Entry Interests represented by the Reg S Global Note of each class will be exchanged by the Issuer for Definitive Notes ("**Reg S Definitive Notes**") of that class and the Book-Entry Interests represented by each Rule 144A Global Note of each class will be exchanged by the Issuer for Definitive Notes ("**Rule 144A Definitive Notes**") of that class. The aggregate principal amount of the Reg S Definitive Notes and the Rule 144A Definitive Notes of each class will be equal to the Principal Amount Outstanding of the Reg S Global Note or, as the case may be, the Rule 144A Global Notes of the corresponding class, subject to and in accordance with the detailed provisions of these Conditions, the Agency Agreement, the Depository Agreement, the Trust Deed and the relevant Global Note.

(b) Title to and Transfer of Definitive Notes

Title to a Definitive Note will pass upon registration in the register which the Issuer will procure to be kept by the Registrar. A Definitive Note will have an original principal amount of £50,000 or any integral multiple of £100 in excess thereof and will be serially numbered, save for Definitive Notes issued in respect of the Class E3 Notes which will have an original principal amount of U.S.$50,000 or any integral multiple of U.S.$100 in excess thereof. Definitive Notes may be transferred in whole or in part (provided that any partial transfer relates to a Definitive Note in the original principal amount of £50,000 or any integral multiple of £100 in excess

thereof, save for Definitive Notes issued in respect of the Class E3 Notes which have an original principal amount of U.S.$50,000 or any integral multiple of U.S.$100 in excess thereof) upon surrender of the relevant Definitive Note, with the form of transfer endorsed on it duly completed and executed, at the specified office of the Registrar. In the case of a transfer of part only of a Definitive Note, a new Definitive Note in respect of the balance not transferred will be issued to the transferor. All transfers of Definitive Notes are subject to any restrictions on transfer set forth in such Definitive Notes and the detailed regulations concerning transfers in the Agency Agreement.

Each new Definitive Note to be issued upon transfer of a Definitive Note will, within five Business Days (as defined in Condition 5(*b*)) of receipt at the specified office of the Registrar of such Definitive Note (duly endorsed) for transfer, be available for delivery at the specified office of the Registrar or be posted at the risk of the holder entitled to such new Definitive Note to such address as may be specified in the form of transfer.

Registration of a Definitive Note on transfer will be effected without charge by or on behalf of the Issuer or the Registrar, but upon payment of (or the giving of such indemnity as the Registrar may require in respect of) any tax or other government charges which may be imposed in relation to it.

No transfer of a Definitive Note will be registered in the period beginning fifteen Business Days before, or ending on the fifth Business Day after, each Interest Payment Date (as defined in Condition 5(*b*)).

(c) "**Noteholders**" means (i) in respect of each Global Note, the bearer thereof, and (ii) in respect of a Definitive Note issued under Condition 2(*a*) above, the person in whose name such Definitive Note is registered, subject as provided in Condition 7(*b*); and related expressions are to be construed accordingly.

(d) References to "**Notes**" include the Global Notes and the Definitive Notes.

3. Status, Security and Priority

(A) Status and relationship between the Notes

(a) The Notes constitute direct, secured and unconditional obligations of the Issuer and are secured by the same security that secures each of the Notes. The Notes of each class rank *pari passu* without preference or priority among themselves.

(b) As between the classes of the Notes, in the event of the Issuer Security (as defined in the Master Definitions Agreement) being enforced, the Class A Notes will rank higher in priority to the Class B Notes, the Class C Notes, the Class D Notes, the Class E1 Notes, the Class E2 Notes and the Class E3 Notes; the Class B Notes will rank higher in priority to the Class C Notes, the Class D Notes; the Class E1 Notes, the Class E2 Notes and the Class E3 Notes; the Class C Notes will rank higher in priority to the Class D Notes, the Class E1 Notes, the Class E2 Notes and the Class E3 Notes and the Class D Notes will rank higher in priority to the Class E1 Notes, the Class E2 Notes and the Class E3 Notes. The Class E1 Notes, the Class E2 Notes and the Class E3 Notes will rank *pari passu*. Prior to enforcement of the Issuer Security, payments of principal of and interest on the Class E Notes will be subordinated to payments of principal of and interest on the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes; payments of principal of and interest on the Class D Notes will be subordinated to payments of principal of and interest on the Class A Notes, the Class B Notes and the Class C Notes; payments of principal of and interest on the Class C Notes will be subordinated to payments of principal of and interest on the Class A Notes and the Class B Notes; payments of principal of and interest on the Class B Notes will be subordinated to payments of principal of and interest on the Class A Notes.

(c) The Trust Deed and the Deed of Charge and Assignment each contains provisions requiring the Trustee to have regard to the interests of the holders of Class A Notes, Class B Notes, Class C Notes, Class D Notes and Class E Notes equally as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), provided that:

(i) if, in the Trustee's opinion, there is a conflict between the interests of:

(A) holders of the Class A Notes (the "**Class A Noteholders**") (for so long as the Class A Notes are outstanding (as defined in the Trust Deed)); and

(B) holders of the Class B Notes (the "**Class B Noteholders**") and/or holders of the Class C Notes (the "**Class C Noteholders**") and/or holders of the Class D Notes (the "**Class D Noteholders**") and/or holders of the Class E Notes (the "**Class E Noteholders**")

then the Trustee shall have regard only to the interests of the Class A Noteholders;

(ii) if, in the Trustee's opinion, there is a conflict between the interests of:

(A) the Class B Noteholders (for so long as the Class B Notes are outstanding); and

(B) the Class C Noteholders and/or the Class D Noteholders and/or the Class E Noteholders,

then the Trustee shall, subject to (i) above, have regard only to the interests of the Class B Noteholders;

(iii) if, in the Trustee's opinion, there is a conflict between the interests of:

(A) the Class C Noteholders (for so long as the Class C Notes are outstanding); and

(B) the Class D Noteholders and/or the Class E Noteholders,

then the Trustee shall, subject to (i) and (ii) above, have regard only to the interests of the Class C Noteholders;

(iv) if, in the Trustee's opinion, there is a conflict between the interests of:

(A) the Class D Noteholders (for so long as any Class D Notes are outstanding); and

(B) the Class E Noteholders,

then the Trustee shall, subject (i), (ii), and (iii) above, have regard only to the interests of the Class D Noteholders.

Except where expressly provided otherwise, so long as any of the Notes remains outstanding, the Trustee is not required to have regard to the interests of any other persons entitled to the benefit of the Issuer Security.

(d) The Trust Deed contains provisions limiting the powers of (i) the Class B Noteholders, *inter alia*, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution (as defined in the Trust Deed) according to the effect thereof on the interests of the Class A Noteholders, (ii) the Class C Noteholders, *inter alia*, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution according to the effect thereof on the interests of the Class A Noteholders or the Class B Noteholders, (iii) the Class D Noteholders, *inter alia*, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution according to the effect thereof on the interests of the Class A Noteholders, the Class B Noteholders or the Class C Noteholders, and (iv) the Class E Noteholders, *inter alia*, to request or direct the Trustee to take any action or pass an effective Extraordinary Resolution according to the effect thereof on the interests of the Class A Noteholders, the Class B Noteholders, the Class C Noteholders or the Class D Noteholders. The Trust Deed will, however, contain provisions limiting the powers of the holders of the Class E1 Notes (the "**Class E1 Noteholders**") to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution if, in the opinion of the Trustee, such action or the effect of such Extraordinary Resolution may be materially prejudicial to the interests of the holders of the Class E2 Notes (the "**Class E2 Noteholders**") or the Class E3

Notes (the "**Class E3 Noteholders**") unless the Class E2 Noteholders or the E3 Noteholders (as applicable) have passed an Extraordinary Resolution consenting to such action or the passing of such Extraordinary Resolution by the Class E1 Noteholders. The Trust Deed will also contain provisions limiting the powers of the Class E2 Noteholders to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution if, in the opinion of the Trustee, such action or the effect of such Extraordinary Resolution may be materially prejudicial to the interests of the Class E1 Noteholders or the Class E3 Noteholders, unless the Class E1 Noteholders or the Class E3 Noteholders (as applicable) have passed an Extraordinary Resolution consenting to such action or the passing of such Extraordinary Resolution by the Class E2 Noteholders. The Trust Deed will also contain provisions limiting the powers of the Class E3 Noteholders to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution if, in the opinion of the Trustee, such action or the effect of such Extraordinary Resolution may be materially prejudicial to the interests of the Class E1 Noteholders or the Class E2 Noteholders, unless the Class E1 Noteholders or the Class E2 Noteholders (as applicable) have passed an Extraordinary Resolution consenting to such action or the passing of such Extraordinary Resolution by the Class E3 Noteholders. Except in certain circumstances, the Trust Deed contains no such limitation on the powers of the Class A Noteholders, the exercise of which powers will be binding on the Class B Noteholders and/or the Class C Noteholders and/or the Class D Noteholders and/or the Class E1 Noteholders and/or the Class E2 Noteholders and/or Class E3 Noteholders, irrespective of the effect thereof on their interests. Except in certain circumstances, the exercise of their powers by (i) the Class B Noteholders will be binding on the Class C Noteholders, the Class D Noteholders, the Class E1 Noteholders, the Class E2 Noteholders and the Class E3 Noteholders, irrespective of the effect thereof on their interests, (ii) the Class C Noteholders will be binding on the Class D Noteholders, the Class E1 Noteholders, the Class E2 Noteholders and the Class E3 Noteholders, irrespective of the effect thereof on their interests, and (iii) the Class D Noteholders will be binding on the Class E1 Noteholders, the Class E2 Noteholders and the Class E3 Noteholders, irrespective of the effect thereof on their interests.

(B) Security and Priority of Payments

The security in respect of the Notes is set out in the Deed of Charge and Assignment. The Deed of Charge and Assignment also contains provisions regulating the priority of application of the Available Interest Receipts (as defined in the Master Definition Agreement) and Available Principal (as defined in the Master Definition Agreement) among the persons entitled thereto prior to the service of a Note Enforcement Notice (as defined in Condition 10(*a*)), and of the Available Interest Receipts, the Available Principal and the proceeds of enforcement or realisation of the Issuer Security by the Trustee after the service of a Note Enforcement Notice.

The Issuer Security may be enforced following the service of a Note Enforcement Notice provided that, if the Issuer Security has become enforceable otherwise than by reason of a default in payment of any amount due on the Notes, the Trustee will not be entitled to dispose of the assets comprising the Issuer Security or any part thereof unless (i) a sufficient amount would be realised to allow discharge in full of all amounts owing to the Noteholders and any amounts required under the Deed of Charge and Assignment to be paid *pari passu* with, or in priority to, the Notes, or (ii) the Trustee is of the opinion, which will be binding on the Noteholders, reached after considering at any time and from time to time the advice, upon which the Trustee will be entitled to rely, of such professional advisers as are selected by the Trustee, that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Noteholders and any amounts required under the Deed of Charge and Assignment to be paid *pari passu* with, or in priority to, the Notes, or (iii) the Trustee determines that not to effect such disposal would place the Issuer Security in jeopardy, and, in any event, the Trustee has been indemnified to its satisfaction.

If the net proceeds of realisation of, or enforcement with respect to, the Issuer Security are not sufficient to make all payments due in respect of the Notes, the other assets (if any) of the Issuer, other than any surplus arising on the realisation of or enforcement with respect to any remaining security, will not be available for payment of any shortfall arising therefrom, and any such shortfall will be borne in accordance with the provisions of Condition 16 and the Deed of Charge and Assignment. All claims in respect of such shortfall, after realisation of or enforcement with respect to all of the Issuer Security, will be extinguished and the Trustee, the Noteholders and the other Secured Parties will have no further claim

against the Issuer in respect of such unpaid amounts. Each Noteholder, by subscribing for or purchasing Notes, is deemed to accept and acknowledge that it is fully aware that (i) in the event of an enforcement of the Issuer Security, its right to obtain payment of interest and repayment of principal on the Notes in full is limited to recourse against the assets of the Issuer comprised in the Issuer Security, (ii) the Issuer will have duly and entirely fulfilled its payment obligations by making available to such Noteholder its proportion of the proceeds of realisation or enforcement of the Issuer Security in accordance with the Deed of Charge and Assignment, and all claims in respect of any shortfall shall be extinguished, and (iii) in the event that a shortfall in the amount available to pay principal of the Notes of any class exists on the Interest Payment Date falling in May 2007 (the "**Final Interest Payment Date**") or on any earlier redemption in full of the Notes or the relevant class of Notes, after payment on the Final Interest Payment Date or such date of earlier redemption of all other claims ranking higher in priority to or *pari passu* with the Notes or the relevant class of Notes, and the Issuer Security has not become enforceable as at the Final Interest Payment Date or such date of earlier redemption, the liability of the Issuer to make any payment in respect of such shortfall shall cease and all claims in respect of such shortfall shall be extinguished.

4. Covenants

(A) Restrictions

Save with the prior written consent of the Trustee (which consent shall not be given without the prior resolution of Noteholders, the required majority for such consent being not less than 50.1 per cent. of the Principal Amount Outstanding of Notes then outstanding) or unless otherwise provided in or envisaged by these Conditions or the Relevant Documents (as defined in the Master Definitions Agreement), the Issuer shall not, so long as any Note remains outstanding:

(a) Negative Pledge

create or permit to subsist any mortgage, standard security, sub-mortgage, sub-standard security, assignment, charge, sub-charge, pledge, lien (unless arising by operation of law), hypothecation, assignation or other security interest whatsoever over any of its assets, present or future (including any uncalled capital);

(b) Restrictions on Activities

(i) engage in any activity whatsoever which is not incidental to or necessary in connection with any of the activities which the Relevant Documents provide or envisage that the Issuer will engage in;

(ii) have any subsidiaries or any employees or own, rent, lease or be in possession of any buildings or equipment; or

(iii) amend, supplement or otherwise modify its Memorandum or Articles of Association or other constitutive documents;

(c) Disposal of Assets

transfer, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of its assets or undertaking or any interest, estate, right, title or benefit therein;

(d) Dividends or Distributions

pay any dividend or make any other distribution to its shareholders or issue any further shares, other than in accordance with the Deed of Charge and Assignment;

(e) Borrowings

incur or permit to subsist any indebtedness in respect of borrowed money whatsoever, except in respect of the Notes, the Swap Transactions (as defined in the Master Definitions Agreement) or the Liquidity Facility Agreement (as defined in the Master Definitions Agreement) or give any guarantee or indemnity in respect of any indebtedness or of any obligation of any person;

(f) Merger

consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person;

(g) Variation

permit the validity or effectiveness of any of the Relevant Documents, or the priority of the security interests created thereby, to be amended, terminated, postponed or discharged, or consent to any variation of, or exercise any powers of consent or waiver pursuant to the terms of, the Trust Deed, these Conditions, the Deed of Charge and Assignment or any of the other Relevant Documents, or permit any party to any of the Relevant Documents or the Issuer Security or any other person whose obligations form part of the Issuer Security to be released from such obligations or dispose of all or any part of the Issuer Security;

(h) Bank Accounts

have an interest in any bank account other than the Issuer's Accounts (as defined in the Master Definitions Agreement), unless such account or interest therein is charged to the Trustee on terms acceptable to it;

(i) Assets

own assets other than those representing its share capital, the funds arising from the issue of the Notes, the property, rights and assets secured by the Issuer Security and associated and ancillary rights and interests thereto, the benefit of the Relevant Documents and any investments and other rights or interests created or acquired thereunder, as all of the same may vary from time to time; and

(j) VAT

apply to become part of any group for the purposes of section 43 of the Value Added Tax Act 1994 with any other company or group of companies, or any such act, regulation, order, statutory instrument or directive which may from time to time re-enact, replace, amend, vary, codify, consolidate or repeal the Value Added Tax Act 1994.

In giving any consent to the foregoing, the Trustee may require the Issuer to make such modifications or additions to the provisions of any of the Relevant Documents or may impose such other conditions or requirements as the Trustee may deem expedient (in its absolute discretion) in the interests of the Noteholders, provided that each of the Rating Agencies (as defined in Condition 15) has provided written confirmation to the Trustee that the then applicable ratings of each class of Notes then rated thereby will not be qualified, downgraded or withdrawn as a result of such modifications or additions.

(B) Cash Manager and Servicer

So long as any of the Notes remains outstanding, the Issuer will procure that there will at all times be a cash manager in respect of the monies from time to time standing to the credit of the Transaction Account (as defined in the Master Definitions Agreement) and any other account of the Issuer from time to time and a servicer. Neither the Cash Manager nor the Servicer (each as defined in the Master Definitions Agreement) will be permitted to terminate its appointment unless a replacement cash manager or servicer, as the case may be, acceptable to the Issuer and the Trustee has been appointed. The appointment of the Cash Manager and the Servicer may be terminated by the Trustee if, *inter alia*, the Cash Manager or the Servicer, as applicable, defaults in any material respect (in the case of the Servicing Agreement) or in any respect (in the case of the Cash Management Agreement) in the observance and performance of any obligation imposed on it under the Servicing Agreement or the Cash Management Agreement, as applicable, which default is not remedied (i) within ten Business Days, in the case of the Cash Management Agreement, after the earlier of the Cash Manager becoming aware of such default and written notice of such default being served on the Cash Manager by the Trustee (except in respect of a failure by the Cash Manager to make when due a payment required to be made by the Cash Manager on behalf of the Issuer, in which case the appointment of the Cash Manager may be terminated immediately), or (ii) within

thirty Business Days, in the case of the Servicing Agreement, after written notice of such default shall have been served on the Servicer by the Issuer or the Trustee.

(C) Special Servicer

In certain circumstances set out in the Servicing Agreement, the Noteholders may, by an Extraordinary Resolution (passed at an extraordinary general meeting of all Noteholders), require the Trustee to appoint a Special Servicer or to terminate the appointment of the person then acting as Special Servicer and to appoint a successor thereto as specified in the Extraordinary Resolution.

(D) Operating Adviser

The holders of the most junior class of Notes outstanding at any time (such class of Noteholders being for these purposes the "**Controlling Party**") may, by an Extraordinary Resolution passed by such Noteholders, appoint an adviser (the "**Operating Adviser**") with whom the Servicer or Special Servicer, as the case may be, will be required to liaise in accordance with the Servicing Agreement.

5. Interest

(a) Period of Accrual

Each Note will bear interest on its Principal Amount Outstanding from (and including) 11th July, 2002 (the "**Closing Date**"). Each Note (or, in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest from its due date for redemption unless, upon due presentation, payment of the relevant amount of principal or any part thereof is improperly withheld or refused. In such event, interest will continue to accrue thereon (before as well as after any judgment) at the rate applicable to such Note up to (but excluding) the date on which, on presentation of such Note, payment in full of the relevant amount of principal, together with the interest accrued thereon, is made or (if earlier) the seventh day after notice is duly given to the holder thereof (either in accordance with Condition 15 or individually) that, upon presentation thereof being duly made, such payment will be made, provided that upon presentation thereof being duly made, payment is in fact made.

(b) Interest Payment Dates and Interest Periods

Subject to Condition 16(*a*), interest on the Notes is payable quarterly in arrear on the 10th day of February, May, August and November in each year (or, if such day is not a Business Day, the next succeeding Business Day unless such Business Day falls in the next succeeding calendar month in which event the immediately preceding Business Day) (each an "**Interest Payment Date**") in respect of the Interest Period ending immediately prior thereto. The first Interest Payment Date in respect of each class of Notes will be the Interest Payment Date falling in August 2002.

In these Conditions, "**Interest Period**" means the period from (and including) an Interest Payment Date (or, in respect of the payment of the first Interest Amount (as defined in Condition 5*(d)* below), the Closing Date) to (but excluding) the next following Interest Payment Date (or, in respect of the payment of the first Interest Amount, the Interest Payment Date falling in August 2002) and "**Business Day**", in these Conditions (other than Condition 6 and Condition 7), means a day (other than a Saturday or a Sunday) which is a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and New York.

(c) Rate of Interest

Subject, in the case of the Class D Notes and the Class E Notes, to Condition 5(*i*) below, the rates of interest payable from time to time in respect of each class of Notes (each a "**Rate of Interest**") will be determined by the Agent Bank on a date which is two London Business Days prior to each Interest Payment Date or, in the case of the first Interest Period, two London Business Days prior to the Closing Date (each an "**Interest Determination Date**"). For the purposes of these

Conditions, "**London Business Day**" means a day, other than a Saturday or a Sunday, on which banks are open for general business in the City of London.

