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DATED 30 March, 2006
OFFERING CIRCULAR
£353,000,000 Secured Floating Rate Notes due 2017
of
FAIRHOLD SECURITISATION LIMITED

(incorporated with limited liability in Cayman Islands with registration number 153441)

Fairhold Securitisation Limited (the “**Issuer**”) will issue the £329,000,000 Class A Secured Floating Rate Notes (the “**Class A Notes**”) and the £24,000,000 Class B Secured Floating Rate Notes (the “**Class B Notes**”, and together with the Class A Notes, the “**Notes**”) on or around 30 March, 2006 (the “**Closing Date**”).

The Notes and interest accrued on the Notes will not be obligations or responsibilities of any person other than the Issuer. In particular, the Notes will not be the obligations of, and will not be guaranteed by, the Note Trustee, the Security Trustee, the Issuer Swap Counterparties, the Liquidity Provider, the Issuer Deposit Takers, the Account Bank, the Corporate Services Providers, the Cash Manager, the Sole Bookrunner, the Joint Arrangers, the Tranche C Lender, the Property Owners Subordinated Lender, the Consultant or the Paying Agents (the “**Relevant Parties**”).

Interest and (to the extent payable) principal on the Notes will be payable semi-annually in arrear in pounds sterling on the 15th day of April and October in each year, subject to adjustment for non-business days as described herein (each a “**Payment Date**”). The first Payment Date will be 15th April, 2006.

At issue, it is expected that the Notes will be assigned the respective ratings of Moody’s Investors Service, Inc. (“**Moody’s**”) and Fitch Ratings Ltd. (“**Fitch**”, and together with Moody’s, the “**Rating Agencies**” and each a “**Rating Agency**”) set forth in the table below. A credit 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 assigning rating organisations. The ratings assigned to the Notes address the timely payment of interest and the ultimate payment of principal on the Notes by the Issuer and are based on the Funding Loan subject to, *inter alia*, the Security Trust and Intercreditor Deed and other structural features of the transaction.

Class	Initial Principal Amount Outstanding	Margin over 6-month LIBOR	Additional Margin	Expected Final Payment Date	Final Maturity Date	Rating Moody’s/Fitch
A	£329,000,000	0.23 per cent.	0.625 per cent.	15 th October 2012	15 th October 2017	Aaa/AAA
B	£24,000,000	1.25 per cent.	n/a	15 th October 2012	15 th October 2017	Baa2/BBB

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

The Notes have not been, and will not be, registered under the United States Securities Act of 1933 as amended (the “**Securities Act**”) and are subject to United States tax law requirements. The Notes are being offered outside the United States by the Sole Bookrunner in accordance with Regulation S under the Securities Act (“**Regulation S**”), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Notes of each Class will initially be represented by a temporary global note in bearer form (each a “**Temporary Global Note**”) for such Class of Notes, without interest coupons or talons attached, which will be deposited on or about the Closing Date with a common depositary (the “**Common Depositary**”) for Euroclear Bank S.A./N.V., 1 Boulevard du Roi Albert II, 1210 Brussels, Belgium, as operator of the Euroclear system (“**Euroclear**”) and Clearstream Banking, *société anonyme*, 42 Avenue J.F.Kennedy, L-1855 Luxembourg (“**Clearstream, Luxembourg**”). Each Temporary Global Note will be exchangeable for interests in a permanent global note in bearer form (each a “**Permanent Global Note**”) representing the same Class of Notes, without interest coupons or talons attached, not earlier than 40 days after the Closing Date or, if later, the date on which the Sole Bookrunner completes the sale of the Class A Notes to third party investors (provided that certification as to non-U.S. beneficial ownership has been received). The Permanent Global Note will also be deposited with a common depositary for Euroclear and Clearstream. Ownership interests in the Temporary Global Notes and the Permanent Global Notes (together, the “**Global Notes**”) will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear and Clearstream, Luxembourg and their respective participants. The Permanent Global Notes will be exchangeable for Definitive Notes in bearer form only in certain limited circumstances set forth herein.

This Offering Circular constitutes a prospectus (“**Prospectus**”) for the purposes of Directive 2003/71/EC (the “**Prospectus Directive**”). References throughout this document to the “Offering Circular” shall be taken to read “Prospectus” for such purpose. Application has been made to the Irish Financial Services Regulatory Authority (the “**Financial Regulator in Ireland**”), as competent authority under the Prospectus Directive, for the Prospectus to be approved. Application has been made to The Irish Stock Exchange Limited (the “**Irish Stock Exchange**”) for the Notes to be admitted to the Official List and to trading on its regulated market.

Prospective investors should review the information appearing under the heading “**Risk Factors**” beginning on page 29 before purchasing any Notes.

Joint Arranger and Sole Bookrunner

Joint Arranger

UBS Investment Bank

HBOS Treasury Services plc

The date of this Offering Circular is 30 March, 2006

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NOTICE TO INVESTORS

Prospective investors are advised that capitalised terms used but not defined below are listed alphabetically at the back of this Offering Circular beginning on page 156.

Interest on the Notes will be payable semi-annually by reference to successive interest periods. Each such interest period will commence on (and include) a Payment Date and end on (but exclude) the next succeeding Payment Date (an “**Interest Period**”). Payments of interest on the Notes will be payable at the rate of 6-month-LIBOR plus 0.23 per cent. per annum in the case of the Class A Notes and 1.25 per cent. per annum in the case of the Class B Notes. After the Loan Payment Date falling in October 2012, Additional Margin will be payable in respect of the Class A Notes. Interest will be calculated on the basis of the actual number of days in the relevant Interest Period and a 365-day year.

The Notes are not due to be repaid prior to the Payment Date falling in 15th October 2012 (the “**Expected Maturity Date**”). The Notes will be subject to redemption in limited circumstances to the extent of certain Capital Receipts available for such purpose after satisfaction in full of all prior ranking liabilities. The Notes will also be subject to optional partial redemption in whole or in part in certain circumstances (see Condition 5 (*Redemption, Purchase and Cancellation*)). The Notes shall, in any event, be redeemed at their Principal Amount Outstanding (together with accrued interest thereon) on 15th October 2017 (the “**Final Maturity Date**”).

The Issuer accepts responsibility for the information contained in this Offering Circular (other than the information described in the following two paragraphs and in the section titled “Description of the Issuer Swap Counterparties and the Issuer Deposit Takers”). To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), 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.

Each of the Issuer Swap Counterparties and each of the Issuer Deposit Takers accept responsibility for the information contained in the section of this Offering Circular entitled “Description of the Issuer Swap Counterparties and the Issuer Deposit Takers” insofar as the same relates to each of them respectively. To the best of the knowledge and belief of each Issuer Swap Counterparty and each Issuer Deposit Taker (who have taken all reasonable care to ensure that such is the case), the information contained in those sections of the Offering Circular (insofar as the same relates to it) is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Fairhold Homes Group and the Parent accept responsibility for the information contained in the sections of the Offering Circular entitled “Risk Factors”, “Description of the Assets and the Cashflows” and “Description of the Borrower” insofar as the same relates to the Fairhold Homes Group or the Parent. To the best of the knowledge and belief of the Fairhold Homes Group and the Parent (which have taken all reasonable care to ensure that such is the case), the information contained in those sections of the Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person is authorised to give any information or to make any representation concerning the issue of the Notes other than as 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, the Note Trustee, the Security Trustee, UBS Limited in its capacity as lead manager of the issue of the Notes (the “**Sole Bookrunner**”), UBS Limited and HBOS Treasury Services plc in their respective capacities as joint arrangers of the transactions herein (together, the “**Joint Arrangers**”), the Fairhold Homes Group or the Parent. All information contained in this Offering Circular is given as of the date of this Offering Circular. Neither the delivery of this Offering Circular nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the information contained herein since the date hereof.

None of the Relevant Parties have separately verified the information contained in this Offering Circular. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Relevant Parties as to the accuracy or completeness of the information contained in this Offering Circular or any other information supplied in connection with the Notes. Each person receiving this Offering Circular acknowledges that such person has not relied on the Relevant Parties or on any person affiliated with any of them in connection with its investigation of the accuracy of such information or its investment decision.

Each person contemplating making an investment in the Notes must make its own investigation and analysis of the Issuer and the terms of the offering including the merits and risks involved, and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such an investment. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

Neither the Issuer nor the Sole Bookrunner makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Neither the delivery of this Offering Circular nor any offer sale or solicitation made in connection herewith shall in any circumstances imply that the information contained herein is correct at any time subsequent to the date of this Offering Circular. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Relevant Parties (or any of them) to subscribe for or purchase any of the Notes.

The contents of this Offering Circular should not be construed as providing legal, business, accounting or tax advice. Each prospective investor should consult its own legal, business, accounting and tax advisers prior to making a decision to invest in the Notes.

The Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any part of it nor any other offering circular, prospectus, form of application, advertisement, other offering material or other information may be issued, distributed or published in any country or jurisdiction (including the United Kingdom of Great Britain and Northern Ireland) except under circumstances that will result in compliance with all applicable laws, orders, rules and regulations.

This Offering Circular contains references to internet website addresses. The information contained in such websites does not form part of the information included in this document.

GENERAL NOTICE

Other than the approval by the Financial Regulator in Ireland of this Offering Circular as a prospectus in accordance with the requirements of the Prospectus Directive and implementing measures in Ireland, 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 Sole Bookrunner 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 Sole Bookrunner 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 "Subscription and Sale" below.

NOTICE TO UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND INVESTORS

This Offering Circular and any other communication in connection with the offering and issuance of the Notes may only be issued or passed on to a person of a kind described in Articles 19 or 49(2) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) or a person to whom this Offering Circular or any other such communication may otherwise lawfully be issued or passed on (all such persons together being referred to as "**relevant persons**"). This communication must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons.

NOTICE TO U.S. INVESTORS

The Notes have not been, and will not be, registered under the Securities Act and are subject to United States tax law requirements. The Notes are being offered outside the United States by the Sole Bookrunner in accordance with Regulation S, and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. For a description of certain further restrictions on resale or transfer of the Notes, see "Description of the Notes".

ENFORCEABILITY OF JUDGMENTS

The Issuer is an exempt company incorporated with limited liability in Cayman Islands. Two of the directors of the Issuer currently reside in the United Kingdom. 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 federated or state securities laws of the United States. There is doubt as to the enforceability in the Cayman Islands, in original actions or in actions for enforcement of judgements of U.S. courts, of civil liabilities predicated solely upon such securities laws.

FORWARD-LOOKING STATEMENTS

Certain matters contained herein are forward-looking statements. 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 Funding Loan and reflect significant assumptions and subjective judgements 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”, “projects”, “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 or the Cayman Islands. 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. The Sole Bookrunner has not attempted to verify any such statements, nor does it make any representation, express or implied, with respect thereto.

In this Offering Circular, unless otherwise specified, references to “£”, “pounds” or “sterling” or “pounds sterling” are to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland.

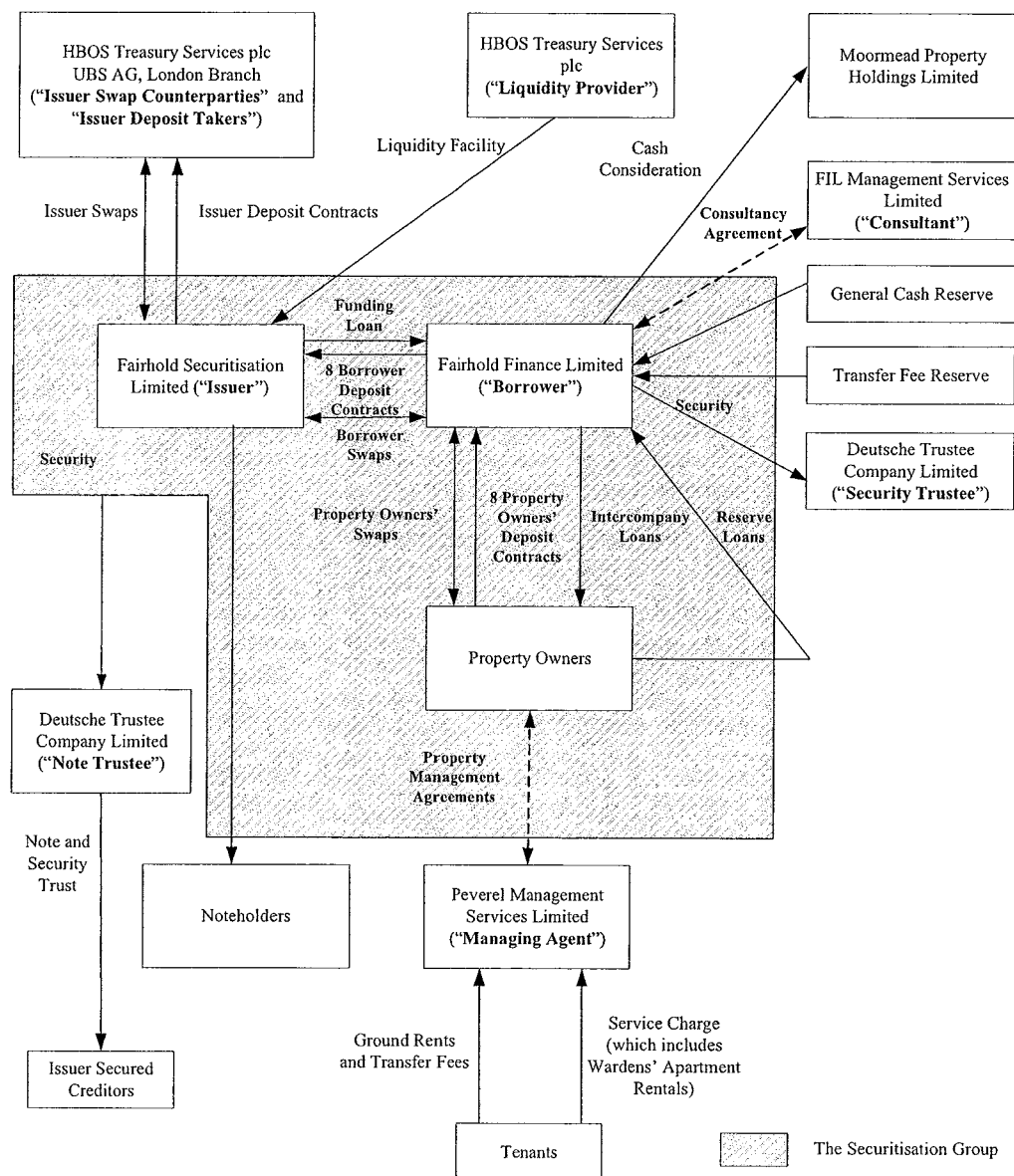
In connection with the distribution of the Notes, the Sole Bookrunner (in such capacity, the “Stabilisation Manager”) or any agent or affiliate of the Stabilisation Manager may over-allot (provided that the aggregate principal amount of the Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the Notes) or effect transactions with a view to supporting the market price of the Notes at a level which might be higher than that which might not otherwise prevail for a limited period after the issue date. However, there is no obligation of the Stabilisation Manager (or any such agent or affiliate) to do this. Such stabilising, if commenced, may be discontinued at any time, shall be in accordance with all applicable laws and must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of allotment of such Notes. Any loss or profit sustained as a consequence of any such over-allotment or stabilising shall be for the account of the Stabilisation Manager.

EXECUTIVE SUMMARY

This Executive Summary highlights selected information regarding the Notes, the Funding Loan and the assets securing the same and certain other relevant aspects to prospective investors. The Executive Summary does not include all of the relevant information relating to the Notes described herein, particularly with respect to any risks involved with an investment in the Notes and this summary is qualified in its entirety by reference to the detailed information appearing elsewhere in this Offering Circular.

Capitalised terms used are listed alphabetically in the Index of Defined Terms beginning on page 156 below which will guide the prospective investor to a full explanation of such terms.

SECURITISATION STRUCTURE DIAGRAM



Transaction Overview

This summary must be read as an introduction to this Prospectus and any decision to invest in the Notes should be based on a consideration of the Prospectus as a whole, including the documents incorporated by reference. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area no civil liability will attach to the Responsible Persons in any such Member State solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated.

The transaction described in this Offering Circular is a securitisation of certain cashflows deriving from a portfolio of sheltered housing owned by the Property Owners and located throughout England and Wales. The Tenants within the portfolio are retired individuals who have chosen to live in a sheltered housing community. The cashflows in this transaction can be divided into three categories, namely:

- (i) Ground Rents;
- (ii) monies from Wardens' Apartments Rentals; and
- (iii) Transfer Fees.

Together these cashflows are referred to as the portfolio cashflows (the "**Portfolio Cashflows**").

The Class A Notes have been sized to reflect the expected cashflows from (i), (ii) and (iii) whereas the Class B Notes have been sized to reflect the expected cashflows from (iii) above.

On the Closing Date the Issuer will lend the gross proceeds of the issue of the Notes to the Borrower under the terms of the Funding Loan Agreement. The Borrower will utilise the monies from the Advances under the Funding Loan Agreement to make eight Intercompany Loans, one to each of the Property Owners.

The Property Owners will in turn use the proceeds of the Intercompany Loans (i) to repay loans which they currently owe to the Other Companies, (ii) to fund Deposits with the Borrower, (iii) to make certain expenses payments, (iv) to make a Reserve Loan of £19,000,000 to the Borrower under the Reserve Loan Facility Agreement, (v) to make certain loans and (vi) to pay the remainder back to the Borrower.

The Borrower will utilise the Reserve Loans to fund the transfer fee reserve (the "**Transfer Fee Reserve**") and the general cash reserve (the "**General Cash Reserve**") on the Closing Date and will utilise the other funds repaid to it by the Property Owners to pay part of the cash consideration due by it to Moorhead Property Holdings Limited for the purchase of the issued share capital of the Borrower Subsidiaries. The Borrower will also use certain proceeds from the Property Owners' Deposit Contracts to enter into Borrower Deposit Contracts with the Issuer pursuant to which it will deposit amounts with the Issuer on the Closing Date. The Issuer, once in receipt of such deposits, will in turn place certain of these funds on deposit with the Issuer Deposit Takers under the terms of the Issuer Deposit Contracts described more fully below.

The Issuer will enter into an Issuer ISDA Master Agreement with each Issuer Swap Counterparty and Issuer Deposit Taker. The Issuer will then, pursuant to the two Issuer ISDA Master Agreements, enter into a number of swaps with each Issuer Swap Counterparty and Issuer Deposit Taker that will be governed by the terms of the relevant Issuer ISDA Master Agreement. These swaps and deposits fall into three categories and will be put in place shortly prior to the Closing Date.

- (i) **The Issuer Deposit Contracts:** Pursuant to the Issuer Deposit Contracts the Issuer Deposit Takers will receive deposits from the Issuer and in return make semi-annual payments on agreed dates at agreed rates of interest to the Issuer. The Issuer Deposit Contracts comprise of both spot and forward starting deposit contracts. The Issuer Initial Deposit Contracts will be providing additional funds via the Issuer and the Borrower to the Property Owners to assist them in meeting their payment obligations under the Intercompany Loans (and thus the Borrower under the Funding Loan and ultimately the Issuer under the Notes). The Issuer Forward Starting Deposit Contracts are designed to replicate the effect of the Issuer Initial Deposit Contracts after the repayment of the Notes with a view to anticipating future refinancing. The Issuer Deposit Contracts will be allocated funds by the Issuer arising from the Borrower Deposit Contracts which

in turn will be allocated from funds paid by the Property Owners via the Property Owners' Deposit Contracts;

- (ii) **The Issuer Interest Rate Swaps:** The Portfolio Cashflows and the Issuer RPI Swaps generate fixed amounts but the Issuer is required to pay interest linked to LIBOR on the Notes. The Issuer Interest Rate Swaps will be both spot and forward starting swaps pursuant to which the Issuer Interest Rate Swap Counterparties will receive fixed amounts from the Issuer and in return will make payments of floating amounts to the Issuer; and
- (iii) **The Issuer RPI Swaps:** The Ground Rents and the Wardens' Apartments Rentals generate cash flows that are RPI linked. Pursuant to the Issuer RPI Swaps, the Issuer RPI Swap Counterparties will receive amounts linked to RPI and pay fixed amounts to the Issuer.