Each Rate of Interest for the Interest Period next following the relevant Interest Determination Date shall be the aggregate of:

(i) the Relevant Margin (as defined below); and

(ii) (1) the arithmetic mean of the offered quotations to leading banks (rounded to five decimal places with the mid-point rounded up) for three month sterling deposits (or, in the case of the Class E3 Notes, three-month dollar deposits) (save, in the case of the first Interest Determination Date, when the applicable interest rate will be determined by reference to LIBOR for one-month sterling or dollar deposits, as the case may be), in the London inter-bank market which appear on Telerate Screen Page No. 3750 (the "**Screen Rate**") (rounded to five decimal places with the mid-point rounded up) (or (i) such other page as may replace Telerate Screen Page No. 3750 on that service for the purpose of displaying such information or (ii) if that service ceases to display such information, such page as displays such information on such equivalent service (or, if more than one, that one which is approved by the Trustee) as may replace the Telerate Monitor) at or about 11.00 a.m. (London time) on the relevant Interest Determination Date; or

(2) if the Screen Rate is not then available, the arithmetic mean (rounded to five decimal places with the mid-point rounded up) of the rates notified to the Agent Bank at its request by each of the Reference Banks (as defined in Condition 5*(h)* below) as the rate at which three month sterling deposits in an amount of £10,000,000 (or, in the case of the Class E3 Notes, three-month dollar deposits in an amount of U.S.$10,000,000) (save, in the case of the first Interest Determination Date, when the applicable interest rate will be determined by reference to LIBOR for one-month sterling or dollar deposits, as the case may be) are offered for the same period as that Interest Period by that Reference Bank to leading banks in the London inter-bank market at or about 11.00 a.m. (London time) on the relevant Interest Determination Date. If on any such Interest Determination Date, two or three only of the Reference Banks provide such offered quotations to the Agent Bank, the relevant rate will be determined, as aforesaid, on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Interest Determination Date, only one or none of the Reference Banks provide the Agent Bank with such an offered quotation, the Agent Bank will forthwith consult with the Trustee and the Issuer for the purposes of agreeing two banks (or, where one only of the Reference Banks provided such a quotation, one additional bank) to provide such a quotation or quotations to the Agent Bank (which bank or banks are in the opinion of the Trustee suitable for such purpose) and the rate for the Interest Period in question will be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed (or, as the case may be, the offered quotations of such bank as so agreed and the relevant Reference Bank). If no such bank or banks is or are so agreed or such bank or banks as so agreed does or do not provide such a quotation or quotations, then the rate for the relevant Interest Period will be the Screen Rate in effect for the last preceding Interest Period to which sub-paragraph (1) of the foregoing provisions of this sub-paragraph (ii) shall have applied.

For the purposes of these Conditions the "**Relevant Margin**" shall be:

(A) in respect of the Class A Notes, 0.43 per cent. per annum;

(B) in respect of the Class B Notes, 0.52 per cent. per annum;

(C) in respect of the Class C Notes, 1.05 per cent. per annum;

(D) in respect of the Class D Notes, 2.05 per cent. per annum;

(E) in respect of the Class E1 Notes, 2.50 per cent. per annum;

(F) in respect of the Class E2 Notes, 6.00 per cent. per annum; and

(G) in respect of the Class E3 Notes, 2.50 per cent. per annum.

There shall be no minimum or maximum Rate of Interest.

(d) Determination of Rates of Interest and Calculation of Interest Amounts for Notes

The Agent Bank shall, on or as soon as practicable after each Interest Determination Date, determine and notify the Issuer, the Trustee, the Cash Manager and the Paying Agents in writing of (i) the Rate of Interest applicable to the Interest Period beginning on and including the immediately succeeding Interest Payment Date (or, in respect of the first Interest Amount, the Closing Date) in respect of the Notes of each class, and (ii) the sterling amount (the "**Interest Amount**") payable, subject to Condition 16(*a*) and Condition 5(*i*), in respect of such Interest Period in respect of the Notes of each class. Each Interest Amount in respect of the Notes shall be calculated by applying the Rate of Interest to the Principal Amount Outstanding of the Notes of each class, multiplying such sum by the actual number of days in the relevant Interest Period divided by 365 (or, in the case of the Class E3 Notes, 360) and rounding the resultant figure downward to the nearest penny (or, in the case of the Class E3 Notes, cent).

(e) Publication of Rates of Interest for the Notes, Interest Amounts and other Notices

As soon as practicable after receiving notification thereof, the Issuer shall cause the Rate of Interest and Interest Amount applicable to the Notes of each class for each Interest Period and the Interest Payment Date in respect thereof to be notified in writing to Irish Stock Exchange Limited (the "**Irish Stock Exchange**") (for so long as the Notes are listed on the Irish Stock Exchange) and shall cause notice thereof to be given to the Noteholders in accordance with Condition 15. The Interest Amounts and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of any extension or shortening of the Interest Period for the Notes or in the circumstances referred to in Condition 5(*i*).

(f) Determination or Calculation by the Trustee

If the Agent Bank does not at any time for any reason determine the Rate of Interest and/or calculate the Interest Amount for each class of the Notes in accordance with the foregoing Conditions, the Trustee shall (i) determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described above), it shall deem fair and reasonable in all the circumstances and/or (as the case may be), (ii) calculate the Interest Amount for each class of the Notes in the manner specified in Condition 5*(d)* above, and any such determination and/or calculation shall be deemed to have been made by the Agent Bank.

(g) Notifications to be Final

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition, whether by the Reference Banks (or any of them) or the Agent Bank or the Trustee shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Reference Banks, the Agent Bank, the Trustee, the Servicer, the Special Servicer, the Cash Manager, the Paying Agents and all Noteholders and (in such absence as aforesaid) no liability to the Noteholders shall attach to the Issuer, the Reference Banks, the Agent Bank or the Trustee in connection with the exercise or non-exercise by them or any of them of their powers, duties and discretions hereunder.

(h) Reference Banks and Agent Bank

The Issuer shall ensure that, so long as any of the Notes remains outstanding, there are, at all times, four Reference Banks and an Agent Bank. The initial Reference Banks shall be the principal London office of four major banks in the London interbank market (the "**Reference Banks**") chosen by the Agent Bank. In the event of the principal London office of any such bank being unable or unwilling to continue to act as a Reference Bank, the Issuer shall appoint such other bank as may have been previously approved in writing by the Trustee to act as such in its

place. Any purported resignation by the Agent Bank shall not take effect until a successor so approved by the Trustee has been appointed.

(i) Interest on the Class D and the Class E Notes

The interest due and payable on the Class D Notes and the Class E Notes is subject, on any Interest Payment Date, to a maximum amount equal to the lesser of (i) the Interest Amount in respect of such class of Notes, as calculated pursuant to Condition 5(*d*), and (ii) the amount (the "**Adjusted Interest Amount**") equal to (x) the Available Interest Receipts (as defined in the Master Definitions Agreement) in respect of such Interest Payment Date (including, for the avoidance of doubt, the amount available for drawing by way of Interest Drawings and Accrued Interest Drawings (each as defined in the Master Definitions Agreement) under the Liquidity Facility Agreement on such Interest Payment Date) minus (y) the sum of all amounts payable out of Available Interest Receipts on such Interest Payment Date in priority to the payment of interest on such class of Notes in accordance with the Deed of Charge and Assignment. The debt that would otherwise be represented by the amount by which, on any Interest Payment Date, the Interest Amount in respect of the Class D Notes or the Class E Notes exceeds the Adjusted Interest Amount in respect of such class of Notes, shall be extinguished on such Interest Payment Date, and the affected Noteholders shall have no claim against the Issuer in respect thereof.

6. Redemption and Cancellation

(a) Final Redemption

Unless previously redeemed in full and cancelled as provided in this Condition 6, the Issuer shall redeem the Notes at their Principal Amount Outstanding together with accrued interest on the Interest Payment Date falling in May 2007.

The Issuer may not redeem Notes in whole or in part prior to that date except as provided in this Condition but without prejudice to Condition 10.

(b) Mandatory Redemption in Part from Available Prepayment Redemption Funds, Available Final Redemption Funds and Available Principal Recovery Funds

Subject as provided in Conditions 6*(c),* 6*(d)* and 6*(e)*, prior to the service of a Note Enforcement Notice and subject as provided below, the Class A Notes or, if no Class A Notes are outstanding, the most senior class of Notes then outstanding shall be subject to mandatory redemption in part on each Interest Payment Date if on the Calculation Date (as defined below) relating thereto there are any Available Prepayment Redemption Funds, Available Final Redemption Funds or Available Principal Recovery Funds (each as defined below), after paying any and all amounts payable out of such funds in priority to payments on such class of Notes, and if the amount of such Available Prepayment Redemption Funds, Available Final Redemption Funds and Available Principal Recovery Funds, after paying any and all amounts payable out of such funds in priority to payments on such class of Notes, is not less than £1. If on any Interest Payment Date, the Class A Notes or the then most senior class of Notes then outstanding is redeemed in full pursuant to the foregoing, any remaining Available Prepayment Redemption Funds, Available Final Redemption Funds and Available Principal Recovery Funds shall be applied in mandatory redemption in part of the next most senior class of Notes then outstanding and on that class of Notes being redeemed in full each next most senior class of Notes then outstanding until all Notes are redeemed.

The "**Calculation Date**" means the second business day prior to the relevant Interest Payment Date save in respect of the Interest Payment Date falling in May 2007 when it means the actual Interest Payment Date in May 2007.

For the purposes of these Conditions:

(A) "**Prepayment Redemption Funds**" means (i) the aggregate amount of principal payments received by or on behalf of the Issuer in respect of the Loan as a result of any prepayment in part or in full made by the Borrowers pursuant to the terms of the Credit Agreement, and (ii) the aggregate amount of payments in respect of principal received by or on behalf of the Issuer as a result of a repurchase of the Loan by MSDW Bank pursuant to the Loan Sale

Agreement and (iii) the aggregate amount of payments in respect of principal received by or on behalf of the Issuer as a result of the purchase of the Loan by the Servicer pursuant to the Servicing Agreement, and "**Available Prepayment Redemption Funds**" means, in respect of any Calculation Date, the Prepayment Redemption Funds received by or on behalf of the Issuer during the Collection Period then ended less the aggregate amount of Prepayment Redemption Funds applied by the Issuer in respect of any Principal Priority Amounts and Revenue Priority Amounts during that Collection Period in accordance with the Deed of Charge and Assignment;

(B) "**Final Redemption Funds**" means the aggregate amount of principal payments received by or on behalf of the Issuer in respect of the Loan as a result of the repayment of the Loan upon its scheduled final maturity date, and "**Available Final Redemption Funds**" means, in respect of any Calculation Date, the Final Redemption Funds received by or on behalf of the Issuer during the Collection Period then ended less the aggregate amount of Final Redemption Funds applied by the Issuer in respect of Principal Priority Amounts and Revenue Priority Amounts during that Collection Period in accordance with the Deed of Charge and Assignment; and

(C) "**Principal Recovery Funds**" means the aggregate amount of principal payments received or recovered by or on behalf of the Issuer as a result of actions taken in accordance with the enforcement procedures in respect of the Loan and/or the Related Security (as defined in the Master Definitions Agreement), and "**Available Principal Recovery Funds**" means, in respect of any Calculation Date, the Principal Recovery Funds received or recovered by or on behalf of the Issuer during the Collection Period then ended less (i) the aggregate amount of Principal Recovery Funds applied by the Issuer in respect of any Principal Priority Amounts and Revenue Priority Amounts during that Collection Period in accordance with the Deed of Charge and Assignment and (ii) any amount to be transferred to Available Interest Receipts on the Interest Payment Date immediately following such Calculation Date for the purpose of paying Liquidation Fees, if any, payable on that Interest Payment Date;

but, in each case, only to the extent that such moneys have not been taken into account in the calculation of Available Prepayment Redemption Funds, Available Final Redemption Funds or Available Principal Recovery Funds, as applicable, on any preceding Calculation Date. Available Prepayment Redemption Funds, Available Final Redemption Funds and Available Principal Recovery Funds determined on each Calculation Date shall be applied, on the immediately following Interest Payment Date, first, in paying the principal on the Class A Notes until all the Class A Notes have been redeemed in full; second, in paying principal on the Class B Notes until all the Class B Notes have been redeemed in full; third, in paying principal on the Class C Notes until all the Class C Notes have been redeemed in full; fourth, in paying principal on the Class D Notes until all the Class D Notes have been redeemed in full; fifth, on a *pari passu* and *pro rata* basis, (1) in paying principal on the Class E1 Notes until all the Class E1 Notes have been redeemed in full, (2) in paying principal on the Class E2 Notes until all the Class E2 Notes have been redeemed in full, and (3) following payment of amounts to the Swap Provider under the Dollar Swap Transaction (as defined in the Master Definitions Agreement) (to enable payment to be made pursuant to the Class E3 Notes) in paying principal on the Class E3 Notes until all the Class E3 Notes have been redeemed in full; sixth, in paying any portion of Deferred Consideration; and seventh, in paying any surplus to the Issuer; provided that if on any Calculation Date the Trustee receives written confirmation from the Rating Agencies that the then applicable ratings of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E1 Notes, Class E2 Notes and the Class E3 Notes will not be qualified, downgraded or withdrawn thereby, the Available Prepayment Redemption Funds, Available Final Redemption Funds and Available Principal Recovery Funds may, at the option of the Issuer, be applied on any Interest Payment Date to redeem in whole or in part the Principal Amount Outstanding of any other class or classes of Notes that would not otherwise be entitled to redemption on such Interest Payment Date.

(c) Optional Redemption for Tax or Other Reasons

If the Issuer at any time satisfies the Trustee immediately prior to giving the notice referred to below that either (i) by virtue of a change in the tax law of the United Kingdom or any other jurisdiction (or the application or official interpretation thereof) from that in effect on the Closing

Date, on the next Interest Payment Date the Issuer or any Paying Agent on its behalf would be required to deduct or withhold from any payment of principal or interest in respect of any Note (other than where the relevant holder or beneficial owner has some connection with the relevant jurisdiction other than the holding of Notes) (other than in respect of default interest), any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the relevant jurisdiction (or any political sub-division thereof or authority thereof or therein having power to tax) and such requirement cannot be avoided by the Issuer taking reasonable measures available to it, or (ii) by virtue of a change in law from that in effect on the Closing Date, any amount payable by the Borrowers in relation to the Loan is reduced or ceases to be receivable (whether or not actually received) by the Issuer during the Interest Period preceding the next Interest Payment Date and, in either case, the Issuer has, prior to giving the notice referred to below, certified to the Trustee that it will have the necessary funds on such Interest Payment Date to discharge all of its liabilities in respect of the Notes to be redeemed under this Condition 6(*c*) and any amounts required under the Deed of Charge and Assignment to be paid in priority to, or *pari passu* with, the Notes to be so redeemed, which certificate shall be conclusive and binding, and provided that, on the Interest Payment Date on which such notice expires, no Note Enforcement Notice has been served, then the Issuer may, but shall not be obliged to, on any Interest Payment Date on which the relevant event described above is continuing, having given not more than 60 nor less than 30 days' written notice ending on such Interest Payment Date to the Trustee, the Paying Agents and to the Noteholders in accordance with Condition 15, redeem:

(A) all Class A Notes in an amount equal to the then aggregate Principal Amount Outstanding of the Class A Notes plus interest accrued and unpaid thereon; and

(B) all Class B Notes in an amount equal to the then aggregate Principal Amount Outstanding of the Class B Notes plus interest accrued and unpaid thereon; and

(C) all Class C Notes in an amount equal to the then aggregate Principal Amount Outstanding of the Class C Notes plus interest accrued and unpaid thereon; and

(D) all Class D Notes in an amount equal to the then aggregate Principal Amount Outstanding of the Class D Notes plus interest accrued and unpaid thereon; and

(E) on a *pari passu* and *pro rata* basis, all Class E1 Notes in an amount equal to the then aggregate Principal Amount Outstanding of the Class E1 Notes plus interest accrued and unpaid thereon, all Class E2 Notes in an amount equal to the then aggregate Principal Amount Outstanding of the Class E2 Notes plus interest accrued and unpaid thereon, and, following payment of amounts to the Swap Provider under the Dollar Swap Transaction (to enable payment to be made pursuant to the Class E3 Notes), all Class E3 Notes in an amount equal to the then aggregate Principal Amount Outstanding of the Class E3 Notes plus interest accrued and unpaid thereon.

After giving notice of redemption pursuant to this sub-paragraph, the Issuer shall not make any further payment of principal on the Notes and no further reduction shall be made to the Principal Amount Outstanding of any Note other than by way of redemption pursuant to this Condition 6*(c)*. Once redeemed to the full extent provided in this Condition 6*(c)*, the Notes shall cease to bear interest.

(d) Optional redemption in full

On giving not more than 60 nor less than 30 days' written notice to the Trustee and to the Noteholders in accordance with Condition 15 and provided that, on the Interest Payment Date on which such notice expires, no Note Enforcement Notice in relation to the Notes has been served, and further provided that the Issuer has, prior to giving such notice, certified to the Trustee, that it will have the necessary funds to discharge on such Interest Payment Date all of its liabilities in respect of the Notes to be redeemed under this Condition 6(*d*) and any amounts required under the Deed of Charge and Assignment to be paid on such Interest Payment Date which rank higher in priority to, or *pari passu* with, the Notes, which certificate will be conclusive and binding, and further provided that the then aggregate Principal Amount Outstanding of all of the Notes would

be less than 10 per cent. of their Principal Amount Outstanding as at the Closing Date, the Issuer may redeem on such Interest Payment Date:

(A) all Class A Notes in an amount equal to the then aggregate Principal Amount Outstanding of the Class A Notes plus interest accrued and unpaid thereon; and

(B) all Class B Notes in an amount equal to the then aggregate Principal Amount Outstanding of the Class B Notes plus interest accrued and unpaid thereon; and

(C) all Class C Notes in an amount equal to the then aggregate Principal Amount Outstanding of the Class C Notes plus interest accrued and unpaid thereon; and

(D) all Class D Notes in an amount equal to the then aggregate Principal Amount Outstanding of the Class D Notes plus interest accrued and unpaid thereon; and

(E) on a *pari passu* and *pro rata* basis, all Class E1 Notes in an amount equal to the then aggregate Principal Amount Outstanding of the Class E1 Notes plus interest accrued and unpaid thereon, all Class E2 Notes in an amount equal to the then aggregate Principal Amount Outstanding of the Class E2 Notes plus interest accrued and unpaid thereon, and, following payment of amounts to the Swap Provider under the Dollar Swap Transaction (to enable payment to be made pursuant to the Class E3 Notes), all Class E3 Notes in an amount equal to the then aggregate Principal Amount Outstanding of the Class E3 Notes plus interest accrued and unpaid thereon.

After giving notice of redemption pursuant to this sub-paragraph, the Issuer shall not make any further payment of principal on the Notes and no further reduction shall be made to the Principal Amount Outstanding of any such Note other than by way of redemption pursuant to this Condition 6*(d)*. Once redeemed to the full extent provided in this Condition 6*(d)*, the Notes shall cease to bear interest.

(e) Optional Redemption in Full — Swap Transactions

If, at any time, the Swap Transactions are terminated by reason of the occurrence of a Tax Event (as defined below) under the Swap Agreement (as defined in the Master Definitions Agreement) and the Issuer is unable to find a replacement swap provider (the Issuer being obliged to use its best endeavours to find a replacement swap provider) then, on giving not more than 60 nor less than 30 days' written notice to the Trustee and to the Noteholders in accordance with Condition 15 and provided that, on the Interest Payment Date on which such notice expires, no Note Enforcement Event in relation to the Notes has been served and further provided that the Issuer has, prior to giving such notice, certified to the Trustee that it will have the necessary funds to discharge on such Interest Payment Date all of its liabilities in respect of the Notes to be redeemed under this Condition 6(*e*) and any amounts required under the Deed of Charge and Assignment to be paid on such Interest Payment Date which rank higher in priority to, or *pari passu* with, the Notes, which certificate will be conclusive and binding, the Issuer may, but will not be obliged to, redeem on such Interest Payment Date:

(A) all Class A Notes in an amount equal to the then aggregate Principal Amount Outstanding of the Class A Notes plus interest accrued and unpaid thereon; and

(B) all Class B Notes in an amount equal to the then aggregate Principal Amount Outstanding of the Class B Notes plus interest accrued and unpaid thereon; and

(C) all Class C Notes in an amount equal to the then aggregate Principal Amount Outstanding of the Class C Notes plus interest accrued and unpaid thereon; and

(D) all Class D Notes in an amount equal to the then aggregate Principal Amount Outstanding of the Class D Notes plus interest accrued and unpaid thereon; and

(E) on a *pari passu* and *pro rata* basis, all Class E1 Notes in an amount equal to the then aggregate Principal Amount Outstanding of the Class E1 Notes plus interest accrued and unpaid thereon, all Class E2 Notes in an amount equal to the then aggregate Principal Amount

Outstanding of the Class E2 Notes plus interest accrued and unpaid thereon, and, following payment of amounts to the Swap Provider under the Dollar Swap Transaction (to enable payment to be made pursuant to the Class E3 Notes), all Class E3 Notes in an amount equal to the then aggregate Principal Amount Outstanding of the Class E3 Notes plus interest accrued and unpaid thereon.

After giving notice of redemption pursuant to this sub-paragraph, the Issuer shall not make any further payment of principal on the Notes and no further reduction shall be made to the Principal Amount Outstanding of any Note other than by way of redemption pursuant to this Condition 6(*e*). Once redeemed to the full extent provided in this sub-paragraph, the Notes shall cease to bear interest.

For these purposes, a "**Tax Event**" means:

(i) any action taken by a taxing authority, or brought in a court of competent jurisdiction (regardless of whether such action is taken or brought with respect to a party to the Swap Agreement); or

(ii) the enactment, promulgation, execution or ratification of, or change in or amendment to, any law (or in the application or interpretation of any law),

as a result of which, on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by any government or taxing authority, either the Issuer or the Swap Provider (as defined in the Master Definitions Agreement) will, or there is a substantial likelihood that it will, be required to pay additional amounts or make an advance in respect of tax under the Swap Agreement or the Swap Provider will, or there is a substantial likelihood that it will, receive a payment from the Issuer from which an amount is required to be deducted or withheld for or on account of tax and no additional amount or advance is able to be paid by the Issuer.

(f) Note Principal Payments, Principal Amount Outstanding and Pool Factor

The principal amount (if any) to be redeemed in respect of each Note (the "**Note Principal Payment**") on any Interest Payment Date under Condition 6*(b)* or Condition 6*(c)* or Condition 6(*d*) or Condition 6(*e*), as applicable, will, in relation to the Notes of a particular class, be a *pro rata* share of the aggregate amount required to be applied in redemption of the Notes of that class on such Interest Payment Date under Condition 6*(b)* or Condition 6*(c)* or Condition 6*(d)* or Condition 6*(e)*, as applicable, (rounded down to the nearest penny) provided always that no such Note Principal Payment may exceed the Principal Amount Outstanding of the relevant Note.

On each Calculation Date, the Cash Manager shall determine (i) the amount of any Note Principal Payment (if any) due on the next following Interest Payment Date, (ii) the Principal Amount Outstanding of each Note on the next following Interest Payment Date (after deducting any Note Principal Payment to be paid on that Interest Payment Date) and (iii) the fraction expressed as a decimal to the sixth place (the "**Pool Factor**"), of which the numerator is the Principal Amount Outstanding (after deducting any Note Principal Payment to be paid on that Interest Payment Date) of a Note of the relevant class (calculated on the assumption that the face amount of such Note on the date of issuance thereof was £50,000 or, in the case of the Class E3 Notes, U.S.$50,000) and the denominator is 50,000. Each determination by the Cash Manager of any Note Principal Payment, the Principal Amount Outstanding of a Note and the Pool Factor shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons.

The "**Principal Amount Outstanding**" of a Note of any class on any date shall be the nominal amount thereof on the date of issuance thereof less the aggregate amount of all Note Principal Payments in respect of such Note that have been paid since the Closing Date and on or prior to the relevant date of calculation. Unless otherwise expressly stated in any notice issued under or pursuant to these Conditions, all calculations in respect of the Principal Amount Outstanding of a Note shall be made on the assumption that the face amount of such Note on the date of issuance thereof was £50,000 or, in the case of the Class E3 Notes, U.S.$50,000.

The Issuer (or the Cash Manager on its behalf) will cause each determination of a Note Principal Payment, Principal Amount Outstanding and Pool Factor to be notified in writing forthwith to the Trustee, the Paying Agents, the Rating Agencies, the Agent Bank and (for so long as the Notes are admitted to trading on the Irish Stock Exchange) the Irish Stock Exchange and will cause notice of each determination of a Note Principal Payment, Principal Amount Outstanding and Pool Factor to be given to the Noteholders in accordance with Condition 15 as soon as reasonably practicable thereafter.

If the Issuer or the Cash Manager on behalf of the Issuer does not at any time for any reason determine a Note Principal Payment, the Principal Amount Outstanding or the Pool Factor in accordance with the preceding provisions of this Condition 6*(f)*, such Note Principal Payment, Principal Amount Outstanding and Pool Factor may be determined by the Trustee, in accordance with this Condition 6*(f)*, and each such determination or calculation will be binding and will be deemed to have been made by the Issuer or the Cash Manager, as the case may be.

(g) Notice of Redemption

Any such notice as is referred to in Condition 6*(c)*, *(d)*, *(e)* or *(f)* above shall be irrevocable and, upon the expiration of such notice, the Issuer shall be bound to redeem the Notes of the relevant class in the amounts specified in these Conditions.

(h) Cancellation

All Notes redeemed in full pursuant to the foregoing provisions shall be cancelled forthwith and may not be resold or re-issued.

7. Payments

(a) Global Notes

Payments of principal and interest in respect of any Global Note will be made only against presentation (and, in the case of final redemption of a Global Note or in circumstances where the unpaid principal amount of the relevant Global Note would be reduced to zero (including as a result of any other payment of principal due in respect of such Global Note), surrender) of such Global Note at the specified office of any Paying Agent. A record of each payment so made, distinguishing, in the case of Global Notes, between payments of principal and payments of interest and, in the case of partial payments, of the amount of each partial payment, will be endorsed on the schedule to the relevant Global Note by or on behalf of the relevant Paying Agent, which endorsement shall be *prima facie* evidence that such payment has been made.

Payments in respect of the Rule 144A Global Notes will be paid (i) in sterling or, in the case of the Class E3 144A Global Notes, dollars to holders of interests in such Notes who hold such interests through Euroclear and/or Clearstream, Luxembourg (the "**Rule 144A Euroclear/Clearstream Holders**"), and (ii) subject to the provisions below, in U.S. dollars to holders of interests in such Notes who hold such interests through DTC (the "**DTC Holders**"). Payments in respect of the Reg S Global Notes will be paid in sterling or, in the case of the Class E3 144A Global Notes, dollars to holders of interests in such Notes (such holders being, together with the Rule 144A Euroclear/Clearstream Holders, the "**Euroclear/Clearstream Holders**").

At present, DTC can only accept payments in U.S. dollars. As a result, DTC Holders will receive payments in U.S. dollars as described above unless they elect, in accordance with DTC's customary procedures, to receive payments in sterling. Such an ability to elect to receive payments in sterling will not be available to DTC Holders in respect of the Class E3 Notes.

A Euroclear/Clearstream Holder may receive payments in respect of its interest in any Global Notes in U.S. dollars in accordance with Euroclear's and Clearstream, Luxembourg's customary procedures. All costs of conversion from any such election will be borne by such Euroclear/Clearstream Holder.

(b) Definitive Notes

Payments of principal and interest (except where, after such payment, the unpaid principal amount of the relevant Note would be reduced to zero (including as a result of any other payment of principal due in respect of such Note, in which case the relevant payment of principal or interest, as the case may be, will be made against surrender of such Note)) in respect of Definitive Notes will be made by sterling cheque drawn on a branch of a bank in London (or, in the case of the E3 Notes, a dollar cheque drawn on a branch of a bank in New York City) posted to the holder (or to the first-named of joint holders) of such Definitive Note at the address shown in the Register not later than the due date for such payment. If any payment due in respect of any Definitive Note is not paid in full, the Registrar will annotate the Register with a record of the amount, if any, paid. For the purposes of this Condition 7, the holder of a Definitive Note will be deemed to be the person shown as the holder (or the first-named of joint holders) on the Register on the fifteenth day before the due date for such payment (the "**Record Date**").

Upon application by the holder of a Definitive Note to the specified office of the Registrar not later than the Record Date for payment in respect of such Definitive Note, such payment will be made by transfer to a sterling account maintained by the payee with a branch of a bank in London (or, in the case of the Class E3 Notes, by transfer to a dollar account maintained by the payee with a branch of a bank in New York City). Any such application for transfer to such account shall be deemed to relate to all future payments in respect of such Definitive Note until such time as the Registrar is notified in writing to the contrary by the holder thereof.

(c) Laws and Regulations

Payments of principal, interest and premium (if any) in respect of the Notes are subject in all cases to any fiscal or other laws and regulations applicable thereto.

(d) Overdue Principal Payments

If payment of principal is improperly withheld or refused on or in respect of any Note or part thereof, the interest which continues to accrue in respect of such Note or part thereof in accordance with Condition 5*(a)* will be paid against presentation of such Note at the specified office of any Paying Agent, and in the case of any Definitive Note, will be paid in accordance with Condition 7*(b)*.

(e) Change of Agents

The Principal Paying Agent is AIB International Financial Services Limited at its offices at PO Box 2751, AIB International Centre, I.F.S.C., Dublin 1, Ireland. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Principal Paying Agent, any other Paying Agent, the Registrar and the Agent Bank and to appoint additional or other Agents. The Issuer will at all times maintain a Paying Agent with a specified office in, for so long as the Notes are listed on the Irish Stock Exchange, Dublin. The Issuer shall cause at least 30 days' notice of any change in or addition to the Paying Agents or the Registrar or their specified offices to be given to the Noteholders in accordance with Condition 15.

(f) Presentation on Non-Business Days

If any Note is presented (if required) for payment on a day which is not a business day in the place where it is so presented and (in the case of payment by transfer to an account as referred to in Condition 7*(b)* above) in London or New York City, as the case may be, payment will be made on the next succeeding day that is a business day and no further payments of additional amounts by way of interest, principal or otherwise will be due in respect of such Note. No further payments of additional amounts by way of interest, principal or otherwise will be payable in respect of the late arrival of any cheque posted to a Noteholder in accordance with the provisions of Condition 7*(b)*. For the purposes of Condition 6 and this Condition 7, "**business day**" means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments in that place.

(g) Accrual of Interest on Late Payments

If interest is not paid in respect of a Note of any class on the date when due and payable (other than by reason of non-compliance with Condition 7*(a)* or *(b)*), then such unpaid interest shall itself bear interest at the applicable Rate of Interest until such interest and interest thereon is available for payment and notice thereof has been duly given to the Noteholders in accordance with Condition 15, provided that such interest and interest thereon are, in fact, paid.

(h) Redenomination in Euro

(i) If at any time there is a change in the currency of the United Kingdom such that the Bank of England recognises a different currency or currency unit or more than one currency or currency unit as the lawful currency of the United Kingdom, then references in, and obligations arising under, the Notes outstanding at the time of any such change and which are expressed in sterling will be translated into, and/or any amount becoming payable under the Notes thereafter as specified in these Conditions will be paid in, the currency or currency unit of the United Kingdom, and in the manner designated by the Principal Paying Agent.

Any such translation will be made at the official rate of exchange recognised for that purpose by the Bank of England.

(ii) Where such a change in currency occurs, the Global Notes in respect of the Notes then outstanding and these Conditions will be amended in the manner agreed by the Issuer and the Trustee so as to reflect that change and, so far as practicable, to place the Issuer, the Trustee and the Noteholders in the same position each would have been in had no change in currency occurred (such amendments to include, without limitation, changes required to reflect any modification to business day or other conventions arising in connection with such change in currency). All amendments made pursuant to this Condition 7*(h*) will be binding upon holders of such Notes.

(iii) Notification of the amendments made to Notes pursuant to this Condition 7*(h)* will be made to the Noteholders in accordance with Condition 15 which will state, *inter alia*, the date on which such amendments are to take or took effect, as the case may be.

8. Taxation

All payments in respect of the Notes will be made without withholding or deduction for or on account of any present or future taxes, duties or charges of whatsoever nature unless the Issuer or any Paying Agent is required by applicable law in any jurisdiction to make any payment in respect of the Notes subject to any such withholding or deduction. In that event, the Issuer or such Paying Agent (as the case may be) will make such payment after such withholding or deduction has been made and will account to the relevant authorities for the amount so required to be withheld or deducted. **Neither the Issuer nor any Paying Agent will be obliged to make any additional payments to holders of Notes in respect of such withholding or deduction.**

9. Prescription

Claims for principal in respect of Global Notes will become void unless the relevant Global Notes are presented for payment within ten years of the appropriate relevant date. Claims for interest in respect of Global Notes will become void unless the relevant Global Notes are presented for payment within five years of the appropriate relevant date.

Claims for principal and interest in respect of Definitive Notes will become void unless made within ten years, in the case of principal, and five years, in the case of interest, of the appropriate relevant date.

In this Condition 9, the "**relevant date**" means the date on which a payment in respect thereof first becomes due, but if the full amount of the moneys payable has not been received by the Principal Paying Agent or the Trustee on or prior to such date, it means the date on which the full amount of such moneys shall have been so received, and notice to that effect shall have been duly given to the Noteholders in accordance with Condition 15.

10. Events of Default

(a) Eligible Noteholders

If any of the events mentioned in sub-paragraphs (i) to (v) inclusive below occurs (each such event being an "**Event of Default**") the Trustee may, and if so requested in writing by the "**Eligible Noteholders**", being:

(1) the holders of not less than 25 per cent. in aggregate of the Principal Amount Outstanding of the Class A Notes then outstanding; or

(2) if there are no Class A Notes outstanding, the holders of not less than 25 per cent. in aggregate of the Principal Amount Outstanding of the Class B Notes then outstanding; or

(3) if there are no Class A Notes and Class B Notes outstanding, the holders of not less than 25 per cent. in aggregate of the Principal Amount Outstanding of the Class C Notes then outstanding; or

(4) if there are no Class A Notes, Class B Notes and Class C Notes outstanding, the holders of not less than 25 per cent. in aggregate of the Principal Amount Outstanding of the Class D Notes then outstanding; or

(5) if there are no Class A Notes, Class B Notes, Class C Notes and Class D Notes outstanding, the holders of not less than 25 per cent. in aggregate of the Principal Amount Outstanding of the Class E Notes then outstanding;

or if so directed by or pursuant to an Extraordinary Resolution (as defined in the Trust Deed) of the Class A Noteholders or, if no Class A Notes are outstanding, the then most senior class of Noteholders, shall, and in any case aforesaid, subject to the Trustee being indemnified and/or secured to its satisfaction, give notice (a "**Note Enforcement Notice**") to the Issuer declaring all the Notes to be due and repayable and the Issuer Security enforceable:

(i) default is made for a period of three days in the payment of the principal of, or default is made for a period of five days in the payment of interest on, any Class A Note; or if there are no Class A Notes outstanding, any Class B Note; or, if there are no Class B Notes outstanding, any Class C Note; or, if there are no Class C Notes outstanding, any Class D Note; or, if there are no Class D Notes outstanding, any Class E Note, in each case when and as the same becomes due and payable in accordance with these Conditions.

(ii) default is made by the Issuer in the performance or observance of any other obligation binding upon it under any of the Notes of any class, the Trust Deed, the Deed of Charge and Assignment or the other Relevant Documents to which it is party and, in any such case (except where the Trustee certifies that, in its opinion, such default is incapable of remedy when no notice will be required), such default continues for a period of 14 days following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or

(iii) the Issuer, otherwise than for the purposes of such amalgamation or reconstruction as is referred to in Condition 10*(a)*(iv) below, ceases or, consequent upon a resolution of the board of directors of the Issuer, threatens to cease to carry on business or a substantial part of its business or the Issuer is or is deemed unable to pay its debts within the meaning of Section 123(1) and (2) of the Insolvency Act 1986 (as that section may be amended from time to time); or

(iv) an order is made or an effective resolution is passed for the winding-up of the Issuer except a winding-up for the purposes of or pursuant to an amalgamation or reconstruction the terms of which have previously been approved by the Trustee in writing or by an Extraordinary Resolution of the Eligible Noteholders; or

(v) proceedings are initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition for an administration order) and such proceedings are not, in the opinion of the

Trustee, being disputed in good faith with a reasonable prospect of success, or an administration order is granted or an administrative receiver or other receiver, liquidator or other similar official is appointed in relation to the Issuer or any part of its undertaking, property or assets, or an encumbrancer takes possession of all or any part of the undertaking, property or assets of the Issuer, or a distress, execution, diligence or other process is levied or enforced upon or sued against all or any part of the undertaking, property or assets of the Issuer and such possession or process is not discharged or does not otherwise cease to apply within 15 days, or the Issuer initiates or consents to judicial proceedings relating to itself under applicable liquidation, insolvency, composition, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally;

provided that, in the case of each of the events described in Condition 10*(a)*(ii), the Trustee shall have certified to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Class A Noteholders or, if no Class A Notes are outstanding, the then most senior class of Noteholders.

(b) Effect of Declaration by Trustee

Upon any declaration being made by the Trustee in accordance with Condition 10*(a)* above, all the Notes then outstanding shall immediately become due and repayable at their Principal Amount Outstanding together with accrued interest and the Issuer Security shall become enforceable, all in accordance with the Trust Deed and the Deed of Charge and Assignment.

11. Enforcement

Subject to the provisions of Condition 16, the Trustee may, without notice, take such proceedings against the Issuer or any other person as are appropriate to enforce the provisions of the Notes and the Relevant Documents and may, at any time after the Issuer Security has become enforceable, without notice, take possession of the Issuer Security or any part thereof and may in its discretion sell, call in, collect and convert into money the Issuer Security or any part thereof in such manner and upon such terms as the Trustee may think fit to enforce the Issuer Security, but it will not be bound to take any such proceedings or steps unless:

(*a*) subject to the proviso below, it is directed to do so by an Extraordinary Resolution of the Class A Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders or the Class E Noteholders, or by a notice in writing signed by the holders of at least 25 per cent. in aggregate of the Principal Amount Outstanding of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes or the Class E Notes, as applicable, then outstanding; and

(*b*) it shall be indemnified and/or secured to its satisfaction against all actions, proceedings, claims and demands to which it may thereby render itself liable and all liabilities, losses, costs, charges, damages and expenses (including any VAT thereon) which it may incur by so doing,

PROVIDED THAT:

(i) the Trustee shall not be bound to act at the direction of the Class B Noteholders unless to do so would not in the opinion of the Trustee be materially prejudicial to the interests of the Class A Noteholders or the Trustee has been directed to take such action by an Extraordinary Resolution of the Class A Noteholders or by a notice in writing signed by the holders of at least 25 per cent. in aggregate of the Principal Amount Outstanding of the Class A Notes then outstanding;

(ii) the Trustee shall not be bound to act at the direction of the Class C Noteholders unless to do so would not in the opinion of the Trustee be materially prejudicial to the respective interests of the Class A Noteholders and the Class B Noteholders or the Trustee has been directed to take such action by Extraordinary Resolutions of each of the Class A Noteholders and the Class B Noteholders or by a notice in writing signed by the holders of at least 25 per cent. in aggregate of the Principal Amount Outstanding of each of the Class A Notes and the Class B Notes then outstanding;

(iii) the Trustee shall not be bound to act at the direction of the Class D Noteholders unless to do so would not in the opinion of the Trustee be materially prejudicial to the respective interests of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders or the Trustee has been directed to take such action by Extraordinary Resolutions of each of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders or by a notice in writing signed by the holders of at least 25 per cent. in aggregate of the Principal Amount Outstanding of each of the Class A Notes, the Class B Notes and the Class C Notes then outstanding; and

(iv) the Trustee shall not be bound to act at the direction of the Class E Noteholders unless to do so would not in the opinion of the Trustee be materially prejudicial to the respective interests of the Class A Noteholders, the Class B Noteholders, the Class C Noteholders and the Class D Noteholders or the Trustee has been directed to take such action by Extraordinary Resolutions of each of the Class A Noteholders, the Class B Noteholders, the Class C Noteholders and the Class D Noteholders, or by a notice in writing signed by the holders of at least 25 per cent. in aggregate of the Principal Amount Outstanding of each of the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes then outstanding.