The Issuer will enter into the Borrower ISDA Master Agreement and a number of swaps which will be governed by the terms of the Borrower ISDA Master Agreement. These will include the Borrower Deposit Contracts described briefly above. The Issuer and the Borrower will also enter into Borrower Interest Rate Swaps and Borrower RPI Swaps substantially similar to the Issuer Interest Rate Swaps and Issuer RPI Swaps. The Funding Loan requires the Borrower to pay interest linked to LIBOR. Pursuant to the Borrower Interest Rate Swaps and Borrower RPI Swaps fixed amounts and RPI linked amounts will be passed to the Issuer from the Borrower and the Borrower will receive floating amounts.

The Borrower will enter into the Property Owners' ISDA Master Agreements, one with each of the Property Owners, and a number of swaps with each Property Owner, which will be governed by the terms of the relevant Property Owner ISDA Master Agreement. These will include the Property Owners' Deposit Contracts described briefly above and also the Property Owners' Interest Rate Swaps and the Property Owners' RPI Swaps substantially similar to the Issuer Interest Rate Swaps and Issuer RPI Swaps. The Intercompany Loans require the Property Owners to pay interest linked to LIBOR. Pursuant to the Property Owners' Interest Rate Swaps and the Property Owners' RPI Swaps fixed amounts and RPI linked amounts will be passed to the Borrower from the Property Owners and the Property Owners will receive floating amounts.

Given the long term nature of the Portfolio Cashflows, certain of the Interest Rate Swaps, RPI Swaps and Deposit Contracts entered into by the Issuer (and in turn the Borrower and the Property Owners) will hedge the expected Portfolio Cashflows significantly beyond the Final Maturity Date. These swap transactions seek to hedge the value of the Portfolio Cashflows arising during and beyond the term of the Notes. Each Issuer Deposit Contract, each Issuer Interest Rate Swap and each Issuer RPI Swap will contain a right on the part of the Issuer Deposit Takers or the Issuer Swap Counterparties, as the case may be, to terminate that transaction on the earlier of the Loan Maturity Date and on the repayment of the Notes.

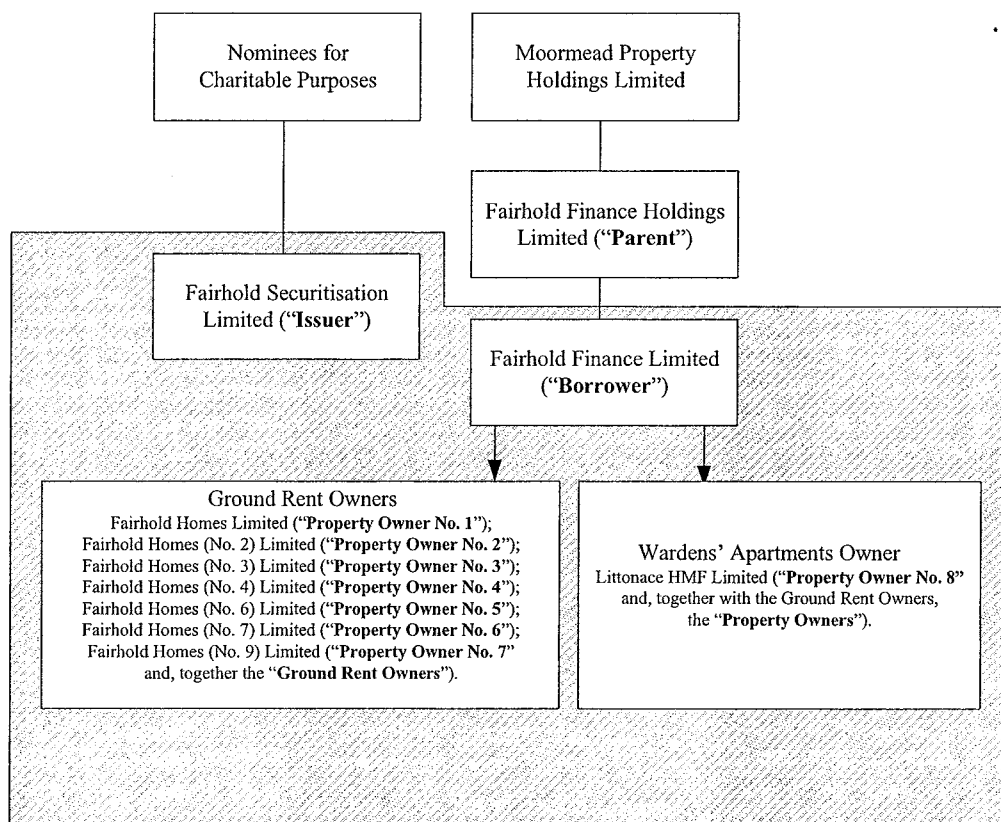
Pursuant to the Reserve Loans, the Borrower and the Property Owners will have the benefit of the Transfer Fee Reserve Account held by the Borrower initially funded to £18,000,000 to meet items (1) to (11) in the Borrower Pre-Enforcement Priority of Payments, items (1) to (10) in the Property Owner Pre-Enforcement Priority of Payments and any unpaid Borrower Senior Expenses and Property Owner Senior Expenses. The Borrower and the Property Owners will in addition have the benefit of £1,000,000 deposited in the General Cash Reserve Account to meet any unpaid Borrower Senior Expenses and any unpaid Property Owner Senior Expenses. Both the Transfer Fee Reserve Account and the General Cash Reserve Account will be required to be topped up to the Transfer Fee Reserve Required Amount and General Cash Reserve Required Amount, respectively. The Issuer will also benefit from a Liquidity Facility Agreement, which may be used by the Issuer, *inter alia*, to pay interest on the Notes and to pay any amounts due to the other creditors of the Issuer, including the Issuer Secured Creditors under the Issuer Deed of Charge and to certain senior creditors of the Borrower and the Property Owners. Subject to the Conditions and the terms of the Issuer Deed of Charge, the Issuer may make further advances to the Borrower under the Funding Loan Agreement (which will be passed on by the Borrower to the Property Owners via an increase in the Intercompany Loans).

The obligations of the Borrower under the Funding Loan Agreement and the obligations of the Property Owners under the Intercompany Loan Agreement will be secured pursuant to the Security Trust and Intercreditor Deed in favour of the Security Trustee by first fixed security over all the property, undertaking and assets of the Borrower, the Property Owners and the Parent (the "**Obligors**"). The obligations of the Issuer under the Notes will be secured pursuant to the Issuer Deed of Charge in favour of the Note Trustee, by first fixed security over all property, undertakings and assets of the Issuer (which will include the Issuer's interests in the trusts created under the Security Trust and Intercreditor Deed as well as the Issuer Transaction Account).

SUMMARY OF THE TRANSACTION

The following information is a summary of the parties in general and the asset ownership structure, the financing parties, the principal characteristics of the Notes, the Funding Loan Agreement and the Intercompany Loan Agreement, the insurance provisions, the other Transaction Documents and generally about matters relating to this transaction. 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 Offering Circular. Capitalised terms used but not defined in this summary, have the meanings given to them elsewhere in this Offering Circular, see the "Index of Defined Terms".

The Parties and Asset and Ownership Structure



The diagram above outlines a simplified form of the organisational structure of Fairhold Homes Group and certain of its direct and indirect subsidiaries as it will be on the Closing Date.

The Fairhold Homes Group..... On the Closing Date, the Borrower will purchase the entire issued share capital of the Borrower Subsidiaries. These companies together with the Borrower are referred to as the "**Fairhold Homes Group**".

The Issuer Fairhold Securitisation Limited (the "**Issuer**") is an exempted company incorporated with limited liability on 15 August 2005 under the laws of the Cayman Islands (registered number 153441), having its registered office at PO Box 1093GT, Queensgate House, South Church Street, George Town, Grand Cayman, the Cayman Islands. The Issuer has been incorporated for the purposes of raising £353,000,000 by the issue of the Notes and for the transactions and matters referred to or contemplated by this

Offering Circular. The issued share capital of the Issuer is held by Maples Finance Limited on trust for charitable purposes pursuant to a declaration of trust (the “**Declaration of Trust over the Issuer’s Issued Share Capital**”).

The Parent Fairhold Finance Holdings Limited (the “**Parent**”) is a private limited company incorporated in the British Virgin Islands on 4 January 2005 (registered number 634916), having its registered office at Palm Grove House, PO Box 438, Road Town, Tortola, the British Virgin Islands. It is a holding company of the Borrower and has no independent business operations.

The Parent is a wholly owned subsidiary of Moormead Property Holdings Limited (the “**Sponsor**”), a company incorporated in the Bahamas on 6 May 1998 (registered number 75785B), having its registered office at Suite 205, Saffrey Square, PO Box 8188, Bank Lane, Nassau, Bahamas.

The Borrower Fairhold Finance Limited (the “**Borrower**”) is a private limited company incorporated in England and Wales on 19 July 2005 (registered number 5512842) having its registered office at Euro House, 131/133 Ballards Lane, London, N3 1GR. On the Closing Date the Borrower will borrow from the Issuer £353,000,000 (being the gross proceeds of the issue of the Notes) (the “**Funding Loan**”) pursuant to a loan agreement (the “**Funding Loan Agreement**”) between, *inter alios*, the Borrower, the Parent, the Issuer and the Security Trustee.