Enforcement of the Issuer Security will be the only remedy available to the Trustee and the Noteholders for the repayment of the Notes and any interest thereon. No Noteholder shall be entitled to proceed directly against the Issuer or any other party to the Relevant Documents or to enforce the Issuer Security unless the Trustee, having become bound to do so, fails to do so within 90 days from the date it becomes so bound and such failure shall be continuing; provided that no Class B Noteholder (for so long as there are any Class A Notes outstanding), no Class C Noteholder (for so long as there is any Class A Note or Class B Note outstanding), no Class D Noteholder (for so long as there is any Class A Note, Class B Note or Class C Note outstanding) and no Class E Noteholder (for so long as there is any Class A Note, Class B Note, Class C Note or Class D Note outstanding), will be entitled to take proceedings for the winding up or administration of the Issuer. The Trustee cannot, while any of the Notes are outstanding, be required to enforce the Issuer Security at the request of any other Secured Party under (and as defined in) the Deed of Charge and Assignment.

If the net proceeds of realisation of, or enforcement with respect to, the Issuer Security are not sufficient to make all payments due in respect of the Notes (if any), the other assets (if any) of the Issuer, other than any surplus arising on the realisation of or enforcement with respect to any remaining security, will not be available for payment of any shortfall arising therefrom (which shall be borne in accordance with the provisions of the Deed of Charge and Assignment). All claims in respect of such shortfall, after realisation of or enforcement with respect to all of the Issuer Security, shall be extinguished and the Trustee, the Noteholders and the other Secured Parties shall have no further claim against the Issuer in respect of such unpaid amounts. Each Noteholder, by subscribing for or purchasing Notes, is deemed to accept and acknowledge that it is fully aware that, in the event of an enforcement of the Issuer Security, (i) its right to obtain repayment in full is limited to recourse against the assets of the Issuer comprised in the Issuer Security and (ii) the Issuer will have duly and entirely fulfilled its payment obligations by making available to such Noteholder its proportion of the proceeds of realisation or enforcement of the Issuer Security in accordance with the Deed of Charge and Assignment, and all claims in respect of any shortfall shall be extinguished.

12. Meetings of Noteholders, Modification and Waiver

(a) The Trust Deed contains provisions for convening meetings of the Noteholders of any class to consider any matter affecting their interests including the sanctioning by Extraordinary Resolution of, *inter alia*, the removal of the Trustee, a modification of the Notes (including these Conditions) or the provisions of any of the Relevant Documents. The Trustee may convene a single meeting of Noteholders for the purposes of Condition 4(*A*), (*C*) and (*D*). In relation to the Class E Notes, the Trustee may convene a single meeting of Class E Noteholders or if, in its absolute discretion, it considers that there is a conflict in respect of the subject matter in such meetings, between the interests of the Class E1 Noteholders, the Class E2 Noteholders and/or the Class E3 Noteholders, the Trustee may convene separate meetings for each such class. An Extraordinary Resolution or any other resolution passed at any meeting of all Noteholders will be binding upon all Noteholders irrespective of the effect upon them.

(b) An Extraordinary Resolution passed at any meeting of the Class A Noteholders will be binding on all Class B Noteholders, Class C Noteholders, Class D Noteholders, Class E1 Noteholders, Class E2 Noteholders and Class E3 Noteholders, irrespective of the effect upon them, except an Extraordinary Resolution to sanction a modification of, or a waiver or authorisation of any breach or proposed breach of any of the provisions of, these Conditions or any of the Relevant Documents, which will not take effect unless it has been sanctioned by an Extraordinary Resolution of each of the Class B Noteholders, the Class C Noteholders, the Class D Noteholders, the Class E1 Noteholders, the Class E2 Noteholders and the Class E3 Noteholders, or it will not, in the opinion of the Trustee, in its sole discretion, be materially prejudicial to the respective interests of the Class B Noteholders, the Class C Noteholders, the Class D Noteholders, the Class E1 Noteholders, the Class E2 Noteholders and the Class E3 Noteholders. The term "**Extraordinary Resolution**" means a resolution passed at a meeting of the Noteholders or relevant class of Noteholders duly convened and held in accordance with the provisions contained in the Trust Deed by a majority consisting of not less than 75 per cent. of the persons voting thereat upon a show of hands or if a poll is duly demanded by a majority consisting of not less than three-fourths of the votes given on such poll.

(c) An Extraordinary Resolution passed at any meeting of Class B Noteholders (other than as referred to in Condition 12(*b*)) shall not be effective for any purpose unless either:

(i) the Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class A Noteholders; or

(ii) it is sanctioned by an Extraordinary Resolution of the Class A Noteholders.

An Extraordinary Resolution passed at any meeting of the Class B Noteholders will be binding on all Class C Noteholders, Class D Noteholders, Class E1 Noteholders, Class E2 Noteholders and Class E3 Noteholders, irrespective of the effect upon them, except an Extraordinary Resolution to sanction a modification of, or a waiver or authorisation of any breach or proposed breach of any of the provisions of, these Conditions or any of the Relevant Documents which will not take effect unless it has been sanctioned by an Extraordinary Resolution of each of the Class C Noteholders, the Class D Noteholders, the Class E1 Noteholders, the Class E2 Noteholders and the Class E3 Noteholders or it will not, in the opinion of the Trustee, in its sole discretion, be materially prejudicial to the respective interests of the Class C Noteholders, the Class D Noteholders, the Class E1 Noteholders, the Class E2 Noteholders and the Class E3 Noteholders.

(d) An Extraordinary Resolution passed at any meeting of Class C Noteholders (other than as referred to in Conditions 12(*b*) or 12 (*c*)) will not be effective for any purpose unless either:

(i) the Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class A Noteholders and the Class B Noteholders; or

(ii) it is sanctioned by an Extraordinary Resolution of each of the Class A Noteholders and the Class B Noteholders.

An Extraordinary Resolution passed at any meeting of the Class C Noteholders will be binding on all Class D Noteholders, Class E1 Noteholders, Class E2 Noteholders and Class E3 Noteholders, irrespective of the effect upon them, except an Extraordinary Resolution to sanction a modification of, or a waiver or authorisation of any breach or proposed breach of any of the provisions of, these Conditions or any of the Relevant Documents which will not take effect unless it has been sanctioned by an Extraordinary Resolution of each of the Class D Noteholders, the Class E1 Noteholders, the Class E2 Noteholders and the Class E3 Noteholders or it will not, in the opinion of the Trustee, in its sole discretion, be materially prejudicial to the respective interests of the Class D Noteholders, the Class E1 Noteholders, the Class E2 Noteholders and the Class E3 Noteholders.

(e) An Extraordinary Resolution passed at any meeting of the Class D Noteholders (other than as referred to in Conditions 12(*b*), 12(*c*) or 12(*d*)) shall not be effective for any purpose unless either:

(i) the Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders; or

(ii) it is sanctioned by an Extraordinary Resolution of each of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders.

An Extraordinary Resolution passed at any meeting of the Class D Noteholders will be binding on all Class E1 Noteholders, Class E2 Noteholders and Class E3 Noteholders, irrespective of the effect upon them, except an Extraordinary Resolution to sanction a modification of, or a waiver or authorisation of any breach or proposed breach of any of the provisions of, these Conditions or any of the Relevant Documents, which will not take effect unless it has been sanctioned by an Extraordinary Resolution of each of the Class E1 Noteholders, the Class E2 Noteholders and the Class E3 Noteholders, or it will not, in the opinion of the Trustee in its sole discretion, be materially prejudicial to the interests of the Class E1 Noteholders, the Class E2 Noteholders and the Class E3 Noteholders.

(f) An Extraordinary Resolution passed at any meeting of the Class E1 Noteholders (other than as referred to in Conditions 12(*b*), 12(*c*), 12(*d*) or 12(e)) shall not be effective for any purpose unless either:

(i) the Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class A Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders, the Class E2 Noteholders and the Class E3 Noteholders; or

(ii) it is sanctioned by an Extraordinary Resolution of each of the Class A Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders, the Class E2 Noteholders and the Class E3 Noteholders.

An Extraordinary Resolution passed at any meeting of the Class E2 Noteholders (other than as referred to in Conditions 12(*b*), 12(*c*), 12(*d*) or 12(e)) shall not be effective for any purpose unless either:

(i) the Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class A Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders, the Class E1 Noteholders and the Class E3 Noteholders; or

(ii) it is sanctioned by an Extraordinary Resolution of each of the Class A Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders, the Class E1 Noteholders and the Class E3 Noteholders.

An Extraordinary Resolution passed at any meeting of the Class E3 Noteholders (other than as referred to in Conditions 12(*b*), 12(*c*), 12(*d*) or 12(e)) shall not be effective for any purpose unless either:

(i) the Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class A Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders, the Class E1 Noteholders and the Class E2 Noteholders; or

(ii) it is sanctioned by an Extraordinary Resolution of each of the Class A Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders, the Class E1 Noteholders and the Class E2 Noteholders.

(g) Subject as provided below, the quorum at any meeting of the Noteholders of any class for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 50 per cent. in Principal Amount Outstanding of the Notes of such class or, at any adjourned meeting, two or more persons being or representing Noteholders of such class whatever the Principal Amount Outstanding of the Notes of such class so held or represented. For so long as all the Notes (whether being Definitive Notes or represented by a Global Note) of a class are held by one person, such person will constitute two persons for the purposes of forming a quorum for meetings. Furthermore, a proxy for the holder of a Global Note will be

treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders.

The quorum at any meeting of the Noteholders of any class for passing an Extraordinary Resolution in respect of a Basic Terms Modification (as defined in the Trust Deed) will be two or more persons holding or representing not less than 75 per cent. or, at any adjourned such meeting, 33 1/3 per cent. in Principal Amount Outstanding of the Notes of such class for the time being outstanding.

The majority required for an Extraordinary Resolution shall be not less than 75 per cent. of the votes cast on the resolution. An Extraordinary Resolution passed at any meeting of Noteholders of any class shall be binding on all Noteholders of such class whether or not they are present at such meeting.

(h) The Trustee may agree, without the consent of the holders of Notes of any class, (i) to any modification (except a Basic Terms Modification) of, or to any waiver or authorisation of any breach or proposed breach of, the Notes (including these Conditions) or any of the Relevant Documents which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Noteholders or (ii) to any modification of the Notes (including these Conditions) or any of the Relevant Documents which, in the opinion of the Trustee, is to correct a manifest error or is of a formal, minor or technical nature. The Trustee may also, without the consent of the Noteholders of any class, determine that an Event of Default will not, subject to specified conditions, be treated as such, provided always that the Trustee will not exercise such powers of waiver, authorisation or determination in contravention of any express direction given by the Eligible Noteholders or by an Extraordinary Resolution of the Class A Noteholders or, if no Class A Notes are outstanding, the then most senior class of Noteholders (provided that no such direction shall affect any authorisation, waiver or determination previously made or given). Any such modification, waiver, authorisation or determination will be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 15.

(i) Where the Trustee is required, in connection with the exercise of its powers, trusts, authorities, duties and discretions, to have regard to the interests of the Noteholders of any class, it shall have regard to the interests of such Noteholders as a class and, in particular, but without prejudice to the generality of the foregoing, the Trustee shall not have regard to, or be in any way liable for, the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer or the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

(j) The Trustee shall be entitled to assume without further enquiry, for the purposes of exercising any power, trust, authority, duty or discretion under or in relation to these Conditions or any of the Relevant Documents, that such exercise will not be materially prejudicial to the interests of the Noteholders or any class of Noteholders if the Rating Agencies have provided written confirmation that the then current ratings of the Notes or, as the case may be, the Notes of such class will not be qualified, downgraded or withdrawn as a result by such exercise.

13. Indemnification and Exoneration of the Trustee

The Trust Deed and certain of the Relevant Documents contain provisions governing the responsibility (and relief from responsibility) of the Trustee and for its indemnification in certain circumstances, including provisions relieving it from taking enforcement proceedings or enforcing the Issuer Security unless indemnified to its satisfaction. The Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Issuer Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of other parties to the Relevant Documents, clearing organisations or their operators or by intermediaries such as banks, brokers, depositories, warehousemen or other similar persons whether or not on behalf of the Trustee.

The Trust Deed contains provisions pursuant to which the Trustee or any of its related companies is entitled, *inter alia*, (i) to enter into business transactions with the Issuer and/or any other person who is a party to the Relevant Documents or whose obligations are comprised in the Issuer Security and/or any of their subsidiary or associated companies and to act as trustee for the holders of any other securities issued by or relating to the Issuer and/or any other person who is a party to the Relevant Documents or whose obligations are comprised in the Issuer Security and/or any of their subsidiary or associated companies, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties, under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of the Noteholders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

The Trust Deed also relieves the Trustee of liability for not having made or not having caused to be made on its behalf the searches, investigations and enquiries which a prudent chargee would normally have been likely to make in entering into the Deed of Charge and Assignment. The Trustee has no responsibility in relation to the validity, sufficiency and enforceability of the Issuer Security. The Trustee will not be obliged to take any action which might result in its incurring personal liabilities unless indemnified to its satisfaction or to supervise the performance by the Servicer, the Special Servicer, the Cash Manager, the Liquidity Facility Provider, the Swap Provider, the Swap Guarantor or any other person of their obligations under the Relevant Documents and the Trustee will assume, until it has actual knowledge to the contrary, that all such persons are properly performing their duties, notwithstanding that the Issuer Security (or any part thereof) may, as a consequence, be treated as floating rather than fixed security.

14. Replacement of Global Notes and Definitive Notes

If any Global Note or Definitive Note is mutilated, defaced, lost, stolen or destroyed, it may be replaced at the specified office of any Paying Agent or the Registrar upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence and indemnity as the Issuer, the Registrar or the Trustee may reasonably require. Mutilated or defaced Global Notes or Definitive Notes must be surrendered before replacements will be issued.

15. Notice to Noteholders

(*a*) All notices, other than notices given in accordance with the following paragraphs of this Condition 15, to Noteholders shall be deemed to have been validly given if published in a leading daily newspaper printed in the English language with general circulation in Dublin (which is expected to be *The Irish Times*) or, if that is not practicable, in such English language newspaper or newspapers as the Trustee approves having a general circulation in Ireland and the rest of Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which publication is required. For so long as the Notes of any class are represented by Global Notes, notices to Noteholders will be validly given if published as described above or, for so long as the Notes are listed on the Irish Stock Exchange and the rules of the Irish Stock Exchange so allow, at the option of the Issuer, if delivered to the Depository for communication by it to Euroclear and/or Clearstream, Luxembourg and/or to DTC for communication by them to their participants and for communication by such participants to entitled accountholders. Any notice delivered to Euroclear and/or Clearstream, Luxembourg and/or DTC as aforesaid shall be deemed to have been given on the day on which it is delivered to the Depositary.

(*b*) Any notice specifying an Interest Payment Date, a Rate of Interest, an Interest Amount or a Principal Amount Outstanding shall be deemed to have been duly given if the information contained in such notice appears on the relevant page of the Reuters Screen or such other medium for the electronic display of data as may be previously approved in writing by the Trustee and notified to the Noteholders pursuant to Condition 15*(a)*. Any such notice shall be deemed to have been given on the first date on which such information appeared on the relevant screen. If it is impossible or impractical to give notice in accordance with this paragraph then notice of the matters referred to in this paragraph shall be given in accordance with Condition 15*(a)*.

(*c*) A copy of each notice given in accordance with this Condition 15 shall be provided to (for so long as the Notes of any class are listed on the Irish Stock Exchange) the Company Announcements Office of the Irish Stock Exchange and at all times to Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("**S&P**") and Moody's Investors Service, Inc. ("**Moody's**" and, together with S&P, the "**Rating Agencies**", which reference in these Conditions shall include any additional or replacement rating agency appointed by the Issuer, with the prior written approval of the Trustee, to provide a credit rating in respect of the Notes or any class thereof). For the avoidance of doubt, and unless the context otherwise requires, all references to "rating" and "ratings" in these Conditions shall be deemed to be references to the ratings assigned by the Rating Agencies.

(*d*) The Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders or to a class or category of them if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the stock exchange on which the Notes are then listed and provided that notice of such other method is given to the Noteholders in such manner as the Trustee shall require.

16. Subordination

(*a*) *Interest*

Subject to Condition 10 and for so long as any Class A Note is outstanding, in the event that, on any Interest Payment Date, the Available Interest Receipts, after deducting the amounts referred to in items (a) to (m) of Clause 6.2.2 of the Deed of Charge and Assignment (in the case of the Class B Notes) and items (a) to (n) of Clause 6.2.2 of the Deed of Charge and Assignment (in the case of the Class C Notes), respectively (each such amount with respect to the relevant class of Notes, an "**Interest Residual Amount**"), are not sufficient to satisfy in full the Interest Amount due and, subject to this Condition 16*(a)*, payable on the Class B Notes or the Class C Notes, respectively, on such Interest Payment Date, there shall instead be payable on such Interest Payment Date, by way of interest on each Class B Note and/or Class C Note, as the case may be, only a *pro rata* share of the Interest Residual Amount attributable to the relevant class or classes of Notes on such Interest Payment Date, calculated by dividing the original principal amount of each such Class B Notes, or Class C Notes, as the case may be, by the aggregate principal amount of the Class B Notes or Class C Notes as at the Closing Date, as the case may be, and multiplying the result by the relevant Interest Residual Amount, and then rounding down to the nearest penny.

In any such event, the Issuer shall create a provision in its accounts for the shortfall equal to the amount by which the aggregate amount of interest paid on the Class B Notes or Class C Notes, as the case may be, on any Interest Payment Date in accordance with this Condition 16*(a)* falls short of the Interest Amount due on the Class B Notes or the Class C Notes, as the case may be, on that date pursuant to Condition 5. Such shortfall shall itself accrue interest at the same rate as that payable in respect of the Class B Notes or, the Class C Notes, as applicable, and shall be payable together with such accrued interest on any succeeding Interest Payment Date and any such unpaid interest and accrued interest thereon shall be paid, but only if and to the extent that, on such Interest Payment Date, the Available Interest Receipts, after deducting the amounts referred to in items (a) to (m) of Clause 6.2.2 of the Deed of Charge and Assignment (in the case of the Class B Notes) and items (a) to (n) of Clause 6.2.2 of the Deed of Charge and Assignment (in the case of the Class C Notes), respectively, are, in any such case, sufficient to make such payment.

In the event that no Class A Note is outstanding, the provisions in this Condition 16(*a*) shall apply, *mutatis mutandis*, save that reference to the most senior class of Notes outstanding at that time and all classes of Notes that were, prior to their redemption, senior to that class of Notes shall be deleted.

(*b*) *Principal*

Subject to Condition 6(*b*), Condition 6(*c*), Condition 6(*d*) and Condition 6(*e*), Condition 10 and Condition 11, while any Class A Notes are outstanding, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders, the Class E1 Noteholders, the Class E2 Noteholders and the Class E3 Noteholders shall not be entitled to any repayment of principal in respect of the Class B Notes, the Class C Notes, the Class D Notes or the Class E Notes, respectively. Subject to

Condition 6*(b)*, while any Class B Notes are outstanding, the Class C Noteholders, the Class D Noteholders, the Class E1 Noteholders, the Class E2 Noteholders and the Class E3 Noteholders shall not be entitled to any repayment of principal in respect of the Class C Notes, the Class D Notes, the Class E1 Notes, the Class E2 Notes or the Class E3 Notes, respectively. Subject to Condition 6*(b)*, while any Class C Notes are outstanding, the Class D Noteholders, the Class E1 Noteholders, the Class E2 Noteholders and the Class E3 Noteholders shall not be entitled to any repayment of principal in respect of the Class D Notes or the Class E Notes, respectively. Subject to Condition 6*(b)*, while any Class D Notes are outstanding, the Class E1 Noteholders, the Class E2 Noteholders and the Class E3 Noteholders shall not be entitled to any repayment of principal in respect of the Class E Notes.

(*c*) *General*

In the event that the Issuer Security is enforced and the proceeds of such enforcement are insufficient, after payment of all other claims ranking higher in priority thereto or *pari passu* therewith under the Deed of Charge and Assignment, to pay in full all principal and interest and other amounts whatsoever due in respect of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes, then the holders of such Notes shall have no further claim against the Issuer in respect of any such unpaid amounts, as described in Condition 11. In the event that a shortfall in the amount available to pay principal of the Notes of any class exists on the Final Interest Payment Date, after payment of all other claims ranking higher in priority to or *pari passu* with the Notes, or the Notes of such class, and the Issuer Security has not become enforceable as at such Final Interest Payment Date, the liability of the Issuer to make any payment in respect of such shortfall shall cease and all claims in respect of such shortfall shall be extinguished.

(*d*) *Notification*

As soon as practicable after becoming aware that any part of a payment of interest on the Class B Notes or the Class C Notes, as the case may be, will be deferred or that a payment previously deferred will be made in accordance with this Condition 16, the Issuer will give notice thereof to the Class B Noteholders or the Class C Noteholders, as the case may be, in accordance with Condition 15 and, for so long as the Class B Notes and the Class C Notes are listed on the Irish Stock Exchange, to the Irish Stock Exchange.

17. Privity of Contract

No person shall have any right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term or condition of the Notes, but this does not affect any right or remedy of a third party which exists or is available apart from the Contracts (Rights of Third Parties) Act 1999.

18. Governing Law

The Trust Deed, the Deed of Charge and Assignment, the Agency Agreement, the other Relevant Documents and the Notes are governed by, and shall be construed in accordance with, English law other than the Depository Agreement and the Exchange Rate Agency Agreement, which are governed by and shall be construed in accordance with the laws of the State of New York.

19. U.S. Tax Treatment and Provision of Information

(*a*) It is the intention of the Issuer, each Noteholder and beneficial owner ("**Owner**") of an interest in the Notes that the Notes will be indebtedness of the Issuer for United States federal, state and local income and franchise tax purposes and for the purposes of any other United States federal, state and local tax imposed on or measured by income (the "**Intended U.S. Tax Treatment**"). To the extent applicable and absent a final determination to the contrary, the Issuer and each Noteholder and Owner, by acceptance of a Note, or a beneficial interest therein, agree to treat the Notes, for purposes of United States federal, state and local income or franchise taxes and any other United States federal, state and local taxes imposed on or measured by income, consistent with the Intended U.S. Tax Treatment and to report the Notes on all applicable tax returns in a manner consistent with such treatment.

(b) For so long as any Notes remain outstanding and are "restricted securities" (as defined in Rule 144(a)(3) under the Securities Act), the Issuer shall, during any period in which it is neither subject to Section 13 or Section 15(d) of the Exchange Act nor exempt from reporting pursuant to rule 12g3-2(b) thereunder, furnish, at its expense, to any holder of, or Owner of an interest in, such Notes in connection with any resale thereof and to any prospective purchaser designated by such holder or Owner, in each case upon request, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act.

USE OF PROCEEDS

The net proceeds from the issue of the Notes will be approximately £531,189,000 and this sum will be applied by the Issuer towards payment to MSDW Bank of the purchase consideration in respect of the Loan and interest accrued thereon, and MSDW Bank's beneficial interests in the Security Trust comprising the Related Security to be purchased on the Closing Date pursuant to the Loan Sale Agreement. See "The Loan and the Related Security". Fees, commissions and expenses incurred by the Issuer in connection with the issue of the Notes will be met by Morgan Stanley & Co. International Limited.

The following, which applies only to persons who are the beneficial owners of the Notes, is a summary of the Issuer's understanding of current United Kingdom tax law and Inland Revenue practice as at the date of this Offering Circular relating to certain aspects of the United Kingdom taxation of the Notes. It is not a comprehensive analysis of the tax consequences arising in respect of Notes. Some aspects do not apply to certain classes of taxpayer (such as dealers). Prospective Noteholders who are in any doubt about their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should seek their own professional advice.

Interest on the Notes

1. Withholding tax on payments of interest on the Notes

For so long as the Notes are and continue to be listed on a "recognised stock exchange" within the meaning of section 841 of the Income and Corporation Taxes Act 1988 (the Irish Stock Exchange is such a "recognised stock exchange" for this purpose) interest payments on each of the Notes will be treated as a "payment of interest on a quoted Eurobond" within the meaning of section 349 of the Income and Corporation Taxes Act 1988. In these circumstances, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax irrespective of whether the Notes are in global form or in definitive form.

If the Notes cease to be listed on a "recognised stock exchange", an amount must be withheld on account of United Kingdom income tax at the lower rate (currently 20 per cent.), subject to any direction to the contrary from the Inland Revenue in respect of such relief as may be available pursuant to the provisions of an applicable double taxation treaty or in circumstances where the exemption for payments between certain companies contained in section 349A of the Income and Corporation Taxes Act 1988 applies.

2. Further United Kingdom income tax issues for non-United Kingdom resident Noteholders

Interest on the Notes constitutes United Kingdom source income and, as such, may be subject to income tax by direct assessment even where paid without withholding, subject to any direction to the contrary from the Inland Revenue in respect of such relief as may be available pursuant to the provisions of an applicable double taxation treaty.

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Noteholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a branch or agency in connection with which the interest is received or to which the Notes are attributable. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers).

Where interest has been paid under deduction of United Kingdom income tax, Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision under an applicable double taxation treaty.

United Kingdom corporation tax payers

In general, Noteholders which are within the charge to United Kingdom corporation tax in respect of Notes will be charged to tax and obtain relief as income on all returns on and fluctuations in value of the Notes broadly in accordance with their statutory accounting treatment.

Other United Kingdom tax payers

1. Taxation of chargeable gains

It is expected that the Notes will not be regarded by the Inland Revenue as constituting "qualifying corporate bonds" within the meaning of Section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal of the Notes may give rise to a chargeable gain or an allowable loss for the purposes of the United Kingdom taxation of chargeable gains. There are provisions to prevent any particular gain (or loss) from being charged (or relieved) at the same time under these provisions and also under the provisions of the "accrued income scheme" described in 2 below.

2. Accrued income scheme

On a disposal of Notes by a Noteholder, any interest which has accrued since the last Interest Payment Date may be chargeable to tax as income under the rules of the "accrued income scheme" if that Noteholder is resident or ordinarily resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Notes are attributable.

Stamp Duty and SDRT

No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of the Global Notes or of a Definitive Note.

Proposed European Union Directive on the Taxation of Savings Income

On 13th December, 2001, the EU Ecofin Council reached a political agreement on the text of a proposed EU Savings Directive. Under the proposed EU Savings Directive, subject to a number of important conditions being met, EU Member States are required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by an entity/person within its jurisdiction to an individual resident in another Member State, subject to the right of certain Member States to opt instead for a withholding system during a specified transitional period. The text of the proposed EU Savings Directive is not yet final, and may be subject to further amendment and/or clarification.

UNITED STATES TAXATION

The following is a summary of certain United States federal income tax considerations for original purchasers of the Notes that use the accrual method of accounting for United States federal income tax purposes and that hold the Notes as capital assets. This summary does not discuss all aspects of United States federal income taxation that might be important to particular investors in light of their individual investment circumstances, such as investors subject to special tax rules (e.g., financial institutions, insurance companies, tax-exempt institutions, non-United States persons engaged in a trade or business within the United States, or persons the functional currency of which is not the United States dollar). In particular, investors not using the accrual method of accounting for United States federal income tax purposes may be subject to rules not described herein. In addition, this summary does not discuss any non-United States, state, or local tax considerations. This summary is based on the Internal Revenue Code of 1986, as amended (the "**Code**"), and administrative and judicial authorities, all as in effect on the date hereof and all of which are subject to change, possibly on a retroactive basis. Prospective investors should consult their tax advisors regarding the federal, state, local, and non-United States income and other tax considerations of owning the Notes. No rulings will be sought from the United States Internal Revenue Service (the "**IRS**") with respect to the United States federal income tax consequences described below.

For purposes of this summary, a "**United States holder**" means a beneficial owner of a Note that is, for United States federal income tax purposes, (i) a citizen or resident of the United States, (ii) a corporation or partnership created or organised in or under the laws of the United States or of any political subdivision thereof, or (iii) an estate or trust described in section 7701(a)(30) (D) or (E) of the Code (taking into account effective dates, transition rules and elections in connection therewith). A "**non-United States holder**" means a beneficial owner of a Note that is not a United States holder.

Characterisation of the Notes

The Issuer intends to take the position that the Notes are debt for United States federal income tax purposes. However, the Issuer will not obtain any rulings or opinions of counsel on the characterisation of the Notes and there can be no assurance that the IRS or the courts will agree with the position of the Issuer. In particular, because of the subordination and other features of the Class E Notes (and to a lesser extent, a more senior class of Notes), there is a significant possibility that the IRS could contend that they should be treated as equity. See "Possible Alternative Characterisation of the Notes" below. Absent a final determination to the contrary, the Issuer and each Noteholder and Owner, by acceptance of a Note or a beneficial interest therein, agree to treat the Notes as debt for purposes of United States federal, state and local income or franchise taxes and any other United States, federal, state and local taxes imposed on or measured by income and to report the Notes on all applicable tax returns in a manner consistent with such treatment. Unless otherwise indicated, the discussion in the following paragraphs assumes this characterisation of the Notes is correct for United States federal income tax purposes.

Interest Income of United States Holders

In General

The Notes will not be issued with original issue discount ("**OID**") for United States federal income tax purposes (as discussed below), interest on such Notes will be taxable to a United States holder as ordinary income at the time it is accrued prior to the receipt of cash attributable to that income.

A Note will be considered issued with OID if its "stated redemption price at maturity" exceeds its "issue price" (i.e., the price at which a substantial portion of the respective class of Notes is first sold (not including sales to the Managers)) by an amount equal to or greater than 0.25 per cent. of such Note's stated redemption price at maturity multiplied by such Note's weighted average maturity ("**WAM**"). In general, a Note's "stated redemption price at maturity" is the sum of all payments to be made on the Note other than payments of "qualified stated interest." The WAM of a Note is computed based on the number of full years each distribution of principal (or other amount included in the stated redemption price at maturity) is scheduled to be outstanding. The schedule of such likely distributions should be determined in accordance with the assumed rate of prepayment (the "**Prepayment Assumption**") used in pricing the Notes. The pricing of the Notes is calculated on the basis of the assumption that there will be no prepayments.

In general, interest on the Notes will constitute "qualified stated interest" only if such interest is "unconditionally payable" at least annually at a single fixed or qualifying variable rate (or permitted

combination of the foregoing) within the meaning of applicable United States Treasury Regulations. Interest will be considered "unconditionally payable" for these purposes if legal remedies exist to compel timely payment of such interest or if the Notes contain terms and conditions that make the likelihood of late payment or non-payment "remote." Although the Conditions of the Notes provide that a holder cannot compel the timely payment of any interest accrued in respect of the Notes (other than the Class A Notes) and that interest due on the Class D Notes and/or the Class E Notes is limited to specified amounts, Treasury Regulations provide that in determining whether interest is unconditionally payable the possibility of non-payment due to default, insolvency or similar circumstances is ignored. Accordingly, the Issuer intends to take the position that interest payments on the Notes constitute "qualified stated interest." It is possible that the IRS could take a contrary position.

Sourcing

Interest on a Note will constitute foreign source income for United States federal income tax purposes. Subject to certain limitations, United Kingdom withholding tax, if any, imposed on payments on the Notes will generally be treated as foreign tax eligible for credit against a United States holder's United States federal income tax (unless such tax is refundable under the relevant treaty). For foreign tax credit purposes, interest will generally be treated as foreign source passive income (or, in the case of certain United States holders, financial services income).

Foreign Currency Considerations

A United States holder that receives a payment of interest in sterling with respect to the Notes ("**Pound Sterling Notes**") will be required to include in income the United States dollar value of the amount of interest income that has accrued and is otherwise required to be taken into account with respect to the Pound Sterling Notes during an accrual period. The United States dollar value of such accrued income will be determined by translating such income at the average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the relevant taxable year. In addition, such United States holder will recognise additional exchange gain or loss, treated as ordinary income or loss, with respect to accrued interest income on the date such income is actually received or the applicable Pound Sterling Note is disposed of. The amount of ordinary income or loss recognised will equal the difference between (i) the United States dollar value of the sterling payment received (determined at the spot rate on the date such payment is received or the applicable Pound Sterling Note is disposed of) in respect of such accrual period and (ii) the United States dollar value of interest income that has accrued during such accrual period (determined at the average rate as described above). Alternatively. a United States holder may elect to translate interest income into United States dollars at the spot rate on the last day of the interest accrual period (or, in the case of a partial accrual period, the spot rate on the last day of the taxable year) or, if the last day of the interest accrual period is within five business days of the date of receipt, the spot rate on the date of receipt. A United States holder that makes such an election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the IRS.

Disposition of Notes by United States Holders

In General

Upon the sale, exchange or retirement of a Note, a United States holder will recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement and the United States holder's adjusted tax basis in the Note. For these purposes, the amount realised does not include any amount attributable to accrued interest on the Note (which will be treated as interest as described under "Interest Income of United States Holders" above). A United States holder's adjusted tax basis in a Note generally will equal the cost of the Note to the United States holder, decreased by any payments (other than payments of qualified stated interest) received on the Note.

In general, except as described below, gain or loss realised on the sale, exchange or redemption of a Note will be capital gain or loss.

Foreign Currency Considerations

A United States holder's tax basis in a Pound Sterling Note, and the amount of any subsequent adjustment to such United States holder's tax basis, will be the United States dollar value of the sterling

amount paid for such Pound Sterling Note, or of the sterling amount of the adjustment, determined at the spot rate on the date of such purchase or adjustment. A United States holder that purchases a Pound Sterling Note with previously owned sterling will recognise ordinary income or loss in an amount equal to the difference, if any, between such United States holder's tax basis in the sterling and the United States dollar value of the sterling on the date of purchase.

Gain or loss realised upon the receipt of a principal payment on, or the sale, exchange or retirement of, a Pound Sterling Note that is attributable to fluctuations in currency exchange rates will be treated as ordinary income or loss which will not be treated as interest income or expense. Gain or loss attributable to fluctuations in exchange rates will equal the difference between (i) the United States dollar value of the applicable sterling principal amount of such Pound Sterling Note, and any payment with respect to accrued interest, translated at the spot rate on the date such payment is received or such Pound Sterling Note is disposed of, and (ii) the United States dollar value of the applicable sterling principal amount of such Pound Sterling Note, on the date such holder acquired such Pound Sterling Note, and the United States dollar amounts previously included in income in respect of the accrued interest received at the spot rate on that day. Such foreign currency gain or loss will be recognised only to the extent of the total gain or loss realised by a United States holder on the sale, exchange or retirement of the Pound Sterling Note. The source of such sterling gain or loss will be determined by reference to the residence of the United States holder or the qualified business unit of the United States holder on whose books the Pound Sterling Note is properly reflected.

A United States holder will have a tax basis in any sterling received on the receipt of principal on, or the sale, exchange or retirement of, a Pound Sterling Note equal to the United States dollar value of such sterling, determined at the time of such receipt, sale, exchange or retirement. Any gain or loss realised by a United States holder on a subsequent sale or other disposition of sterling (including its exchange for United States dollars) will generally be ordinary income or loss.

Realised Losses

It is likely that the Notes will be treated as a "security" as defined in section 165(g)(2) of the Code. Accordingly, any loss with respect to the Notes as a result of one or more realised losses on the Loan will be treated as a loss from the sale or exchange of a capital asset at that time. In addition, no loss will be permitted to be recognised until the Notes are wholly worthless.

Each United States holder will be required to accrue interest with respect to a Note without giving effect to any reductions attributable to defaults on the assumption that no defaults or delinquencies occur with respect to the Loan until it can be established that those payment reductions are not receivable. Accordingly, particularly with respect to the more subordinated Notes, the amount of taxable income reported during the early years of the term of the Notes may exceed the economic income actually realised by the holder during that period. Although the United States holder of a Note would eventually recognise a loss or reduction in income attributable to the previously accrued income that is ultimately not received as a result of such defaults, the law is unclear with respect to the timing and character of such loss or reduction in income.

Possible Alternative Characterisations of the Notes

In General

Although, as described above, the Issuer intends to take the position that the Notes will be treated as debt for United States federal income tax purposes, such position is not binding on the IRS or the courts and therefore no assurance can be given that such characterisation will prevail. In particular, because of the subordination and other features of the Class E Notes (and to a lesser extent, a more senior class of Notes), there is a significant possibility that the IRS could contend that they should be treated as an equity interest in the Issuer. Alternatively, the IRS could contend that the Pound Sterling Notes should be treated as representing pro-rata ownership interests in the Loan and the Interest Rate Swap Transaction and that the Class E-3 Notes should be treated as representing pro rata ownership interests in the Loan and the Swap Transactions.

If the Pound Sterling Notes were treated as representing ownership of a direct interest in the Loan and the Interest Rate Swap Transaction, a United States holder thereof would be treated as owning an interest in a "stripped bond" within the meaning of Section 1286 of the Code and an interest in a "notional

principal contract" under Treasury Regulation Section 1.446-3. Because the Pound Sterling Notes would represent a beneficial interest in two assets, a United States holder would be required to allocate its purchase price between the two assets and, in general, to report the income from those two assets separately. Such treatment should not materially affect the timing or character of the aggregate income reported by a United States holder, but payments deemed received with respect to the Interest Rate Swap Transaction would have a United States source rather than a foreign source, which could reduce the foreign tax credit limitations of a United States holder. Under this possible alternative treatment, a United States holder might be able to treat the Loan and the Interest Rate Swap Transaction as an integrated synthetic variable rate debt instrument by making an appropriate election under Treasury Regulation Section 1.1275-6, as to which United States holders may wish to consult their own tax advisors. If the Class E-3 Notes were treated as representing a pro-rata ownership interest in the Loan and the Swap Transactions, a United States holder thereof would be treated as owning an interest in a "stripped bond" within the meaning of Section 1286 of the Code and an interest in two notional principal contracts under Treasury Regulation Section 1.446-3. Because the Class E-3 Notes would represent a beneficial interest in three assets, a United States holder would be required to allocate its purchase price between the three assets and, in general, to report the income from those three assets separately. Such treatment should not materially affect the timing or character of the aggregate income reported by a United States holder, but payments deemed received with respect to the Swap Transactions would have a United States source rather than a foreign source, which could reduce the foreign tax credit limitations of a United States holder. Under this possible alternative treatment, a United States holder might be able to treat the Loan and the Swap Transaction as a synthetic debt instrument under Treasury Regulation Section 1.988-5, as to which the United States holders may wish to consult their own tax advisors.

If the Notes were instead treated as equity interests in the Issuer (any such Note, a "**Recharacterised Note**"), a United States holder of a Recharacterised Note would be required to include in income (with no dividends received deduction available to corporate United States holders) payments of "interest" as dividends to the extent of current or accumulated earnings and profits of the Issuer, as determined for United States federal income tax purposes. "Dividend" payments on the Recharacterised Note, in excess of current or accumulated earnings and profits of the Issuer, generally would reduce the United States holder's tax basis in the Note and, to the extent the aggregate amount of dividends exceeded the United States holder's basis, such excess would generally constitute capital gain. "Dividend" income derived by a United States holder with respect to a Recharacterised Note generally would constitute foreign source income that would be treated as passive income for foreign tax credit purposes. Each United States holder should consult its own tax advisors as to how it would be required to treat this income for purposes of its particular United States foreign tax credit calculation.

Classification of Issuer as Passive Foreign Investment Company

The Issuer will likely be treated as a passive foreign investment company ("**PFIC**") for United States federal income tax purposes. As a result, a United States holder of any Recharacterised Notes might be subject to potentially adverse United States federal income tax consequences as the holder of an equity interest in the Issuer. A United States holder of an equity interest in a PFIC that receives an "excess distribution" must allocate the excess distribution rateably to each day in the holder's holding period for the stock and will be subject to a "deferred tax amount" with respect to each prior year in the holding period. The total excess distribution for any taxable year is the excess of (a) the total distributions for the taxable year over (b) 125 per cent. of the average amount received in respect of such equity interest by the United States holder during the three preceding taxable years. In addition, any gain recognised on the sale, retirement or other taxable disposition of such Notes would be recharacterised as ordinary income and would further be treated as having been recognised *pro rata* over such United States holder's entire holding period. The amount of gain treated as having been recognised in prior taxable years would be subject to tax at the highest tax rate in effect for such years, with interest thereon calculated by reference to the interest rate generally applicable to underpayments with respect to tax liabilities from such prior taxable years.

Although, United States shareholders of a PFIC can mitigate any adverse tax consequences of the PFIC rules by filing an election to treat the PFIC as a qualified electing fund ("**QEF**") if the PFIC complies with certain reporting requirements, the Issuer does not intend to comply with such reporting requirements necessary to permit United States holders to elect to treat the Issuer as a QEF.