The Property Owners Fairhold Homes Limited (“**Property Owner No. 1**”), Fairhold Homes (No. 2) Limited (“**Property Owner No. 2**”), Fairhold Homes (No. 3) Limited (“**Property Owner No. 3**”), Fairhold Homes (No. 4) Limited (“**Property Owner No. 4**”), Fairhold Homes (No. 6) Limited (“**Property Owner No. 5**”), Fairhold Homes (No. 7) Limited (“**Property Owner No. 6**”), and Fairhold Homes (No. 9) Limited (“**Property Owner No. 7**”) as the Ground Rent Owners, and together with Littonace HMF Limited (“**Property Owner No. 8**”) as the owner of the Wardens’ Apartments Rentals (the “**Property Owners**”).

The Financing Parties

The Swap Counterparties UBS AG, London Branch and HBOS Treasury Services plc (each acting in its capacities as an “**Issuer Interest Rate Swap Counterparty**”, “**Issuer RPI Swap Counterparty**” and “**Issuer Swap Counterparty**” and together, the “**Issuer Interest Rate Swap Counterparties**”, “**Issuer RPI Swap Counterparties**” and “**Issuer Swap Counterparties**”, respectively) will each enter into a 1992 ISDA Master Agreement (Multi-Currency Cross Border) together with the schedule thereto (each an “**Issuer ISDA Master Agreement**”) with the Issuer shortly before the Closing Date.

The Borrower will enter into a 1992 ISDA Master Agreement (Multi-Currency Cross Border) with the Issuer together with the schedule thereto (the “**Borrower ISDA Master Agreement**”) dated shortly prior to the Closing Date.

Each Property Owner will enter into a 1992 ISDA Master Agreement (Multi-Currency Cross Border) with the Borrower together with the schedule thereto (each a “**Property Owner ISDA Master Agreement**”), and together with the Issuer ISDA Master Agreements and the Borrower ISDA Master Agreement, the

	“ ISDA Master Agreements ”) dated shortly prior to the Closing Date.
The Issuer Deposit Takers	UBS AG, London Branch and HBOS Treasury Services plc (each an “ Issuer Deposit Taker ” and together, the “ Issuer Deposit Takers ”) will take deposits (the “ Deposits ”) from the Issuer under the relevant deposit contracts entered into pursuant to each Issuer ISDA Master Agreement, on the Closing Date with the Issuer and the Note Trustee; each deposit contract will be evidenced by a confirmation which will supplement and form part of the relevant Issuer ISDA Master Agreement (the “ Issuer Deposit Contracts ”).
The Account Bank	Deutsche Bank AG, London Branch (the “ Account Bank ”), acting through its branch at Winchester House, 1 Great Winchester Street, London EC2N 2DB or such other bank as may, from time to time, be appointed for this purpose in accordance with the bank account agreement (the “ Bank Account Agreement ”).
The Managing Agent	In connection with the origination of the Properties, the developer McCarthy & Stone appointed Peverel Management Services Limited (registered number 01614866) as the managing agent of the Properties (the “ Managing Agent ”). The Managing Agent acts on behalf of the Ground Rent Owners as managing agent of the Properties pursuant to the terms of certain property management agreements (each a “ Property Management Agreement ”).
The Consultant	FIL Management Services Limited is a private limited company incorporated in England and Wales on 9 August 2005 (registered number 5531976) having its registered office at Euro House, 131/133 Ballards Lane, London, N3 1GR (the “ Consultant ”). The Consultant is a wholly owned subsidiary of Moormead Property Holdings Limited, and will be appointed by the Borrower and the Property Owners on the Closing Date pursuant to the terms of a consultancy deed (the “ Consultancy Deed ”) to supervise, from 31 August 2009, the managing agents of the Properties and, on the termination or expiry of any managing agent’s contract, to either renew the then existing managing arrangements or to appoint a replacement managing agent.
The Liquidity Provider	HBOS Treasury Services plc (and together with any additional or substitute banks providing a liquidity facility, the “ Liquidity Provider ”) will enter into a liquidity facility agreement dated the Closing Date with the Issuer, the Cash Manager and the Note Trustee (the “ Liquidity Facility Agreement ”).
The Cash Manager and the Principal Paying Agent	Deutsche Bank AG, London Branch acting through its offices at Winchester House, 1 Great Winchester Street, London, EC2N 2DB will be appointed to act as the cash manager for the Issuer, the Borrower and the Property Owners (the “ Cash Manager ”) and the principal paying agent (the “ Principal Paying Agent ”) pursuant to the terms of a cash management agreement (the “ Cash Management Agreement ”) and a paying agency agreement (the “ Paying Agency Agreement ”) respectively.
The Irish Paying Agent	Deutsche International Corporate Services (Ireland) Limited (the “ Irish Paying Agent ” and, together with the Principal Paying Agent, the “ Paying Agents ”), acting through its office in Dublin at 5 Harbourmaster Place, International Financial Services Centre, Dublin 1, Ireland, or any other person for the time being acting as Irish Paying Agent pursuant to the Paying Agency Agreement.

**The Note Trustee and the
Security Trustee.....**

Deutsche Trustee Company Limited (the “**Note Trustee**” and the “**Security Trustee**”) acting through its offices at Winchester House, 1 Great Winchester Street, London, EC2N 2DB. The Note Trustee will be appointed pursuant to a note trust deed dated the Closing Date between the Issuer and the Note Trustee to represent the interests of the holders of the Notes (the “**Note Trust Deed**”). The Security Trustee will be appointed pursuant to the Security Trust and Intercreditor Deed dated the Closing Date between, *inter alios*, the Obligors in favour of the Security Trustee (the “**Security Trust and Intercreditor Deed**”). The Security Trustee will hold the security granted under the Security Trust and Intercreditor Deed on trust for itself and for the benefit of the Property Owners in their capacity as swap counterparties under the Property Owners’ ISDA Master Agreements, and as lenders under the Reserve Loan Facility Agreement, the Issuer in its capacity as lender under the Funding Loan Agreement and as swap counterparty under the Borrower ISDA Master Agreement, the Cash Manager, the Security Trustee and the Account Bank (together the “**Borrower Secured Creditors**”), and the Borrower in its capacity as lender under the Intercompany Loan Agreement and as swap counterparty under the Property Owners’ ISDA Master Agreements, the Cash Manager, the Account Bank, the Security Trustee and the Tranche C Lender (together the “**Property Owner Secured Creditors**”). The Note Trustee will hold the security granted by the Issuer on trust for itself and for the benefit of the Issuer Secured Creditors pursuant to the terms of an issuer deed of charge (the “**Issuer Deed of Charge**”).

**The Issuer Corporate Services Provider
and the Corporate Officers
Provider**

Maples Finance Jersey Limited acting through its offices at 2nd Floor, Le Masurier House, La Rue Le Masurier, St. Helier, JE2 4YE, Jersey will be appointed to act as the issuer corporate services provider (the “**Issuer Corporate Services Provider**”) and Structured Finance Management Limited acting through its offices at 35 Great St. Helen’s, London, EC3A 6AP will be appointed to act as the corporate officers provider (the “**Corporate Officers Provider**”) and, together with the Issuer Corporate Services Provider, the “**Corporate Services Providers**”) pursuant to the terms of an issuer corporate services agreement (the “**Issuer Corporate Services Agreement**”) and a corporate officers agreement (the “**Corporate Officers Agreement**”) respectively. The Issuer Corporate Services Provider will provide certain corporate administrative and company secretarial services (other than providing directors) to the Issuer. The Corporate Officers Provider will provide the directors to the Issuer.

Principal Characteristics of the Notes

Title.....	The £329,000,000 Class A Secured Floating Rate Notes due 2017 and the £24,000,000 Class B Secured Floating Rate Notes due 2017 are to be issued on or about the Closing Date by the Issuer.
Interest.....	Interest on the Class A Notes will be six-month LIBOR (or, in the case of the period from (and including) the Closing Date to (but excluding) 15 th April, 2006, two week LIBOR) plus 0.23 per cent. per annum and on the Class B Notes six-month (or, in the case of the period from (and including) the Closing Date to (but excluding) 15 th April, 2006, two week LIBOR) plus 1.25 per cent. per annum. After the Loan Payment Date falling in October 2012, an additional

margin of 0.625 per cent. will be payable in respect of the Class A Notes (an “**Additional Margin**”). Additional Margin is separate and subordinated to interest otherwise payable on the Class A Notes. Additional Margin will only be paid to the extent monies are available pursuant to the Priorities of Payments.

References herein to the “Conditions” or “Condition” means the terms and conditions of the Notes.

Any interest on the Class B Notes not paid on a Payment Date will (subject as provided in Condition 6 (*Payments*)) accrue interest at the rate of 1 per cent. per annum above the relevant rate of interest and will be paid to the relevant Noteholders on subsequent Payment Dates, to the extent that the Issuer has funds available for such purpose after making payments on such Payment Dates as aforesaid. In the event of an interest payment not being made on a Payment Date due to an administrative error on the part of either Euroclear or Clearstream, Luxembourg, such payment shall be made to the relevant Noteholder as soon as practicable once the Issuer has notice thereof.

Issue Price	The Notes will be issued at 100 per cent. of their principal amount.
Final Redemption	If the Notes have not been purchased or redeemed and cancelled in full before the Final Maturity Date, the Notes shall be immediately due and payable at their Principal Amount Outstanding (together with accrued interest thereon).
Redemption of the Notes	The Notes can be repaid in whole or in part prior to their Expected Maturity Date, in the limited circumstances set out below.
Mandatory Partial Redemption of the Notes	The Notes will, on each Payment Date, be subject to mandatory partial redemption (“ Mandatory Partial Redemption ”) to the extent that certain Capital Receipts (see “Prepayments” below) have been received which, following payment in full of prior ranking items under the Issuer Pre-Enforcement Priority of Payments in accordance with Condition 5 (<i>Redemption, Purchase and Cancellation</i>), are in excess of £100,000. Until the balance on the Capital Receipts Accounts collectively reaches an Allocated Loan Amount of £1,000,000, the Property Owners have the option (but not the obligation) to make prepayments on the Intercompany Loans otherwise such Capital Receipts will remain in the relevant Capital Receipts Account. In the event of a Mandatory Partial Redemption, the Issuer will pay the relevant Noteholders such principal amount being redeemed together with interest accrued thereon.
Optional Redemption	The Issuer may redeem the Notes on any Payment Date (“ Optional Redemption ”), in accordance with Condition 5 (<i>Redemption, Purchase and Cancellation</i>), whereby the Issuer will pay the Class A Noteholders or the Class B Noteholders, as the case may be, such amount (the “ Class A Redemption Amount ” and the “ Class B Redemption Amount ”, respectively) as is equal to the Principal Amount Outstanding of the corresponding class of Notes plus, in the case of Optional Redemptions made (a) up to and including the first anniversary of the Closing Date, 1.0 per cent. of the principal amount so redeemed; (b) after the first anniversary of the Closing Date but prior to the second anniversary of the Closing Date, 0.5 per cent. of the principal amount so redeemed; and (c) on or after

the second anniversary of the Closing Date, 0.0 per cent. of the principal amount so redeemed.

The Issuer is not permitted to purchase any Notes. The Borrower may purchase all or any part of the Notes on any day. Any Notes so purchased will be offered for cancellation to the Issuer within 10 Business Days of their date of purchase for surrender against full discharge and satisfaction of an amount equal to the corresponding Advances of the Funding Loan equal to the then aggregate Principal Amount Outstanding of such Notes.

**Redemption for taxation or
other reasons.....**

The Issuer may at its option redeem all (but not some only) of the Notes of any Class on any date at a price equal to their Principal Amount Outstanding together with accrued interest thereon, on any Payment Date in the event:

- (a) of a change in tax law (or the application or official interpretation thereof) from that in effect on the Closing Date and, as a result of which:
 - (i) the Issuer would on the next Payment Date 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 United Kingdom other than the holding of Notes) (other than in respect of default interest);
 - (ii) the Issuer would on the next Loan Payment Date (which will fall on the 9th of April and October in each year, or if such a day is not a Business Day, the following Business Day, each a “**Loan Payment Date**”) be required to deduct or withhold from any payment under either Issuer ISDA Master Agreement or any Borrower ISDA Master Agreement; or
 - (iii) the Borrower would on the next Loan Payment Date be required to deduct or withhold from any payment under the Funding Loan Agreement, the Borrower ISDA Master Agreement or any Property Owner ISDA Master Agreement; or
 - (iv) any Property Owner would on the next Loan Payment Date be required to deduct or withhold from any payment under the Intercompany Loan Agreement or any Property Owner ISDA Master Agreement; or
 - (v) any Issuer Swap Counterparty or Issuer Deposit Taker would on the next Loan Payment Date be required to deduct or withhold from any payment in respect of either Issuer ISDA Master Agreement,

in each case 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 United Kingdom, the Cayman Islands or any political sub-division thereof or authority thereof or therein; or

- (b) that it becomes unlawful for the Issuer to make or to continue to make advances available to the Borrower under the Funding Loan Agreement or for the Borrower to make or continue to

make advances available to the Property Owners under the Intercompany Loan Agreement,

providing that the Issuer, the Borrower and the Property Owners have used all reasonable efforts to mitigate the effect of the same including using all reasonable efforts to arrange the substitution of a company in another jurisdiction approved by the Note Trustee as principal debtor under the Notes.

Withholding Tax All payments of interest and principal in respect of the Notes shall be made free and clear of, and without withholding or deduction for any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by the United Kingdom, the Cayman Islands or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In such event, the Issuer shall make payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. NEITHER THE ISSUER NOR ANY OTHER PERSON WILL BE REQUIRED TO GROSS-UP OR OTHERWISE PAY ADDITIONAL AMOUNTS THEREOF. FOR FURTHER INFORMATION, SEE "CERTAIN TAXATION CONSIDERATIONS" BELOW.

Security for the Notes The Issuer's obligations under, amongst other things, the Notes will be secured pursuant to the Issuer Deed of Charge by first ranking fixed security interests over, *inter alia*, the Issuer's right, title, interest and benefit in, to and under any Transaction Document to which it is a party. The Notes will also be secured by a first floating charge over all the assets and undertaking of the Issuer not effectively charged by first ranking fixed security interests under the Issuer Deed of Charge (other than the bank account into which amounts paid on subscription of the share capital of the Issuer and any transaction fees were paid (the "**Issuer Share Capital Account**")) pursuant to the Issuer Deed of Charge (such fixed and floating security, together, the "**Issuer Security**").

Interest Rate Swaps The Portfolio Cashflows and the RPI Swaps are expected to generate fixed amounts but the Issuer is required to pay interest linked to LIBOR on the Notes.

The Issuer will enter into interest rate swaps with each Issuer Swap Counterparty shortly before the Closing Date (the "**Issuer Interest Rate Swaps**"). The Issuer Interest Rate Swaps will be both spot and forward starting swaps pursuant to which the Issuer Swap Counterparties will receive fixed amounts from the Issuer and make payments to the Issuer of floating amounts. Each Issuer Interest Rate Swap will be evidenced by a confirmation and will supplement and form part of the relevant Issuer ISDA Master Agreement. Taken together, the Issuer Interest Rate Swaps will be long term swap transactions but each will contain a right on the part of the Issuer Swap Counterparties to terminate on the earlier of the Loan Maturity Date and the repayment of the Notes.

Simultaneously, the Issuer will enter into substantially similar interest rate swaps with the Borrower (the "**Borrower Interest Rate Swaps**"). The Borrower Interest Rate Swaps will be both spot and forward starting swaps pursuant to which the Issuer will receive fixed amounts from the Borrower and in return will make payments of floating amounts to the Borrower. Each Borrower

Interest Rate Swap will be evidenced by a confirmation and will supplement and form part of the Borrower ISDA Master Agreement. Taken together, the Borrower Interest Rate Swaps will be long term swap transactions but each will contain a right on the part of the Issuer to terminate that transaction on the earlier of the Loan Maturity Date and the repayment of the Notes provided that the relevant Issuer Swap Counterparty has exercised its right to terminate the corresponding Issuer Interest Rate Swap.

The Borrower will also simultaneously enter into substantially similar interest rate swaps with the Property Owners (the “**Property Owners’ Interest Rate Swaps**” and, together with the Issuer Interest Rate Swaps and the Borrower Interest Rate Swaps, the “**Interest Rate Swaps**”). The Property Owners’ Interest Rate Swaps will be both spot and forward starting swaps pursuant to which the Borrower will receive fixed amounts from the Property Owners and in return will make payments to the Property Owners of floating amounts. Each Property Owner Interest Rate Swap will be evidenced by a confirmation and will supplement and form part of the relevant Property Owner ISDA Master Agreement. Taken together, the Property Owners’ Interest Rate Swaps will be long term swap transactions but each will contain a right on the part of the Borrower to terminate that transaction on the earlier of the Loan Maturity Date and the repayment of the Notes provided that the relevant Issuer Swap Counterparty has exercised its right to terminate the corresponding Issuer Interest Rate Swap.

RPI Swaps.....

The Ground Rents and Wardens’ Apartments Rentals generate cashflows linked to the All Items retail price index in the United Kingdom (or relevant successor index) (the “**RPI**”).

The Issuer will enter into RPI swaps with each Issuer Swap Counterparty shortly before the Closing Date (the “**Issuer RPI Swaps**”). Pursuant to the Issuer RPI Swaps, the Issuer Swap Counterparties will receive amounts linked to RPI and pay fixed amounts to the Issuer. Each Issuer RPI Swap will be evidenced by a confirmation and will supplement and form part of the relevant Issuer ISDA Master Agreement. Taken together, the Issuer RPI Swaps will be long term swap transactions but each will contain a right on the part of the Issuer Swap Counterparties to terminate on the earlier of the Loan Maturity Date and the repayment of the Notes.

Simultaneously, the Issuer will enter into substantially similar RPI swaps with the Borrower (the “**Borrower RPI Swaps**”) pursuant to the Borrower RPI Swaps the Issuer will receive amounts linked to RPI from the Borrower and in return will make payments of fixed amounts to the Borrower. Each Borrower RPI Swap will be evidenced by a confirmation and will supplement and form part of the Borrower ISDA Master Agreement. The Borrower RPI Swaps will be long term swap transactions but each will contain a right on the part of the Issuer to terminate that transaction on the earlier of the Loan Maturity Date and the repayment of the Notes provided that the relevant Issuer Swap Counterparty has exercised its right to terminate the corresponding Issuer RPI Swap.

The Borrower will also simultaneously enter into substantially similar RPI swaps with the Property Owners (the “**Property Owners’ RPI Swaps**” and, together with the Issuer RPI Swaps and the Borrower RPI Swaps, the “**RPI Swaps**” and together with the Interest Rate Swaps, the “**Swaps**”). Pursuant to the Property

Owners' RPI Swaps the Borrower will receive amounts linked to RPI from the Property Owners and in return will make payments to the Property Owners of fixed amounts. Each Property Owner RPI Swap will be evidenced by a confirmation and will supplement and form part of the relevant Property Owner ISDA Master Agreement. Taken together, the Property Owners' RPI Swaps will be long term swap transactions but each will contain a right on the part of the Borrower to terminate that transaction on the earlier of the Loan Maturity Date and the repayment of the Notes, provided that the relevant Issuer Swap Counterparty has exercised its right to terminate the corresponding Issuer RPI Swap.