A United States holder that holds "marketable stock" in a PFIC may also avoid certain unfavourable consequences of the PFIC rules by electing to mark the Recharacterised Notes to market as of the close of

each taxable year. A United States holder that made the mark-to-market election would be required to include in income each year as ordinary income an amount equal to the excess, if any, of the fair market value of the Recharacterised Notes at the close of the year over the United States holder's adjusted tax basis in the Recharacterised Notes. For this purpose, a United States holder's adjusted tax basis generally would be the United States holder's cost for the Recharacterised Notes, increased by the amount previously included in the United States holder's income pursuant to this mark-to-market election and decreased by any amount previously allowed to the United States holder as a deduction pursuant to such election (as described below). If, at the close of the year, the United States holder's adjusted tax basis exceeded the fair market value of the Recharacterised Note, then the United States holder would be allowed to deduct any such excess from ordinary income, but only to the extent of net mark-to-market gains on such Recharacterised Notes previously included in income. Any gain from the actual sale of the Recharacterised Notes would be treated as ordinary income, and to the extent of net mark-to-market gains previously included in income any loss would be treated as ordinary loss. Recharacterised Notes would be considered "marketable stock" in a PFIC for these purposes only if they were regularly traded on an exchange which the IRS determines has rules adequate for these purposes. Application has been made to the Official List of the Irish Stock Exchange for listing of the Notes. However, there can be no assurance that the Notes will be listed on the Official List of the Irish Stock Exchange, that they will be "regularly traded" or that such exchange would be considered a qualified exchange for these purposes.

Depending on the percentage of deemed equity interests of the Issuer held by United States holders, it is possible that the Issuer might be treated as a "controlled foreign corporation" or "foreign personal holding company" for United States federal income tax purposes. In such event, United States holders that own a certain percentage of Recharacterised Notes might be required to include in income their *pro rata* shares of the earnings and profits of the Issuer, and generally would not be subject to the rules described above relating to PFICs. Prospective investors should consult with their tax advisors concerning the potential effect of the controlled foreign corporation and foreign personal holding company provisions.

Information Reporting Requirements

The Treasury Department has issued regulations with regard to reporting requirements relating to the transfer of property (including certain transfers of cash) to a foreign corporation by United States persons or entities. In general, these rules require United States holders who acquire Notes that are characterised (in whole or in part) as equity of the Issuer to file a Form 926 with the IRS and to supply certain additional information to the IRS. In the event a United States holder fails to file any such required form, the United States holder may be subject to a penalty equal to 10 per cent. of the fair market value of the Notes as of the date of purchase (up to a maximum penalty of $100,000). In addition, if (i) U.S. holders acquire Notes that are recharacterised as equity of the Issuer and (ii) the Issuer is treated as a "controlled foreign corporation" or a "foreign personal holding company" for United States federal income tax purposes, certain of those United States holders will generally be subject to additional information reporting requirements (e.g., certain United States holders will be required to file a Form 5471). Prospective investors should consult with their tax advisors concerning the additional information reporting requirements with respect to holding equity interest in foreign corporations.

Non-United States Holders

Interest paid (or accrued) to a non-United States holder will generally not be subject to U.S. withholding unless such interest is effectively connected to that non-United States holder's conduct of trade or business within the United States.

If the interest, gain or income on a Note held by a Non-United States holder is effectively connected with the conduct of a trade or business in the United States, the holder may be subject to United States federal income tax on the interest, gain or income at regular income tax rates.

Any capital gain realised on the sale, exchange or retirement of a Note by a non-United States holder will be exempt from United States federal income and withholding tax provided that (i) such gain is not attributable to an office or other fixed place of business the non-United States holder maintains in the United States and (ii) in the case of a non-United States holder who is a natural person, the non-United States holder is not present in the United States for 183 days or more in the taxable year and certain other conditions are met.

Backup Withholding and Information Reporting

Information reporting to the IRS generally will be required with respect to payments of principal or interest or to distributions on the Notes and to proceeds of the sale of the Notes that, in each case, are paid by a United States payor or intermediary to United States holders other than corporations and other exempt recipients. A 30 per cent. (which rate is scheduled to be reduced periodically through 2006) "backup" withholding tax will apply to those payments if such United States holder fails to provide certain identifying information (including such holder's taxpayer identification number) to such payor, intermediary or other withholding agent or such holder is notified by the IRS that it is subject to backup withholding. Non-United States holders may be required to comply with applicable certification procedures to establish that they are not United States holders in order to avoid the application of such information reporting requirements and backup withholding. Backup withholding tax is not an additional tax and generally may be credited against a holder's United States federal income tax liability provided that such holder provides the necessary information to the IRS.

U.S. ERISA CONSIDERATIONS

The United States Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), imposes requirements on employee benefit plans (as defined in Section 3(3) of ERISA) subject to ERISA and on entities, such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (all of which are hereinafter referred to as "**ERISA Plans**"), and on persons who are fiduciaries (as defined in Section 3(21) of ERISA) with respect to such ERISA Plans. The Code also imposes certain requirements on ERISA Plans and on other retirement plans and arrangements, including individual retirement accounts and Keogh plans (such ERISA Plans and other plans and arrangements are hereinafter referred to as "**Plans**"). Certain employee benefit plans, including governmental plans (as defined in Section 3(32) of ERISA) and certain church plans (as defined in Section 3(33) of ERISA), generally are not subject to the requirements of ERISA. Accordingly, assets of such plans may be invested in the Notes without regard to the ERISA prohibited transaction considerations described below, subject to the provisions of other applicable federal and state law.

Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirement of investment prudence and diversification, requirements respecting delegation of investment authority and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan. Each ERISA Plan fiduciary, before deciding to invest in the Notes, must be satisfied that investment in the Notes is a prudent investment for the ERISA Plan, that the investments of the ERISA Plan, including the investment in the Notes, are diversified so as to minimise the risk of large losses and that an investment in the Notes complies with the ERISA Plan and related trust documents.

Section 406 of ERISA and/or Section 4975 of the Code prohibits Plans from engaging in certain transactions with persons that are "parties in interest" under ERISA or "disqualified persons" under the Code with respect to such Plans (collectively, "**Parties in Interest**"). The types of transactions between Plans and Parties in Interest that are prohibited include: (a) sales, exchanges or leases of property, (b) loans or other extensions of credit and (c) the furnishing of goods and services. Certain Parties in Interest that participate in a non-exempt prohibited transaction may be subject to an excise tax under ERISA or the Code. In addition, the persons involved in the prohibited transaction may have to rescind the transaction and pay an amount to the Plan for any losses realised by the Plan or profits realised by such persons and certain other liabilities could result that have a significant adverse effect on such persons.

Certain transactions involving the purchase, holding or transfer of the Notes might be deemed to constitute prohibited transactions under ERISA and Section 4975 of the Code if assets of the Issuer were deemed to be assets of a Plan. Under regulations issued by the United States Department of Labor, set forth in 29 C.F.R. § 2510.3-101 (the "**Plan Asset Regulations**"), the assets of the Issuer would be treated as plan assets of a Plan for the purposes of ERISA and Section 4975 of the Code only if the Plan acquires an equity interest in the Issuer and none of the exceptions contained in the Plan Asset Regulations is applicable. An equity interest is defined under the Plan Asset Regulations as an interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features. Although there is no authority directly on point, it is anticipated that the Class A Notes, Class B Notes, Class C Notes and Class D Notes should be treated as indebtedness under local law without any substantial equity features for purposes of the Plan Asset Regulations. By contrast, the Class E Notes may be treated as "equity interests" for purposes of the Plan Asset Regulations. Accordingly, the Class E Notes may not be purchased by or transferred to a Plan that is subject to the provisions of ERISA or Section 4975 of the Code.

However, without regard to whether the Class A Notes, Class B Notes, Class C Notes and Class D Notes are treated as an equity interest for such purposes, the acquisition or holding of the Class A Notes, Class B Notes, Class C Notes or Class D Notes by or on behalf of a Plan could be considered to give rise to a prohibited transaction under ERISA or Section 4975 of the Code if the Issuer, MSDW Bank, the Managers, the Trustee or any of their respective affiliates is or becomes a Party in Interest with respect to such Plan. However, certain exemptions from the prohibited transaction rules could be applicable depending on the type and circumstances of the fiduciary making the decision to acquire the Class A Notes, Class B Notes, Class C Notes or Class D Notes. Included among these exemptions are Prohibited Transaction Class Exemption ("**PTCE**") 84-14, which exempts certain transactions effected on behalf of a Plan by a "qualified professional asset manager", PTCE 96-23, which exempts certain transactions effected on behalf of a Plan by an "in-house asset manager", PTCE 90-1, which exempts certain transactions between insurance company separate accounts and Parties in Interest, PTCE 91-38, which exempts certain

transactions between bank collective investment funds and Parties in Interest and PTCE 95-60, which exempts certain transactions between insurance company general accounts and Parties in Interest (collectively, the "**Exemptions**"). Even if the conditions specified in one or more of the Exemptions are met, the scope of the relief provided by the Exemptions might or might not cover all acts which might be construed as prohibited transactions.

Nevertheless, even if an Exemption applies, a Plan generally should not purchase the Class A Notes, Class B Notes, Class C Notes or Class D Notes if the Issuer, MSDW Bank, the Managers, the Trustee, the Servicer, the Special Servicer, the Paying Agents, the Cash Manager, the Operating Bank, the Agent Bank, the Exchange Agent, the Security Trustee, the Share Trustee, the Registrar, the Depository, the Swap Provider, the Swap Guarantor, the Liquidity Facility Provider, the Corporate Services Provider or any of their respective affiliates either (a) has investment discretion with respect to the investment of assets of such Plan; (b) has authority or responsibility to give or regularly gives investment advice with respect to assets of such Plan, for a fee, and pursuant to an agreement or understanding that such advice will serve as a primary basis for investment decisions with respect to such assets and that such advice will be based on the particular investment needs of such Plan; or (c) is an employer maintaining or contributing to such Plan. A party that is described in clause (a) or (b) of the preceding sentence is a fiduciary under ERISA with respect to the Plan and any such purchase might result in a "prohibited transaction" under ERISA or the Code.

An insurance company proposing to invest assets of its general account in the Notes should consider the extent to which such investment would be subject to ERISA and Section 4975 of the Code. On 5th January, 2000, the DOL issued a final regulation which provides guidance for determining, in cases where insurance policies supported by an insurer's general account are issued to or for the benefit of a Plan on or before 31st December, 1998, which general account assets are plan assets. That regulation generally provides that, if certain specified requirements are satisfied with respect to insurance policies issued on or before 31st December, 1998, the assets of an insurance company general account will not be plan assets. Nevertheless, certain assets of an insurance company general account may be considered to be plan assets. Therefore, if an insurance company acquires Notes using assets of its general account, certain of the insurance company's assets may be plan assets and the provisions of ERISA and Section 4975 of the Code could apply to such acquisition and the subsequent holding of the Notes. An insurance company using assets of its general account may not acquire Class E Notes if any of such general account assets are considered to be plan assets.

The sale of any Class A Notes, Class B Notes, Class C Notes or Class D Notes to a Plan is in no respect a representation by the Issuer, MSDW Bank, the Manager or the Trustee that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

Each purchaser of the Class A Notes, Class B Notes, Class C Notes and Class D Notes will be deemed to have represented and agreed that (i) either it is not purchasing such Notes with the assets of any Plan or that one of more exemptions applies such that the use of such assets will not constitute a prohibited transaction under ERISA or the Code, and (ii) with respect to transfers, it will either not transfer such Notes to a transferee purchasing such Notes with the assets of any Plan, or one or more exemptions applies such that the use of such assets will not constitute a prohibited transaction. The Class E Notes may not be purchased by or transferred to a Plan that is subject to the provisions of ERISA or Section 4975 of the Code. Any Plan fiduciary that proposes to cause a Plan to purchase such instruments should consult with its counsel with respect to the potential applicability of ERISA and the Code to such investment and whether any exemption or exemptions have been satisfied.

SUBSCRIPTION AND SALE

Morgan Stanley & Co. International Limited, HSBC Bank plc, and NIB Capital Bank N.V. (together, the "**Managers**"), pursuant to a subscription agreement dated 9th July, 2002 (the "**Subscription Agreement**"), between the Managers, the Issuer, MSMS and MSDW Bank, agreed, jointly and severally, subject to certain conditions, to subscribe and pay for the Class A Notes at 100 per cent. of the principal amount of such Notes, the Class B Notes at 100 per cent. of the principal amount of such Notes, the Class C Notes at 100 per cent. of the principal amount of such Notes, the Class D Notes at 100 per cent. of the principal amount of such Notes, and the Class E1 Notes at 100 per cent. of the principal amount of such Notes, the Class E2 Notes at 100 per cent. of the principal amount of such Notes and the Class E3 Notes at 100 per cent. of the principal amount of such Notes.

The Issuer has agreed to reimburse the Managers for certain of their expenses in connection with the issue of the Notes. The Subscription Agreement is subject to a number of conditions and may be terminated by the Managers in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Managers against certain liabilities in connection with the offer and sale of the Notes.

United States of America

Each of the Managers has represented and agreed with the Issuer that the Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons except in certain transactions exempt from the registration requirements of the Securities Act. Each of the Managers has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 41 days after the later of the commencement of the offering of the Notes and the Closing Date (for the purposes only of this section "Subscription and Sale", the "**Distribution Compliance Period**") within the United States or to, or for the account or benefit of, U.S. Persons and that it will have sent to each distributor, dealer or other person to which it sells Notes during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. Persons. Terms used in this paragraph have the meanings given to them by Regulation S of the Securities Act.

In addition, 40 days after the commencement of the offering of the Notes, an offer or sale of the Notes within the United States by a dealer, whether or not participating in the offering, may violate the registration requirements of the Securities Act.

The Notes are in bearer form and are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in the preceding sentence have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

United Kingdom

Each of the Managers has further represented and agreed that:

(a) it has not offered or sold and, prior to the expiry of the period of six months from the Closing Date, will not offer or sell any Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

(b) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 ("**FSMA**") with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and

(c) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer.

General

Except for listing the Notes on the Official List of the Irish Stock Exchange and delivery of this document to the Registrar of Companies in Ireland, no action is being taken in any jurisdiction that would or is intended to permit a public offering of the Notes, or the possession, circulation or distribution of this Offering Circular or any other material relating to the Issuer or the Notes in any jurisdiction where action for that purpose is required. This Offering Circular does not constitute, and may not be used for the purpose of, an offer or solicitation in or from any jurisdiction where such an offer or solicitation is not authorised. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisement in connection with the Notes may be distributed or published in or from any country or jurisdiction, except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Each of the Managers has undertaken not to offer or sell any of the Notes, or to distribute this document or any other material relating to the Notes, in or from any jurisdiction except under circumstances that will result in compliance with applicable law and regulations.

Attention is drawn to the information set out under "Important Notice".

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of the Notes.

Each purchaser of an interest in the Notes will be deemed to have acknowledged, represented and agreed as follows (terms used in this section that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein):

(1) The purchaser either (A)(i) is a qualified institutional buyer, (ii) is aware that the sale of interests in the Notes to it is being made in reliance on Rule 144A and (iii) is acquiring such interest in the Notes for its own account or for the account of a qualified institutional buyer, as the case may be, or (B) is not a U.S. person and is acquiring the Notes outside the United States.

(2) Each purchaser described in subclause (A) of paragraph (1) above understands that the Notes have not been and will not be registered under the Securities Act and that interests therein may be reoffered, resold, pledged or otherwise transferred only (A)(i) to the Issuer, (ii) a person whom the purchaser reasonably believes is a qualified institutional buyer purchasing for its own account or the account of a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, (iii) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (iv) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) and (B) in accordance with all applicable securities laws of the States of the United States.

(3) The Notes that represent interests sold to purchasers described in subclause (A) of paragraph (1) above will bear a legend to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1)(A) TO THE ISSUER, OR (B) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, OR (C) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (D) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) AND (2) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES.

(4) Each purchaser described in subclause (B) of paragraph (1) above understands that the Notes have not been and will not be registered under the Securities Act and that any offers, sales or deliveries in the United States or to U.S. persons of its interest in the Notes prior to the date that is 40 days after the later of the commencement of the offering of the Notes and the original issue date of the Notes may constitute a violation of United States law.

(5) The Notes that represent interests sold to purchasers described in subclause (B) of paragraph (1) above will bear a legend to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND PRIOR TO THE DATE THAT IS 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING OF THE NOTES AND THE DATE OF ORIGINAL ISSUANCE OF THE NOTES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE UNITED STATES OR TO A U.S. PERSON EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

(6) The purchaser is duly authorised to purchase its interest in the Notes and its purchase of investments having the characteristics of the Notes is authorised under, and not directly or indirectly in

contravention of, any law, charter, trust investment or other operative document, investment guidelines or list of permissible or impermissible investments which is applicable to the purchaser.

(7) (a) Either (i) the purchaser is not an employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), or a plan subject to Section 4975 of the United States Internal Revenue Code of 1986, as amended (the "**Code**") (each, a "**Plan**"), or an entity whose underlying assets are considered, for any purpose of ERISA or Section 4975 of the Code, to be assets of any Plan by reason of any Plan's investment in the entity (a "**Plan Asset Entity**") or (ii) the purchaser is acquiring its interest in the Class A Notes, Class B Notes, Class C Notes or Class D Notes and the acquisition and holding of such interest by the purchaser is not prohibited by either Section 406 of ERISA or Section 4975 of the Code, and (b) it will not transfer any Notes or interest therein to a Plan or a Plan Asset Entity unless the Notes that are the subject of the transfer are not Class E Notes and the acquisition and holding of an interest in such Notes by the transferee is not prohibited by either Section 406 of ERISA or Section 4975 of the Code.

(8) The purchaser will furnish the Issuer such information regarding payment and notification instructions and such tax forms (including, to the extent appropriate, Internal Revenue Service Form W-8, W-9 or 4224) as the Issuer may require.

(9) The purchaser acknowledges that the Issuer, each of the Managers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations, warranties and agreements, and agrees that if any of the acknowledgements, representations, warranties or agreements deemed to have been made by it by its purchase of an interest in the Notes are no longer accurate, it will promptly notify the Issuer and the Managers. If it is acquiring an interest in any Note as fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations, warranties and agreements on behalf of each such account.

(10) Each purchaser described in subclause (A) of paragraph 1 above acknowledges that the Depository will not be required to transfer any interests in Rule 144A Global Notes for interests in Reg S Global Notes, except upon written certification to the Depository that the restrictions set forth in clause (c) of the legend contained in paragraph 3 above have been complied with.

GENERAL INFORMATION

1. The issue of the Notes was authorised by resolution of the board of directors of the Issuer passed on 9th July, 2002.

2. It is expected that listing of the Notes on the Official List of the Irish Stock Exchange will be granted on or about 11th July, 2002, subject only to the issue of the Global Notes. The listing of the Notes will be cancelled if the Global Notes are not issued. Transactions will normally be effected for settlement in sterling and for delivery on the third working day after the day of the transaction. The Class E Notes are expected to be eligible for trading in the PORTAL Market, the National Association of Securities Dealers' screen-based automated market for trading of securities eligible for resale under Rule 144A; however, no assurance can be given as to the liquidity of, or trading market for, the Class E Notes.

3. The Notes have been accepted for clearance through DTC, Euroclear and Clearstream, Luxembourg as follows:

	Common Code (for Reg S Notes)	**ISIN (for Reg S Notes)**	**CUSIP (for Rule 144A Notes)**	**Common Code (for Rule 144A Notes)**	**ISIN (for Rule 144A Notes)**
Class A	15073390	XS0150733904	44147UAA3	15073632	XS0150736329
Class B	15073420	XS0150734209	44147UAB1	15073705	XS0150737053
Class C	15073462	XS0150734621	44147UAC9	15073730	XS0150737301
Class D	15073543	XS0150735438	44147UAD7	15073756	XS0150737566
Class E1	15073594	XS0150735941	44147UAE5	15073799	XS0150737996
Class E2	15127015	XS0151270153	44147UAF2	15127023	XS0151270237
Class E3	15127040	XS0151270401	44147UAG0	15127058	XS0151270583

4. No statutory or non-statutory accounts in respect of any financial year of the Issuer have been prepared. So long as the Notes are listed on the Official List of the Irish Stock Exchange, the most recently published audited annual accounts of the Issuer from time to time will be available at the specified offices of the Paying Agent in Dublin. The Issuer does not publish interim accounts.

5. The Issuer is not, and has not been, involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had, since the date of its incorporation, a significant effect on the Issuer's financial position.

6. Since the date of its incorporation, the Issuer has entered into the Subscription Agreement being a contract entered into other than in its ordinary course of business.

7. Deloitte & Touche, auditors of the Issuer, has given and not withdrawn its written consent to the issue of this Offering Circular with the inclusion of its report and references to its name in the form and context in which they are included and has authorised the contents of that part of this Offering Circular for the purposes of Section 46 of the Irish Companies Act, 1963 (as amended).

8. Denton Wilde Sapte has given and not withdrawn its written consent to the issue of this Offering Circular with the inclusion of references to its views, opinions and name in the form and context in which they are included and has authorised the content of those parts of this Offering Circular for the purposes of Section 46 of the Irish Companies Act, 1963 (as amended).