Deposit Contracts

The Issuer will enter into deposit contracts with each Issuer Deposit Taker shortly before the Closing Date (the "**Issuer Deposit Contracts**"). The Issuer Deposit Contracts will be both spot ("**Issuer Initial Deposit Contracts**") and forward starting swaps ("**Issuer Forward Starting Deposit Contracts**") pursuant to which the Issuer Deposit Takers will receive deposits from the Issuer and make repayments on a semi-annual basis on agreed dates (incorporating agreed rates of interest) to the Issuer. The Issuer Initial Deposit Contracts will provide additional funds via the Issuer and the Borrower to the Property Owners to assist them in meeting their payment obligations under the Intercompany Loans (and thus the Borrower under the Funding Loan and ultimately the Issuer under the Notes). The Issuer Forward Starting Deposit Contracts are designed to replicate the effect of the Issuer Initial Deposit Contracts after the repayment of the Notes. Each Issuer Deposit Contract will be evidenced by a confirmation and will supplement and form part of the relevant Issuer ISDA Master Agreement. Taken together, the Issuer Deposit Contracts will be long term deposits but will each contain a right on the part of the Issuer Deposit Takers to terminate on the earlier of the Loan Maturity Date and the repayment of the Notes.

Simultaneously, the Issuer will enter into similar deposit contracts with the Borrower (the "**Borrower Deposit Contracts**"). The Borrower Deposit Contracts will be both spot ("**Borrower Initial Deposit Contracts**") and forward starting swaps ("**Borrower Forward Starting Deposit Contracts**") pursuant to which the Issuer will receive deposits from the Borrower and make repayments on a semi-annual basis on agreed dates (incorporating agreed rates of interest) to the Borrower. As described above, the Borrower Initial Deposit Contracts will provide additional funds to the Borrower to enable the Borrower to make payments under the Property Owners' Deposit Contracts (and ultimately to assist it in meeting its payment obligations under the Funding Loan). The Borrower Forward Starting Deposit Contracts are designed to replicate the effect of the Borrower Initial Deposit Contracts after the repayment of the Notes. Each Borrower Deposit Contract will be evidenced by a confirmation and will supplement and form part of the Borrower ISDA Master Agreement. Taken together, the Borrower Deposit Contracts will be long term deposits but each will contain a right on the part of the Issuer to terminate that transaction on the earlier of the Loan Maturity Date and the repayment of the Notes provided that the relevant Issuer Deposit Taker has exercised its right to terminate the corresponding Issuer Deposit Contract.

The Borrower will also simultaneously enter into similar deposit contracts with the Property Owners (the "**Property Owners' Deposit Contracts**") and, together with the Issuer Deposit

Contracts and the Borrower Deposit Contracts, the “**Deposit Contracts**”). The Property Owners’ Deposit Contracts will be both spot (“**Property Owners’ Initial Deposit Contracts**”) and forward starting swaps (“**Property Owners’ Forward Starting Deposit Contracts**”) pursuant to which the Borrower will receive deposits from the Property Owners and make repayments on a semi-annual basis on agreed dates (incorporating agreed rates of interest) to the Property Owners. The Property Owners’ Initial Deposit Contracts will provide additional funds to the Property Owners to assist in meeting their payment obligations under the Intercompany Loans. The Property Owners’ Forward Starting Deposit Contracts are designed to replicate the effect of the Property Owners’ Initial Deposit Contracts on the repayment of the Notes. Each of the Property Owners’ Deposit Contracts will be evidenced by a confirmation and will supplement and form part of the relevant Property Owner ISDA Master Agreement. Taken together, the Property Owners’ Deposit Contracts will be long term deposits but each will contain a right on the part of the Borrower to terminate that transaction on the earlier of the Loan Maturity Date and the repayment of the Notes provided that the relevant Issuer Deposit Taker has exercised its right to terminate the corresponding Issuer Deposit Contract.

Termination of the Swaps and Deposit Contracts.....

The Issuer Swaps and the Issuer Deposit Contracts will terminate in the circumstances described in “Risk Factors” below (which include certain downgrades in the credit ratings of the Issuer Swap Counterparties and the Issuer Deposit Takers). Any termination of the Issuer Swaps and/or the Issuer Deposit Contracts will result in a termination of the Borrower Swaps and Property Owners’ Swaps and/or the Borrower Deposit Contracts and the Property Owners’ Deposit Contracts, respectively. The Borrower Swaps, the Borrower Deposit Contracts, the Property Owners’ Swaps and the Property Owners’ Deposit Contracts will otherwise terminate only for reasons of illegality or the imposition of withholding tax on payments thereunder. Any such termination will result in a termination of the Issuer Swaps and the Issuer Deposit Contracts, unless confirmations are available from the Rating Agencies confirming that such termination will not adversely affect the ratings of the Notes.

Each of the Borrower Swaps, the Borrower Deposit Contracts, the Property Owners’ Swaps and the Property Owners’ Deposit Contracts will contain provisions for the payment of termination sums on termination of the same. Each such termination payment will be calculated by the Issuer Swap Counterparties and the Issuer Deposit Takers.

The Liquidity Facility.....

The Issuer will enter into a £30,852,000 liquidity facility agreement (the “**Liquidity Facility Agreement**”) dated the Closing Date with the Liquidity Provider, the Cash Manager and the Note Trustee under which the Liquidity Provider will agree to make available to the Issuer a revolving credit facility (the “**Liquidity Facility**”) on the terms set out therein. Under the terms of the Liquidity Facility Agreement, the Liquidity Provider will provide a 364-day commitment to permit drawings to be made. If there are drawings under the Liquidity Facility on two successive Loan Payment Dates and such drawings have not been reimbursed by the third following Loan Payment Date, this will result in a Repayment Reserve Trigger Event.

The Cash Manager on behalf of the Issuer pursuant to the Cash Manager's determinations on each Calculation Date, may make drawings under the Liquidity Facility to fund payments of interest in respect of the Notes and to fund certain other expenses of the Issuer, the Borrower and the Property Owners, in each case to the extent that there are insufficient funds (a "**Liquidity Shortfall**") in the Issuer Transaction Account to meet items (1) to (9) (inclusive) of the Issuer Pre-Enforcement Priority of Payments, *provided that*: (i) no amounts so drawn may be used to cover any termination payments due to the Swap Counterparties; (ii) in relation to payments of interest on the Class B Notes only, drawings on the Liquidity Facility will be limited to £1,840,000 and (iii) no drawing under the Liquidity Facility may be used to repay principal on any of the Notes. Drawings may also be made under the Liquidity Facility to fund further advances to the Borrower and the Property Owners under the Funding Loan Agreement and the Intercompany Loan Agreement in respect of Borrower Senior Expenses and Property Owner Senior Expenses. The amounts available under the Liquidity Facility will reduce alongside repayments of principal on the Notes (for further detail see "Description of the Principal Documents—Liquidity Facility Agreement").

The Liquidity Facility Agreement will provide that if at any time:

- (a) the rating of the short-term debt obligations of the Liquidity Provider falls below P-1/F1 (or its equivalent) by the Rating Agencies (or such other short-term rating as is commensurate with the rating assigned to the Notes from time to time (as used in this section, the "**Requisite Ratings**")); or
- (b) the Liquidity Provider refuses to extend the commitment period of the Liquidity Facility and no replacement has been found,

the Issuer will require the Liquidity Provider to pay into a designated account of the Issuer (the "**Stand-By Account**") held with the Account Bank the undrawn commitment under the Liquidity Facility in the case of (a) above and in the case of (b) above a Stand-By Account held with the Liquidity Provider. Amounts standing to the credit of the Stand-By Account will be available for drawing (a "**Stand-By Drawing**") in the event of, among other things, a Liquidity Shortfall.

The Issuer may replace the Liquidity Provider provided that such replacement liquidity provider has the Requisite Ratings and all amounts owing to the existing Liquidity Provider are repaid in full.

Further Notes

Subject to, *inter alia*, a confirmation of the Rating Agencies that the ratings of the Notes will not be downgraded or placed on a creditwatch with negative implications, as provided for in the Conditions and the Note Trust Deed, the Issuer will be entitled (but not obliged) at its option on any Payment Date prior to the Payment Date falling on 15th October 2012, without consent of the Noteholders (subject to Condition 16 (*Further Issues and Replacement Issues*)), to raise further funds by the creation of:

- (a) further Class A Notes (the "**Further Class A Notes**"); and/or
- (b) further Class B Notes (the "**Further Class B Notes**" and together with the Further Class A Notes, the "**Further Notes**"),

Pursuant to the Conditions and the Note Trust Deed, each Further Note will be in bearer form and carry the same terms and conditions in all respects (other than the issue date, the first accrual period and the first Payment Date) as, and so that the same shall be consolidated and form a single series and rank *pari passu* with, the relevant class of Notes.

The terms of the Funding Loan Agreement and the Intercompany Loan Agreement, respectively, will allow the Issuer, the Borrower and the Property Owners to incur certain subordinated indebtedness.

New Notes Subject to, *inter alia*, a confirmation of the Rating Agencies that the ratings of the Notes will not be downgraded or placed on a creditwatch with negative implications, as provided for in the Conditions and the Note Trust Deed, the Issuer will be entitled (but not obliged) at its option from time to time on any date prior to the Payment Date falling on 15th October 2012, without the consent of the Noteholders, to raise further funds by the creation and issue of notes in respect of a new class (the “New Notes”) which will be in bearer form and which may rank *pari passu* with the Class A Notes or the Class B Notes but which do not form a single series with the Class A Notes or the Class B Notes.

New Notes and Further Notes may be issued by the Issuer only in accordance with Condition 16 (*Further Issues and Replacement Issues*).

Funding Loan Agreement and Intercompany Loan Agreement

Application of Proceeds on Closing The gross proceeds of issue of the Notes will be lent by the Issuer to the Borrower under the Funding Loan Agreement and on-lent by the Borrower to the Property Owners under the Intercompany Loan Agreement.