9. DTZ, external valuers, has given and not withdrawn its written consent to the issue of this Offering Circular with the inclusion of its valuation certificate and references to its name in the form and context in which they are included and has authorised the contents of that part of this Offering Circular for the purposes of Section 46 of the Irish Companies Act, 1963 (as amended).

10. HVS International, external valuers, has given and not withdrawn its written consent to the issue of this Offering Circular with the inclusion of its valuation certificate and references to its name in the form and context in which they are included and has authorised the content of that part of this Offering Circular for the purposes of Section 46 of the Irish Companies Act, 1963 (as amended).

11. Save as disclosed herein, since 26th March, 2002 (being the date of incorporation of the Issuer), there has been (i) no material adverse change in the financial position or prospects of the Issuer and (ii) no significant change in the trading or financial position of the Issuer.

12. Copies of the following documents may be inspected during usual business hours on any week day (excluding Saturdays, Sundays and public holidays) at the offices of the Issuer at Blackwell House, Guildhall Yard, London EC2V 5AE and at the specified offices of the Principal Paying Agent in Dublin during the period of 14 days from the date of this document:

(i) the Memorandum and Articles of Association of the Issuer;

(ii) the balance sheet of the Issuer as at 9th July, 2002 and the auditors report thereon;

(iii) the Subscription Agreement referred to in paragraph 6 above; and

(iv) drafts (subject to modification) of the following documents:

(a) the Trust Deed;

(b) the Loan Sale Agreement;

(c) the Deed of Charge and Assignment;

(d) the Declaration of Trust;

(e) the Servicing Agreement;

(f) the Cash Management Agreement;

(g) the Swap Agreement and the Swap Guarantee;

(h) the Corporate Services Agreement;

(i) the Liquidity Facility Agreement;

(j) the Depository Agreement;

(k) the Agency Agreement;

(l) the Exchange Rate Agency Agreement; and

(m) the Master Definitions Agreement.

APPENDIX 1
VALUATION CERTIFICATE

HVS INTERNATIONAL
LEUNG
14 HALLAM STREET
LONDON
W1W 6JG

DTZ DEBENHAM TIE

ONE CURZON STREET
LONDON
W1A 5PZ

1st April, 2002

Morgan Stanley Mortgage Servicing Limited
(and its nominees)
20 Cabot Square
Canary Wharf
London E14 4QW

Morgan Stanley Dean Witter Bank Limited
25 Cabot Square
Canary Wharf
London E14 4QA

Morgan Stanley & Co. International Limited
25 Cabot Square
Canary Wharf
London E14 4QA

Hoteloc plc
Blackwell House
Guildhall Yard
London EC2V 5AE

JPMorgan Chase Bank, London Branch
Trinity Tower
9 Thomas More Street
London E1W 1YT

Dear Sirs

32 EXISTING HOTELS, VARIOUS LOCATIONS, UNITED KINGDOM

Scope of Instructions

In accordance with your instructions, we have inspected the freehold, feuhold and leasehold properties acquired by Hotel Portfolio II (UK) Limited (the "Company") in order to advise you of our opinion of the open market value of the properties as at 1st April, 2002.

Each of the properties was inspected internally/externally by HVS International or DTZ Debenham Tie Leung ("DTZ") in February 2002.

The valuations have been undertaken by HVS International and DTZ.

We confirm that the valuations have been made in accordance with the appropriate sections of the current Practice Statements and Guidance Notes contained within the Appraisal and Valuation Manual (the "Manual") issued by the Royal Institution of Chartered Surveyors (the 'RICS') and that they have been undertaken by valuers, acting as External Valuers, qualified for the purpose of the valuations.

We understand that the valuations are required in connection with a loan facility (to assist in the acquisition of the portfolio) in the sum of £598 million secured by way of first legal mortgages over the interests valued in this report.

We are advised that the hotels will be managed by Thistle Hotels (Management) Ltd, a subsidiary of Thistle Hotels Plc, under Operating Agreements for a term of 30 years, as amended by a Relationship Agreement with a term of 10 years. For the first ten years of the term, Thistle Hotels Plc has guaranteed a minimum income of approximately £41.6 million per annum (up to a maximum of approximately £83.2 million). This guarantee has in turn been supported by two letters of credit from Lloyds TSB Bank plc.

Thistle Hotels (Management) Ltd will be entitled to receive management fees based on a percentage of gross sales and marketing fees based on a percentage of room revenue. Incentive fees are payable on a sliding scale once EBITDA hits certain present levels. For the first ten years of the Operating Agreements, all management and incentive fees will be paid only when the minimum level of EBITDA has been paid to the property owner. We have valued the properties on the assumption that the Operating Agreements and Relationship Agreement are in place.

This opinion of value and the entire report are subject to the comments made throughout and to all assumptions and limiting conditions set forth herein. This valuation certificate should be read in conjunction with Addendum 1, Statement of Assumptions and Limiting Conditions.

We have prepared a summary schedule of information on each property which is attached at the end of this Valuation Certificate.

Valuation Type

The properties are of a type normally sold as fully equipped and operational entities and, as such, they have been valued by reference to trading potential.

We have valued to open market value in accordance with Practice Statement 4.2, but in so doing we have had regard to the content of Guidance Note 7 of the Manual.

Our opinion of value includes:

- The land and buildings. For the avoidance of doubt, this includes all land contained within the respective freehold/feuhold/leasehold title. There are potential development opportunities that may or may not be realised over a period of time. We have not attributed any value explicitly to this potential;
- Trade fixtures, fittings, furniture, furnishings and equipment;
- The market's perception of the trading potential excluding personal goodwill, with an assumed ability to renew existing licences, consents, registrations, permits and certificates. Consumable stocks have been excluded.

Definitions

Open market value is defined as:

'An opinion of the best price at which the sale of an interest in the property would have been completed unconditionally for cash consideration on the date of

valuation, assuming:

1. a willing seller;

2. that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;

3. that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

4. that no account is taken of any additional bid by a prospective purchaser with a special interest; and

5. that both parties to the transaction had acted knowledgeably, prudently and without compulsion.

Assumptions Concerning Profit and Loss Projections

Where our assessment of the trading profit and loss projections are included within the report, it has been prepared on the following assumptions.

- The businesses will at all times be effectively and competently managed, operated and promoted;

- The businesses will be properly staffed, stocked and capitalised;

- There will be no significant changes in the general economy, law or other factors affecting the trading position of the businesses during the projection period;

- Accordingly, the projection offers no warranty as to the suitability, experience or commitment of the proposed operator and as such it is essential that all the necessary enquiries to ensure that these requirements are met are undertaken.

In undertaking a valuation by reference to trading performance, we have sought to obtain and review the trading accounts for the current and previous years, and projections for future years where these are available. In view of the importance which the market places on trading figures actually achieved for such properties, we are bound to state that in the event of future changes in trading potential, or actual levels of trade other than those indicated (possibly as a result of the conduct of the trade by the operator), the value reported can vary.

Indeed, as with all classes of property valued by reference to trading potential, the underlying value of the property asset can fluctuate to a greater degree when that trading potential is altered, either up or down, than is normally the case with most other types of commercial property. Consequently, if the turnover was to fall substantially short of projection, then this would have a detrimental effect on values.

General Assumptions

We have not made any adjustment to reflect any liability to taxation that may arise on disposal of any of the properties, or for any costs associated with such disposals incurred by the owner. No allowance has been made to reflect any liability to repay any government or other grants, taxation allowance or lottery funding that may arise on any disposal.

We have made deductions to reflect a purchaser's normal acquisition costs of 5.25%.

Tenure and Tenancies

We have not had access to the title deeds of the properties. Except for disclosures in the Certificates of Title prepared by Fladgate Fielder and in Scotland, Anderson Strathearn, we have assumed that the borrower is possessed of good and marketable

freehold, feuhold or leasehold title in each case and that the properties are free from rights of way or easements, restrictive covenants, disputes or onerous or unusual outgoings. We have also assumed that the properties are free from mortgages, charges or other encumbrances.

Condition of Structure and Services, Deleterious Materials, and Trade Equipment

Due regard has been paid to the apparent state of repair and condition of each property, but condition surveys have not been undertaken. Woodwork or other parts of the structures which are covered, unexposed or inaccessible have not been inspected. Therefore, we are unable to report that the properties are structurally sound or are free from any defects. We have assumed that the properties are free from any rot, infestation, adverse toxic chemical treatments, and structural or design defects.

We have not arranged for investigations to be made to determine whether high alumina cement concrete, calcium chloride additive or any other deleterious material has been used in construction or any alterations; therefore we cannot confirm that the properties are free from risk in this regard. For the purposes of these valuations, it has been assumed that any investigation would not reveal the presence of such materials in any adverse condition.

No mining, geological or other investigations have been undertaken to certify that the sites are free from any defect as to foundations. We have assumed that the load-bearing qualities of the site of each property are sufficient to support the buildings constructed thereon. We have also assumed that there are no abnormal ground conditions or archaeological remains present which might adversely affect the present or future occupation, development or value of any of the properties.

No tests have been carried out as to electrical, electronic, heating, or any other services nor have the drains been tested. However, we have assumed all services to be functioning satisfactorily.

Our valuations of the properties as trading entities assume that all items of trade, fixtures, fittings, furniture, furnishing and equipment are owned outright and are not subject to any third party rights such as leasing or hire purchase. Our valuations of the properties as trading entities includes full trade inventories sufficient for the effective operation of the businesses.

It is a condition of HVS International and DTZ or any related company, or any qualified employee, providing advice and opinions as to value, that the client and/or third parties (whether notified to us or not) accept that the valuation report in no way relates to, or gives warranties as to the condition of, the structure, foundations, soil and services of any of the properties.

Site and Contamination

We have been provided with Phase 1 Environmental reports prepared by Messrs Environ in each case, in order, so far as reasonably possible, to establish the potential existence of contamination arising out of previous or present uses of any of the sites and any adjoining sites. They have not raised any major contamination issues sufficient to adversely affect valuations.

Our enquiries and inspections have provided no evidence that there is a significant risk of contamination in respect of any of the properties. Accordingly, we have assumed that no contamination or other adverse environmental matters exist in relation to the properties sufficient to affect value. Other than as referred to above, we have not made any investigations to establish whether there is any contamination or potential for contamination of the subject properties. Commensurate with our assumptions set out above, we have made no allowance in these valuations for any effect in respect of actual or potential contamination of land or buildings. A purchaser in the market might, in practice, undertake further investigations beyond those undertaken by us. If it is subsequently established that contamination exists at any of the properties or on any neighbouring land, or that

the premises have been or are being put to any contaminative use, then this might reduce the values now reported.

Orb Estates has instructed Messrs Environ, Environmental Consultants, to advise in respect of environmental factors and contamination. In arriving at our valuations, we have sought to reflect our opinion of the open market value on the basis of the information revealed by Messrs Environ, Environmental Consultants.

We have assumed that the information and opinions we have been given are complete and correct in respect of the properties and that further investigations would not reveal more information sufficient to affect value. We consider that this assumption is reasonable in the circumstances.

Areas

In the case of properties valued by reference to trading potential, physical dimensions are not the main factor determining value.

Statutory Requirements and Planning

Verbal enquiries have been made of the relevant planning authority in whose area each property lies as to the possibility of highway improvement proposals, comprehensive development schemes and other ancillary planning matters that could affect property values.

It has been assumed that the buildings have been constructed in full compliance with valid town planning and building regulation approvals, and that where necessary they have the benefit of a current Fire Certificate. It is further assumed that the properties are not subject to any outstanding statutory notices as to their construction, use or occupation. No allowance has been made for rights, obligations or liabilities arising under the Defective Premises Act 1972, and we have assumed that the properties comply with all relevant statutory requirements.

Unless our enquiries have revealed the contrary, it has been further assumed that the existing use of each property is duly authorised or established and that no adverse planning condition or restriction applies.

We would draw your attention to the fact that employees of town planning departments now always give information on the basis that it should not be relied upon and that formal searches should be made if more certain information is required.

We have assumed that the uses or intended uses are not in any way in breach of Licencing Acts, the Registered Homes Act, Environmental Health Acts, or other statute governing the operations of the particular business.

Leasing

We have read all the leases and related documents provided to us by Orb Estates plc/Fladgate Fielder/Anderson Strathearn. We have assumed that copies of all relevant documents have been sent to us and that they are complete and up to date.

We have not undertaken investigations into the financial strength of the tenants. Unless we have become aware by general knowledge, or we have been specifically advised to the contrary, we have assumed that the tenants are financially in a position to meet their obligations. Unless otherwise advised, we have also assumed that there are no material arrears of rent or service charges, breaches of covenants, or current or anticipated tenant disputes. However, our valuations reflect the type of tenants actually in occupation or responsible for meeting lease commitments, or likely to be in occupation, and the market's general perception of their creditworthiness.

We have also assumed that wherever rent reviews or lease renewals are pending or impending, with anticipated reversionary increases, all notices have been served validly within the appropriate time limits.

Information

We have assumed that the information the borrower and its professional advisers have supplied to us in respect of the properties is both full and correct.

It follows that we have assumed that details of all matters likely to affect value within their collective knowledge have been made available to us and that the information is up to date.

Where properties are valued by reference to trading potential, we have relied upon verbal and written financial information provided to us as to the current and previous trading performance and projection for future years. This information and its sources have been set out in the main report and we have assumed that such information can be verified where appropriate by certified accounts or by an accounts' certificate and that no material facts have been kept from us.

Estimated Reinstatement Cost Assessment

An estimated reinstatement cost assessment, which is our assessment of the cost of reinstating each property at the date of valuation, has been prepared.

The figures set out are our assessment of the cost of reconstructing each property. They include an allowance for demolition, removal of debris, temporary shoring, statutory and professional fees which are likely to be incurred on reconstruction, but they exclude any allowance for VAT. The figures make no allowance for loss of rent during the rebuilding period, nor for inflation, nor the cost of dealing with any contamination which may be present and which has to be dealt with prior to reconstruction.

We have assumed that each reinstated building and its use will be similar to those existing, and the replacement buildings will be of the original design, in modern materials, using modern techniques to modern standards.

We have considered the extent and nature of the buildings but our assessments are undertaken as part of our normal valuation exercise. We have not carried out formal reinstatement cost assessments through our Building Consultancy Division. Our assessments should be treated as guides and should not be relied upon. They should be used for comparative purposes only against the borrower's proposed reinstatement cover. Should any discrepancies arise, formal reinstatement cost assessments should be commissioned.

Valuation

We are of the opinion that the aggregate of the open market values of the properties as fully equipped operational entities, subject to the Operating Agreements and Relationship Agreement as at 1st April, 2002 of the freehold, feuhold and leasehold properties described at the end of this section, and to the assumptions and comments in this Report and in Addendum 1 was as follows.

Freehold/Feuhold

£498,800,000

FOUR HUNDRED AND NINETY-EIGHT MILLION EIGHT HUNDRED THOUSAND POUNDS STERLING

Long Leasehold

(Defined as one having more than 50 years' unexpired term)

£268,600,000

TWO HUNDRED AND SIXTY-EIGHT MILLION SIX HUNDRED THOUSAND POUNDS STERLING

Short Leasehold

(A short leasehold interest is defined as one having less than 50 years' unexpired term)

£21,000,000

TWENTY-ONE MILLION POUNDS STERLING

Conclusion of Value

£788,400,000

SEVEN HUNDRED AND EIGHTY-EIGHT MILLION FOUR HUNDRED THOUSAND POUNDS STERLING

CONFIDENTIALITY AND DISCLOSURE

The contents of this Report and Addendum are confidential to the addressees and its nominees for the specific purpose to which they refer and are for their use only. Consequently, and in accordance with current practice, no responsibility is accepted to any other party in respect of the whole or any part of their contents. We agree to this Report and Addendum being included in an Offering Circular (in preliminary and final form) to investors in connection with an issue of mortgage backed notes.

Yours faithfully

CHARLES HUMAN, MRICS
Director
For and on behalf of
HVS INTERNATIONAL

SEAN A WORDLEY, MRICS CHARTERED SURVEYOR
Director
For and on behalf of
DTZ Debenham Tie Leung Ltd

Portfolio Description – Thistle Hotels

Thistle Bristol	**Description, age and tenure**
Broad Street Bristol BS1 2EL	The modernised Victorian Hotel is located in the centre of Bristol. In addition to 182 guest rooms, the Hotel contains one restaurant (100 seats), two bars (105 seats), meeting facilities totalling approximately 1,434 m², an Otium Health and Leisure Club and a multi-storey car park. Built in 1869. We are advised that the property is held freehold.

Thistle Exeter	**Description, age and tenure**
Queen Street Exeter EX4 3SP	The Victorian Hotel is located in central Exeter almost directly opposite Exeter central railway station. In addition to 90 guest rooms, the Hotel contains one restaurant (95 seats), one bar (55 seats), meeting facilities totalling approximately 748 m², and approximately 30 car parking spaces. Built in 1870. We are advised that the property is held freehold.

Thistle Stratford-upon-Avon	**Description, age and tenure**
Waterside Stratford-upon-Avon CV37 6BA	The Hotel is located within the centre of Stratford-upon-Avon opposite the Royal Shakespeare and Swan theatres. In addition to 63 guest rooms, the Hotel contains one restaurant (50 seats), one bar (35 seats), one lounge (15 seats), an outside terrace (35 seats), four meeting rooms totalling approximately 123 m², and a car park. Built in the eighteenth century. This property is held under the terms of a short lease expiring on 29th September, 2009. The lease is from The Royal Shakespeare Theatre and is drawn on full repairing and insuring terms. The current rent amounts £3,150 per annum exclusive and this will increase as at 25th March, 2002 to £3,500 per annum exclusive. The car park and gardens are held under a separate lease dated 8th November, 2000 between The Royal Shakespeare Theatre and the Hotel company for a term of 12 months commencing on 1st October, 1999. The current rent reserved is £20,000 per annum exclusive. There is an adjacent property known as Udimor, which is held freehold and forms a dwelling house for staff. In valuing the subject property, we have not assumed that the lease will be renewed at lease expiry. The Royal Shakespeare Theatre has indicated that it hopes to redevelop the area substantially to include the subject property. The early indications are that English Heritage and the local planning authority are likely to object to the redevelopment of the property. Nevertheless, to err on the side of caution, we have assumed that at lease expiry the Hotel will revert to the Landlord, albeit that the tenant will be entitled to compensation under the Landlord and Tenant Act 1954.

Thistle Cardiff	**Description, age and tenure**
Park Place Cardiff CF10 3UD	The Victorian Hotel is located in the centre of Cardiff, in the heart of the retail district. In addition to 136 guest rooms, the Hotel contains one restaurant (90 seats), three bars (124 seats), nine meeting rooms totalling approximately 788 m², and approximately 50 car parking spaces.

	Built in 1883. We are advised that the property is held freehold. There is a lease for 999 years from 1978 in respect of retail units within the hotel block; namely, 89/107 (odd numbers) Queen Street, Cardiff at one peppercorn per annum.
Thistle Manchester Airport	**Description, age and tenure**
180 Wilmslow Road Handforth Manchester SK9 3LG	The Hotel is located on Wilmslow Road in Handforth, close to Manchester Airport. In addition to 58 guest rooms, the Hotel contains one restaurant (70 seats), one bar (30 seats), six meeting rooms totalling approximately 701 m², and an outside car park. Built in 1900. We are advised that the property is held freehold.
Thistle Liverpool	**Description, age and tenure**
Chapel Street Liverpool L3 9RE	The Hotel is situated in the commercial district of Liverpool, facing Liverpool Pier Head and opposite the Royal Liver Building. In addition to 226 guest rooms, the Hotel contains two restaurants (150 and 45 seats), two bars (60 and 30 seats), seven meeting rooms totalling approximately 472 m², and a covered car park. Built in 1973. We are advised that the property is held freehold.
Thistle Inverness	**Description, age and tenure**
Millburn Road Inverness IV2 3TR	The Hotel is located on Milburn Road, Inverness adjacent to the junction of the A9 and the A96. In addition to 118 guest rooms, the Hotel contains one restaurant (160 seats), one bar (35 seats), six meeting rooms totalling approximately 230 m², an Otium Health and Leisure Club and a car park. Built in 1975. We are advised that the property is held feuhold.
Thistle Aberdeen Airport	**Description, age and tenure**
Argyll Road Aberdeen AB21 0AF	The low-rise Hotel is located on Argyll Road, within walking distance of the airport, which is some ten kilometres northwest of Aberdeen. In addition to 147 guest rooms, the Hotel contains one restaurant (110 seats), one bar (90 seats), six meeting rooms totalling approximately 740 m², a business centre, a gym, an outdoor swimming pool and a car park. Built in 1978. The subject Hotel is held under a ground lease registered on 15th May, 1978 between the British Airports Authority and Skean Dhu Ltd. The present landlord is Aberdeen Airports Ltd. The lease expires on 17th December, 2041. The annual rent is based on 4% of total sales with a minimum rent of £30,000. In our ten-year projections we have provided for the rent to increase in 2005 in line with inflation. We have not had sight of the lease agreement.