The Property Owners will apply in the region of £251,000,000 of the amount lent under the Intercompany Loan Agreement to discharge existing loans due to the Other Companies (and which will enable certain existing indebtedness to third parties to be repaid) and to pay related costs.

The Property Owners will apply a portion of the amount received under the Intercompany Loan Agreement to place deposits with the Borrower under the Property Owners’ Deposit Contracts. The Borrower will use such deposits to place a substantially similar deposit with the Issuer under the Borrower Deposit Contracts and the Issuer will use the same to place substantially similar deposits in an aggregate amount of £41,082,988 with the Issuer Deposit Takers under the Issuer Deposit Contracts.

The Property Owners will apply £19,000,000 of the amount received under the Intercompany Loan Agreement to make an initial advance (a “Reserve Loan”) to the Borrower under a loan facility agreement (the “Reserve Loan Facility Agreement”). The Borrower will use such funds to establish the Transfer Fee Reserve and the General Cash Reserve. The Reserve Loans will be repaid from time to time if funds from the Transfer Fee Reserve or the General Cash Reserve are required by the Property Owners in accordance with the terms of the Intercompany Loan Agreement to meet Property Owner Senior Expenses. Amounts required from time to time to maintain the balance of the Transfer Fee Reserve

and the General Cash Reserve at their respective required levels in accordance with the terms of the Funding Loan Agreement will be transferred to the Borrower by the Property Owners by way of further advances under the Reserve Loan Facility Agreement.

The Property Owners will pass the balance of the amount lent under the Intercompany Loan Agreement to the Borrower by methods including subordinated loans. The Borrower will use such funds to discharge certain costs associated with the issue of the Notes. The Borrower will pass the remainder of such funds to Moormead Property Holdings Limited.

Funding Loan Agreement.....

On the Closing Date the Issuer will make available a Funding Loan to the Borrower under the Funding Loan Agreement in the Principal Amount of £353,000,000 (the gross proceeds from the issuance of the Notes). The initial Advances under the Funding Loan will be made in three Tranches on the Closing Date: the Tranche A1 Advance and the Tranche A2 Advance will reflect the rate of interest payable by the Issuer on the Class A Notes and the Tranche B Advance will reflect the rate of interest payable by the Issuer on the Class B Notes. Each Advance under the Funding Loan will have substantially similar terms in all other respects. All Advances under the Funding Loan will mature in October 2015. The obligations of the Borrower under the Funding Loan Agreement will be guaranteed by the Parent and the Property Owners.

The Borrower may prepay monies under any Advance in whole or in part in order to effect an optional redemption of the equivalent class of Notes on terms equivalent (including terms as to prepayment premia) to Condition 5 (*Redemption, Purchase and Cancellation*) of the Notes.

The Funding Loan Agreement will provide that further advances may be made to the Borrower in connection with an issue of Further Notes by the Issuer subject to certain conditions precedent (including conditions precedent related to the financial condition of the Borrower and the Property Owners, confirmation from the Rating Agencies that such Further Notes will not adversely affect the then current ratings of the Notes) being met. The Funding Loan Agreement also permits further advances to be made by the Issuer to permit the payment of Borrower Senior Expenses or Property Owner Senior Expenses.

The Funding Loan Agreement, *inter alia*, will contain representations and warranties concerning the Obligors, covenants covering, *inter alia*, the operation of the businesses of the Borrower and the Parent and events of default together with, in certain cases, appropriate grace periods and remedy mechanisms. In particular the Borrower and the Parent will be restricted from making disposals, acquisitions or payments of dividends or servicing of subordinated debt other than as specifically allowed pursuant to the relevant Transaction Documents. In addition, the Funding Loan Agreement will include specific provisions concerning the operation of the Borrower Accounts. For further details see "Description of Principal Documents" and "Description of Bank Accounts and Cash Management".

To the extent that the Borrower or any of the Property Owners have insufficient funds to meet all payments due by them on any Loan Payment Date under the Funding Loan Agreement and the

Intercompany Loan Agreement and, in each case, amounts ranking in priority thereto, the Cash Manager on behalf of the parties shall take the following actions in the following order: (a) call upon the other Property Owners to make up such shortfall under their cross-guarantees under the Intercompany Loan Agreement; (b) if the shortfall still exists, draw upon the General Cash Reserve Account; (c) if the shortfall still exists, draw upon the Transfer Fee Reserve Account; and (d) if the shortfall still exists, request the relevant parties to make an Expenses Advance, in each case to the extent the same is available in respect of such shortfall in accordance with the provisions of the Transaction Documents.

Prepayments (Capital Receipts) In the event that any Property Owner receives Capital Receipts, then such Property Owner will deliver to the Security Trustee a certificate (a "**Capital Receipts Certificate**") stating:

- (a) whether the relevant Capital Receipts relate to Ground Rents, Transfer Fees and/or Wardens' Apartments Rentals;
- (b) whether the events which gave rise to such Capital Receipt has led (or is expected to lead) to any diminution (a "**Diminution**") in the future anticipated Ground Rents and/or Wardens' Apartments Rentals and/or Transfer Fees owned by such Property Owner; and
- (c) if such Capital Receipt will give rise to a Diminution, the anticipated amount of such Diminution.

If a Capital Receipt will give rise to a Diminution, then the relevant Property Owner will be required to deposit the full amount of such Capital Receipt into its Capital Receipts Account. On the 7th day of April and October in each year or if such a day is not a Business Day then the immediately preceding Business Day (each a "**Calculation Date**") following receipt of any Capital Receipt which gives rise to a Diminution, a maximum of 110 per cent. of an Allocated Loan Amount in respect of the affected tranches of the Intercompany Loans (as determined by the Cash Manager) together with:

- (a) accrued interest thereon (if any);
- (b) any termination payments payable by the relevant Property Owner for partial termination of transactions under the corresponding Property Owner ISDA Master Agreement; and
- (c) any other Property Owner Senior Expenses,

will be applied by the relevant Property Owners to prepay the affected tranches of the Intercompany Loans (each an "**Intercompany Loan Prepayment**") (as determined by the Cash Manager), provided that:

- (a) any Capital Receipts received 15 days or less prior to any Loan Payment Date will be allocated to the immediately following interest period; and
- (b) no such prepayment will be due unless and until (i) the total amount of such Capital Receipts to be so applied to prepay the affected tranches of the Intercompany Loans will reduce the amount of such Intercompany Loans by at least £1,000,000 or (ii) the Property Owners elect to make such prepayment.

The Borrower will apply all Intercompany Loan Prepayments received by it to prepay the corresponding tranches of the Funding Loan (each a “**Funding Loan Prepayment**”).

The Issuer will apply all Funding Loan Prepayments to redeem the class of Notes that corresponds to the Advance of the Funding Loan so prepaid after payment of prior ranking items (Tranche A1 Advance and the Tranche A2 Advance to be prepaid according to the relevant Allocated Loan Amount) under the Issuer Pre-Enforcement Priority of Payments. The Class A Notes will be prepaid to the extent that the Tranche A1 Advance and the Tranche A2 Advance are prepaid. Similarly, the Class B Notes will be prepaid to the extent the Tranche B Advance is prepaid.

“**Allocated Loan Amount**” means the Tranche A1 Allocated Loan Amount and/or the Tranche A2 and B Allocated Loan Amount.

“**Tranche A1 Allocated Loan Amount**” means the amount of the Tranche A1 Advance (as at the immediately preceding Payment Date) multiplied by the A1 CR Percentage.

“**A1 CR Percentage**” is the amount expressed as a percentage representing the reduction (arising from the Diminution) in the net present value of Ground Rents and/or Wardens’ Apartments Rentals from the next Payment Date in each case assuming a discount rate of 5 per cent., a fixed inflation rate of 2 per cent. and 0 per cent. on HPI.

“**Tranche A2 and B Allocated Loan Amount**” means the amount of the Tranche A2 Advance plus the Tranche B Advance (in each case, as at the immediately preceding Payment Date) multiplied by the A2 and B CR Percentage.

“**A2 and B CR Percentage**” means the amount expressed as a percentage representing the reduction (arising from the Diminution) in the number of properties from which transfer fees could be earned between the immediately preceding Payment Date and the immediately following Payment Date.

Failure to pay a minimum of 100 per cent. of an Allocated Loan Amount in the circumstances described above will constitute an Intercompany Loan Event of Default.

General Cash Reserve.....

On the Closing Date, £1,000,000 will be funded by the Property Owners through the Reserve Loan Facility Agreement and will be credited by the Borrower to the General Cash Reserve Account established at the Account Bank in the name of the Borrower. On each Calculation Date, the Cash Manager will calculate whether the Borrower has sufficient funds to meet its obligations with respect to Borrower Senior Expenses and to make repayments on the Reserve Loans to any Property Owner to meet any unpaid Property Owner Senior Expenses. Following a determination of any shortfall, the Borrower will be entitled to withdraw funds standing to the credit of the General Cash Reserve on a Loan Payment Date to meet such payments in respect of the Borrower Senior Expenses and to make repayments on the Reserve Loans to any Property Owner to meet any unpaid Property Owner Senior Expenses. The Borrower will be required to make payments on each Loan Payment Date into the General Cash Reserve Account to the extent needed to maintain the balance thereof at the General Cash Reserve Required Amount. The Borrower will fund such

payments by way of further advances from the Property Owners under the Reserve Loan Facility Agreement.

Following enforcement of the Borrower Security, the Security Trustee will be entitled to withdraw funds standing to the credit of the General Cash Reserve Account in accordance with the Borrower Post-Enforcement Priority of Payments.