Hotel Skean Dhu Dyce	**Description, age and tenure**
Farburn Terrace Dyce Aberdeen AB21 7DN	The low-rise Hotel is located on Farburn Terrace, in Dyce, some ten kilometres northwest of Aberdeen. In addition to 209 guest rooms, the Hotel contains one restaurant (60 seats), one bar and lounge (40 and 20 seats, respectively), three meeting rooms totalling approximately 520 m², a business centre, a gym, squash courts and a car park. Built in 1973. We are advised that the property is held feuhold.
Thistle Aberdeen Altens	**Description, age and tenure**
Souterhead Road Aberdeen AB21 3LF	The Hotel is located on Souterhead Road, on the main southern approach to Aberdeen. In addition to 216 guest rooms, the Hotel contains two restaurants (65 seats each), seven meeting rooms totalling approximately 880 m², an Otium Health and Leisure Club with swimming pool, and a car park. Built in 1980. The subject Hotel is held under a ground lease registered on 20th October, 1981 between the City of Aberdeen District Council and Skean Dhu Ltd. The present landlord is Heron Property Ltd. The lease expires on 1st February, 2104. The annual rent is based on 1.3% of total sales with a minimum rent of £67,000. We have not had sight of the lease agreement.
Thistle Glasgow	**Description, age and tenure**
Cambridge Street Glasgow G2 3HN	The large eight-storey Hotel is located in the business district of Glasgow. In addition to 300 guest rooms, the Hotel contains two restaurants (100 and 80 seats, respectively), one bar (20 seats), ten meeting rooms totalling approximately 1,697 m², an Otium Health and Leisure Club and a car park. Built in 1983. The property is held under a lease between the City of Glasgow District Council and Skean Dhu Ltd which was registered on 5th February, 1982. The term is for 125 years from 1st February, 1981, expiring 31st January, 2106. The lease is full repairing and insuring. The rent is based upon 2.25% of gross turnover or £140,000, whichever is the greater, payable three-monthly. Gross turnover includes all activities carried on at the Hotel but excludes VAT.
Thistle Irvine	**Description, age and tenure**
46 Annick Road Irvine KA11 4LD	The Hotel is located close to the centre of Irvine, in North Ayrshire on the west coast of Scotland. In addition to 128 guest rooms, the Hotel contains two restaurants (80 and 85 seats), one bar (60 seats), four meeting rooms totalling approximately 298 m², a nine-hole golf course, a tropical lagoon pool and jacuzzi, and a car park. Built in 1983. We are advised that the property is held feuhold.

Thistle Swindon	**Description, age and tenure**
Fleming Way Swindon SN1 1TN	The Hotel is located in the centre of Swindon in a prominent location just off one of the main through roads and opposite Swindon police headquarters. In addition to 94 guest rooms, the Hotel contains one restaurant (90 seats), one bar (28 seats), a bar cafe (40 seats), four meeting rooms totalling approximately 317 m², and a car park. Built in 1973. The property is held under a lease dated 30th April, 1974 from Swindon Shopping Centre (Holdings) Ltd to Rank Hotels Ltd. The current landlord is Sun Alliance and London Assurance Company Ltd. The lease is for a term of 91 years from 14th February, 1973, expiring 27th September, 2064. The tenant therefore has an unexpired term of approximately 62.5 years. The lease is drawn on full repairing terms, and is subject to five yearly upwards-only rent reviews. The current rent reserved under the terms of the occupational lease amounts to £200,000 per annum exclusive and was set at a rent review on 14th February, 1998. The next rent review is therefore due as at February 2003. The landlord has the ability to serve notice of review at any time and the review will be as at the date of service of notice. The review is to reflect the best of yearly rental value of the whole parts for the residue of the term.
Thistle Brighton	**Description, age and tenure**
Kings Road Brighton BN1 2GS	The Thistle Brighton is one of the leading full service hotels in Brighton, and enjoys a prominent position on the seafront, a position which is widely regarded as being one of the most desirable in the town. In addition to 208 guest rooms, the Hotel contains one restaurant, two bars, nine meeting rooms totalling approximately 814 m², a business centre, an Otium Health and Leisure Club and a car park. Built in 1987. The property is held on a full repairing and insuring lease for a term of 150 years (less ten days) from 14th January, 1985, expiring 3rd January, 2135 (133 years unexpired). The rent payable under the terms of the lease is geared to 1.525% of average gross income for the previous three years 'changing' every five years. The current rent payable amounts to approximately £92,156 per annum exclusive until 2005.
Thistle Middlesbrough	**Description, age and tenure**
Fry Street Middlesbrough TS1 2JH	The subject Hotel is located in the centre of Middlesbrough. The Hotel closed in June 1998 as a Hospitality Inn, underwent a major refurbishment during two years of closure and reopened in April 2000. In addition to 132 guest rooms, the Hotel contains one restaurant (70 seats), one bar (40 seats), 19 meeting rooms totalling approximately 1,285 m², a business centre, an Otium Health and Leisure Club and 35 car parking spaces. The Hotel was completely rebuilt and reopened in April 2000. The property is held under a lease dated 26th January, 1971 from the Mayor, Aldermen and Burgesses of the Borough of Teesside. The lease is for a term of 125 years from 26th January, 1971 until expiry on 25th January, 2096 (94.75 years unexpired).

The rent is reviewed every 14 years, with a rent review outstanding from 1999.

The rent is reviewed by multiplying £8,000 by the rental value at review date and dividing by the rental value at the date in 1971 when the initial construction of the Hotel was completed.

We are advised that the 1999 rent review is outstanding and that the landlord initially proposed a rent of £40,000 per annum exclusive.

We understand that the company objected to the uplift in rent in light of the recent substantial expenditure on the property. It is understood that the Council informally agreed to waive the rent review. We are advised that Thistle will indemnify the new owners against any backdated increase in rent.

Thistle Birmingham City	**Description, age and tenure**
St Chads Queensway Birmingham B4 6HY	The Hotel is located on Queensway, the ring road around Birmingham city centre, close to St Chad's Circus. In addition to 133 guest rooms, the Hotel contains one restaurant (100 seats), one bar and lounge (100 seats), and four meeting rooms totalling approximately 327 m².
	Built in 1970.
	The property is held under a lease dated 12th January, 1972 between Birmingham California Developments Ltd and Angus Restaurants Ltd. At present the Landlord is Hillstone (Birmingham) Ltd. The lease is full repairing and insuring for a term of 51 years from 29th September, 1969 until expiry on 28th September, 2020. The tenant has an option to renew for a further term commencing 29th September, 2020, and expiring 23rd March, 2064, with the same rent as that payable at expiration of the lease. The tenant therefore has a term certain of 62 years unexpired.
	The rent was reviewed with effect from 29th September, 1990 and is subject to further review on 29th September, 2011. The property is to be reviewed to rack rental value and is upward only. The current rent payable amounts to £316,000 per annum exclusive.

Thistle Birmingham Edgbaston	**Description, age and tenure**
225 Hagley Road Edgbaston Birmingham B16 9RY	The Hotel is located on Hagley Road, a main road that leads westwards out of the city centre. In addition to 151 guest rooms, the Hotel contains one restaurant (110 seats), two bars (70 and 20 seats), six meeting rooms totalling approximately 283 m², and 130 covered car parking spaces.
	Built in 1972.
	We are advised that the property is held freehold.

Thistle Brands Hatch	**Description, age and tenure**
Brands Hatch Dartford DA3 8PE	The Hotel is located at the main entrance of the Brands Hatch motor racing circuit in Dartford, Kent. In addition to 121 guest rooms, the Hotel contains one restaurant, one bar and lounge, 13 meeting rooms totalling approximately 695 m², an Otium Health and Leisure Club and a car park.
	We are unaware of the date of the building's construction.
	We are advised that the property is held freehold.

Thistle Cheltenham	**Description, age and tenure**
Gloucester Road Cheltenham GL51 0TS	The Hotel is located on the edge of Cheltenham, approximately three miles west of the centre of Cheltenham and seven miles to the east of Gloucester. The Hotel is situated within a few yards of the A40, which connects Cheltenham to Oxford and Gloucester; Junction 11 of the M5 is less than a mile away. In addition to 122 guest rooms, the Hotel contains one restaurant (120 seats), one bar and lounge (25 and 20 seats), a CoMotion brew shop (25 seats), 15 meeting rooms totalling approximately 1,097 m², an Otium Health and Leisure Club, two tennis courts and a car park. Built in 1973. We are advised that the property is held freehold.
Thistle East Midlands Airport	**Description, age and tenure**
East Midlands Airport Castle Donnington DE74 2SH	The Hotel is located at the entrance to East Midlands Airport close to Pegasus Business Park and Junction 23A of the M1. In addition to 164 guest rooms, the Hotel contains one restaurant (210 seats), one bar and lounge (40 and 20 seats), 13 meeting rooms totalling approximately 415 m², an Otium Health and Leisure Club, and 300 car parking spaces. Built in 1987. This property is subject to two separate leases from East Midlands International Airport Ltd. The first lease is for a term of 150 years from 28 October, 1987, expiring 7th October, 2137 (135.5 years unexpired). The lease is drawn on full repairing and insuring terms with a current rent of £100,000 per annum exclusive. The lease is subject to five yearly upwards-only rent reviews with the next review due in October 2002. Under the hypothetical lease, it is assumed that the property is available to let for industrial or warehouse development (excluding any buildings or erections thereon). The unexpired term of the lease is on the assumption that the premises have planning consent for industrial or warehouse development. In effect, the rent is therefore geared to the value of industrial/warehouse land. A second parcel of land exists which is under a supplemental lease dated 9th December, 1999. The co-terminous lease was granted at a rent of £25,338 per annum exclusive, subject to review in October 2002. In theory, the total rent payable by the tenant should be in the order of £125,338 per annum exclusive. However, in practice, the landlord has been demanding a combined rent for both parcels in the sum of £100,000 per annum exclusive. We do, however, note that both rents are subject to review in October 2002. Whilst we have not seen the rent review documentation from 1997, we would comment that the £100,000 per annum exclusive for the initial plot of land can be considered to be towards the upper end of our scale. We certainly recommend that any increase on this level be resisted.
Thistle Gatwick	**Description, age and tenure**
Brighton Road Horley RH6 8HP	Formerly a Tudor coaching inn, the Hotel is located some two miles from Gatwick Airport, near the A23. In 1999 and 2000 some 52 rooms were added to the Hotel, which now has some 104 guest rooms. The Hotel contains one restaurant (65 seats), two bars (40 and 25 seats), eight meeting rooms totalling approximately 234 m², and a car park.

Built in 1968.

This property is part freehold and part leasehold. The leasehold element consists of 78 en suite bedrooms out of the total 104 bedrooms in the Hotel. The lease is drawn on full repairing and insuring terms for a term of 99 years from 6th May, 1968 expiring 5th May, 2067. The tenant has an option to renew the lease for a further term of 26 years. The tenant therefore has a term certain of just over 91 years. The lease is subject to upwards-only reviews every 21 years. The last rent review was in August 1989. The next rent review is due in August 2010. The current rent reserved under the terms of the lease is £251,600 per annum, exclusive. In valuing the property, we have made an allowance for an upward increase in rent to £425,000 per annum, exclusive, in 2010.

Thistle Luton

Description, age and tenure

Arndale Centre
Luton
Beds

The Hotel is the only branded hotel situated in the centre of Luton. It overlooks St George's Square, is adjacent to the Library Theatre and faces Luton Town Hall. In addition to 152 guest rooms, the Hotel contains one restaurant (90 seats), one bar (65 seats), five meeting rooms totalling approximately 742 m², an Otium Health and Leisure Club and 50 car parking spaces.

Built in 1973.

The property is held under a lease dated 26th July, 1999 from Scottish Provident Ltd. The lease is deemed to be for a term of 98.25 years (less one day) from 29th September, 1971 until expiry on 23rd December, 2069. The tenant has the ability to extend the lease for a term of 26 years from the end of the term by serving not less than six months' notice in writing on the landlord. The tenant therefore has an unexpired lease term of around 93.75 years.

Under the terms of the lease, there is a first reserved rent and what is called a second reserved rent. The current first reserved rent amounts to £66,000 per annum exclusive which is subject to review in 2012, 2033 and 2054. The second reserved rent currently amounts to £624,954 per annum exclusive. This amount was set at a review in May 2001 and is subject to review seven-yearly thereafter. The combined rent is therefore £690,954 per annum exclusive. A car park is held under a separate lease at a rent of £22,000 per annum exclusive.

Thistle Manchester

Description, age and tenure

3-5 Portland Street
Piccadilly Gardens
Manchester
M1 6DP

The Hotel is located in the centre of Manchester on Piccadilly Gardens. In addition to 205 guest rooms, the Hotel contains one restaurant (102 seats), one bar (40 seats), ten meeting rooms totalling approximately 755 m², and an Otium Health and Leisure Club.

Built in 1974.

We are advised that the property is held freehold.

Thistle Haydock

Description, age and tenure

Penny Lane
Haydock
WA11 9SG

The Hotel is located just minutes from Junction 23 of the M6 motorway. The property is situated midway between Manchester and Liverpool and within one mile of the Haydock Park racecourse. The Hotel, which is built in a classical Georgian style, is surrounded by extensive grounds. In addition to 138 guest rooms, the Hotel contains one restaurant (120 seats), one bar (80 seats), 18 meeting rooms totalling approximately 794 m², an Otium Health and Leisure Club and 170 car parking spaces.

Built in 1990.

	We are advised that the property is held freehold.
Thistle Newcastle	**Description, age and tenure**
Neville Street Newcastle NE1 5DF	The Hotel is located in Newcastle city centre, opposite the railway station on Neville Street. In addition to 115 guest rooms, the Hotel contains one restaurant (90 seats), one bar (20 seats), 11 meeting rooms totalling approximately 700 m², and 12 car parking spaces. Built in 1901. We are advised that the property is held freehold.
Thistle St Albans	**Description, age and tenure**
Watford Road St Albans AL2 3DS	The Hotel is located on green belt land to the southwest of St Albans, north of Junction 21A of the M25. The property is a Victorian country-house style hotel dating from the 1600s, to which extensions were made during the early and late 1980s. The original house, Burston Manor, comprises both guest bedrooms and approximately 20 staff bedrooms. In addition to 111 guest rooms, the Hotel contains two restaurants (70 and 45 seats), two bars (35 seats each), six meeting rooms totalling approximately 236 m², an Otium Health and Leisure Club and a car park. Built in the 1600s. We are advised that the property is held freehold.
Thistle Stevenage	**Description, age and tenure**
Blakemore End Road Nr Hitchin Littly Wymondley SG4 7JJ	The Hotel is located in the remote yet attractive village of Little Wymondley, midway between Stevenage and Hitchin, in Hertfordshire. The Hotel building is a country-style house which dates from circa 1900; extensions were made to the house in the 1950s and the 1970s. In addition to 82 guest rooms, the Hotel contains one restaurant (50 seats), a bar and lounge (30 seats each), seven meeting rooms totalling approximately 478 m², an outdoor swimming pool and 250 car parking spaces. Built in 1911. We are advised that the property is held freehold.
Thistle Aberdeen Caledonian	**Description, age and tenure**
Union Terrace Aberdeen AB10 1NE	The Hotel is located on Union Terrace, in the heart of the city, opposite the Union Terrace Gardens. In addition to 77 guest rooms, the Hotel contains two restaurants and lounges (35 and 55 seats), three meeting rooms totalling approximately 90 m², and has limited car parking. Built in 1892. We are advised that the property is held feuhold.
Thistle Lancaster Gate, London	**Description, age and tenure**
Lancaster Gate London W2 3NN	The Hotel is located in Lancaster Gate, just off the Bayswater Road, overlooking Hyde Park, and on the fringe of London's West End. In addition to 390 guest rooms, the Hotel contains one restaurant (224 seats), one bar (40 seats), a CoMotion coffee bar (40 seats), six meeting rooms totalling approximately

	396 m², and a gym. Built in 1850. We are advised that the property is held freehold.
Thistle Bloomsbury, London	**Description, age and tenure**
Bloomsbury Way London WC1A 2SD	The Hotel is located on Bloomsbury Way in London's West End. In addition to 138 guest rooms, the Hotel contains a brasserie and bar (62 seats) and five meeting rooms totalling approximately 247 m². Built in 1900. We are advised that the property is held freehold.
Thistle Kensington Park, London	**Description, age and tenure**
De Vere Gardens Kensington London W8 5AG	The Hotel is located in De Vere Gardens in the London Borough of Kensington, immediately to the south of Hyde Park and Kensington Gardens. In addition to 353 guest rooms, the Hotel contains a brasserie (110 seats), a lounge (40 seats), a bar (30 seats), a CoMotion coffee bar and 11 meeting rooms totalling approximately 546 m². Built in 1988. We are advised that the property is held freehold.
Thistle Kensington Palace, London	**Description, age and tenure**
De Vere Gardens Kensington London W8 5AF	The Hotel is located in De Vere Gardens in the London Borough of Kensington, with frontage onto Kensington Road, directly opposite Kensington Gardens. In addition to 285 guest rooms, the Hotel contains a restaurant (110 seats), a bar (40 seats) and eight meeting rooms totalling approximately 529 m². Built in 1951. The property is currently held under two leases. The first lease is dated 1st August, 1951 with the second lease dated 1st August, 1961. The present landlord for both leases is Valson International Ltd based in London. The lease dated 1st August, 1951 is for a term of 199 years from 29th September, 1951 expiring 29th September, 2150 (148.5 years unexpired). The second lease is for a term of 189.25 years from 24th June, 1961 expiring 29th September, 2150. Under a Deed of Variation dated 25th August, 1971, the current rent is £33,886 per annum exclusive and increases by £1,022 per annum at the expiry of every tenth year, calculated from the date of the Deed of Variation; in other words, the next increase will be on 25th August, 2011.

Addendum 1 – Statement of Assumptions and Limiting Conditions

1. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material contained in this report it is recommended that the reader contact the valuers.

2. No survey of the properties have been made by the valuers and no responsibility is assumed in connection with such matters. It is assumed that the use of the land and premises is within the boundaries of the property described and that there is no encroachment or trespass unless noted.

3. Our projections of revenue for the subject properties are based on their operating history and our estimates of their future market performance. They take into account any capital expenditure that has been outlined for 2002 by Thistle Hotels plc and any capital expenditure that HVS International has identified for the future. We have not had sight of any 2002 budgets;

4. We have been specifically asked to remove sales and marketing, property repairs and maintenance, legal and professional fees and, travel and subsistence costs from each departmental expense, however we note that we consider this reasonable given the structure of the relationship and operating agreement;

5. We have also been specifically instructed to incorporate payroll-related efficiencies in rooms, food and beverage, and administration and general departments in our projections. It is possible that a more detailed financial analysis of these particular areas could reveal that further efficiencies may be achieved or that additional costs may be incurred;

6. We envisage building insurance costs to increase dramatically as a result of the events on 11th September and have therefore increased these by 50% in London and all other airport hotels;

7. We have assumed that each Hotel will be maintained in a competitive condition over its remaining economic life. We have assumed that the necessary capital expenditure will be funded by a reserve for replacement.

8. Purchasers may cause further investigations to be made and if these were to reveal contamination then this might reduce the values now being reported. In arriving at our valuations we have sought to reflect our opinion of Open Market Value on the basis of the information revealed by our enquiries and the enquiries of Messrs Environ.

9. We have specifically excluded the value of any antiques or items of fine art.

APPENDIX 2
INDEX OF PRINCIPAL DEFINED TERMS

REGISTERED AND HEAD OFFICE OF THE ISSUER
Blackwell House
Guildhall Yard
London EC2V 5AE

TRUSTEE
JPMorgan Chase Bank, London Branch
Trinity Tower
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AUDITORS TO THE ISSUER
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London W1W 6JG

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One Curzon Street
London W1A 5PZ

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To the Trustee
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To the Managers
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To the Managers
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Jersey JE1 0BD

To the Issuer
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