Transfer Fee Reserve	<p>On the Closing Date, the Borrower will be obliged to credit the Transfer Fee Reserve Account with £18,000,000 (the “Transfer Fee Reserve Account”) from the proceeds of amounts advanced to it under the Reserve Loan Facility Agreement. On each Calculation Date, the Cash Manager will calculate whether the Borrower has sufficient funds to meet certain of its obligations. Following a determination of a shortfall, on each Loan Payment Date, the Borrower will be entitled to withdraw funds standing to the credit of the Transfer Fee Reserve Account to meet (i) items (1) to (11) of the Borrower Pre-Enforcement Priority of Payments; and (ii) to make repayments on the Reserve Loans on any Loan Payment Date to meet items (1) to (10) of the Property Owner Pre-Enforcement Priority of Payments. The Borrower will be required to make payments on each Loan Payment Date into the Transfer Fee Reserve Account to the extent necessary to maintain the balance thereof at the Transfer Fee Reserve Required Amount. The Borrower will fund such payments by way of further advances under the Reserve Loan Facility Agreement. In addition, on each Loan Payment Date falling after the Loan Payment Date on 9th October 2009 and on the Loan Maturity Date, the Borrower will be entitled, subject to the satisfaction of certain conditions precedent relating to the levels of Transfer Fees in prior payment periods, to withdraw amounts from the Transfer Fee Reserve Account subject to maintaining a minimum balance equal to the Transfer Fee Reserve Required Amount for such Loan Payment Date. As such, no amounts will be released to the Borrower from the Transfer Fee Reserve Account for the Borrower’s general purposes for the first four years after of the Closing Date. For further detail see “Description of Bank Accounts and Cash Management—Transfer Fee Reserve Account”.</p>
Intercompany Loan Agreement	<p>The Borrower will apply the funds advanced to it under the Funding Loan Agreement to make a loan to each of the Property Owners under the terms of a credit agreement made between the Borrower, each of the Property Owners and the Security Trustee (each an “Intercompany Loan”) under the intercompany loan agreement (the “Intercompany Loan Agreement”). The Intercompany Loans will be on terms similar to the Funding Loan.</p>
Property Owner Guarantees	<p>The Intercompany Loans will be guaranteed on a secured and joint and several basis by each Property Owner (each a “Property Owner Guarantee”).</p>
Repayment Reserve	<p>On the occurrence of a Repayment Reserve Trigger Event each Property Owner’s respective Property Owner Available Funds (other than amounts representing prepayments of such Property Owner’s Intercompany Loan) in excess of amounts required to meet scheduled payments on each Intercompany Loan and certain other amounts set out in the Property Owner Pre-Enforcement Priority of Payments will be retained by such Property Owner and credited to such Property Owner’s Repayment Reserve Account established at the Account Bank in the name of such Property Owner. Each Property Owner, or the Security Trustee following</p>

enforcement of the security for the Intercompany Loans, will be entitled to withdraw funds standing to the credit of its Repayment Reserve Account on any Loan Payment Date to meet payments then due on its Intercompany Loan.

A “Repayment Reserve Trigger Event” will occur if:

- (a) an Intercompany Loan Event of Default, a Funding Loan Event of Default or a Note Event of Default occurs;
- (b) there are drawings under the Liquidity Facility on two successive Loan Payment Dates and such drawings have not been reimbursed to the Liquidity Facility Provider by the third following Loan Payment Date; or
- (c) the Intercompany Loans have not been repaid in full by the Loan Payment Date falling in October 2012.

Provided that following the occurrence of a Repayment Reserve Trigger Event in the immediately following 12 months no other Repayment Reserve Trigger Event occurs ((a) and (b) above being capable of being cured, a “Repayment Reserve Cure”), all funds credited to the Repayment Reserve Accounts by reason of such Repayment Reserve Trigger Event will be released from the Repayment Reserve Accounts and applied as Property Owner Available Funds in accordance with the Property Owner Pre-Enforcement Priority of Payments, unless and until a further Repayment Reserve Trigger Event occurs.

In addition, after the Loan Maturity Date all funds credited to the Repayment Reserve Accounts will be available to repay, *inter alia*, principal on the Intercompany Loans.

Relationship with the Notes The Conditions of the Notes and the terms of the Funding Loan Agreement and the Intercompany Loan Agreement permit, in certain circumstances, enforcement of the security under the Funding Loan and/or the Intercompany Loans to take place without a Note Event of Default occurring. Such an enforcement without defaulting the Notes will arise only if:

- (a) all payments which rank senior in point of priority to the Notes continue to be paid in full; and
- (b) subject to Condition 9(b) (*Class B Noteholders*) all scheduled payments which are due on the Notes continue to be paid in full.

Security for the Funding Loan The obligations of the Borrower to the Issuer under the Funding Loan Agreement (together with the obligations of the Borrower to certain of its other creditors) are secured in favour of the Security Trustee for the benefit of such Borrower Secured Creditors by fixed and floating charges over all of the assets and undertakings of the Borrower (including the Intercompany Loans, the Reserve Loans, the Borrower ISDA Master Agreement, the Property Owners’ ISDA Master Agreements, the Borrower Transaction Account, the Borrower General Account, the General Cash Reserve Account, the Transfer Fee Reserve Account, the shareholdings of the Borrower in the Borrower Subsidiaries together with a fixed charge created by the Parent over its shareholding in the Borrower), which security shall be held and (on the service of a Loan Enforcement Notice) enforced by the Security Trustee in

accordance with the provisions of the Security Trust and Intercreditor Deed (the "**Borrower Security**").

Security for the

Intercompany Loans.....

Each of the Property Owners' obligations under the Intercompany Loan Agreement will be secured pursuant to the Security Trust and Intercreditor Deed by first ranking fixed security interests over, *inter alia*:

- (i) the shareholdings of each Borrower Subsidiary in each other Borrower Subsidiary by way of equitable mortgage;
- (ii) their interests (present and future) in the Properties (other than any leasehold interests in respect of which the landlord's consent to charge is required, until and unless such consent is given) by way of a first fixed charge by way of legal mortgage;
- (iii) their right, title and interest to, in and under all present and future agreements, contracts, deeds, licences, undertakings, guarantees, covenants, warranties, representations and other documents entered into by or given to them in respect of any present or future reversionary interests in any properties;
- (iv) their right, title and interest in, to and under monies standing to the credit of the Estates Account, the PMSL ECS Receipts Account, the PMSL ECS Ground Rent Account and the PMSL Landlords Account in respect of Ground Rents, Wardens' Apartments Rentals and Transfer Fees and any other amounts therein to which they are entitled;
- (v) their rights against the Borrower under the Property Owners' ISDA Master Agreements;
- (vi) their rights against the Managing Agent under the Property Management Agreements; and
- (vii) their rights against the Borrower under the Reserve Loan Facility Agreement.

The Intercompany Loans will also be secured by a first floating charge over all the assets and undertakings of the Borrower Subsidiaries not effectively charged by first ranking fixed security interests under the Security Trust and Intercreditor Deed other than any leasehold interests in respect of which the landlord's consent to charge is required, until and unless such consent is given.

Security Trust and Intercreditor Deed..

The security created by the Obligors will be granted to the Security Trustee. Pursuant to the terms of a security trust and intercreditor deed (the "**Security Trust and Intercreditor Deed**"), the Security Trustee will hold such security for the benefit of the Issuer, the Borrower, the other Borrower Secured Creditors, the Property Owner Secured Creditors, the Tranche C Lender and itself (and any receiver appointed by it) (the "**Secured Parties**") in accordance with their respective entitlements thereto. The Security Trustee will also hold on trust for the Secured Parties the benefit of charges over the shares held by the Borrower. For further details see "Description of Principal Documents".

Insurance

Insurance Provider Norwich Union plc (registered number 03290130) acting through its registered office at 8 Surrey Street, Norwich, Norfolk, NR1 3NG or any other eligible insurance provider as appointed from time to time.

For further detail on insurance, see “Description of the Assets and the Cashflows—Insurance”.

Further Transaction Documents

Property Management Agreements..... Pursuant to the provisions of the property management agreements (the “**Property Management Agreements**”), the Managing Agent has agreed to perform various property management services in relation to the Properties. In return for the services provided, the Managing Agent will receive fees which are passed on to the Tenants as service charges (such charges consisting of costs relating to, among other things, upkeep and insurance, the “**Service Charge**”). Each Lease provides that the costs associated with the management of the Property are recoverable from the Tenants as part of the Service Charge. The Managing Agent has also undertaken to collect Ground Rents and to account for Wardens’ Apartments Rentals and Transfer Fees received (without, however, being obliged themselves to pay any such amounts or any costs of collection thereof).

The Borrower will covenant in the Funding Loan Agreement to ensure that the Managing Agent or another reputable managing agent is at all times appointed to manage the Properties on behalf of the Borrower and the Property Owners. The Borrower will enter into a consultancy deed (the “**Consultancy Deed**”) on the Closing Date with FIL Management Services Limited (the “**Consultant**”) which will provide that when the current Property Management Agreements terminate, the management may be placed with another managing agent up until 31 August 2009. After 31 August 2009, the Consultant will either negotiate the renewal of the existing Property Management Agreements with the Managing Agent or select another suitable managing agent (see “Peverel Management Services Limited” below).

For further information regarding the Property Management Agreements, see “Description of Principal Documents” below.

Cash Management Agreement Pursuant to the provisions of the cash management agreement (the “**Cash Management Agreement**”), the Cash Manager will agree to perform various services including the provision of cash management services to the Issuer, the Borrower and the Property Owners and the application of monies standing to the credit of the various accounts in the name of each of the Issuer (the “**Issuer Accounts**”), the Borrower (the “**Borrower Accounts**”) and the Property Owners (the “**Property Owners’ Accounts**”) and, together with the Issuer Accounts and the Borrower Accounts, the “**Accounts**”). In return for the services provided, the Cash Manager will receive fees payable by the Issuer, the Borrower and the Property Owners. For further information regarding the Cash Management Agreement and the Accounts, see “Description of Bank Accounts and Cash Management” below.

Bank Account Agreement..... Pursuant to the provisions of the Bank Account Agreement (the “**Bank Account Agreement**”), the Account Bank will maintain the Accounts. The Account Bank will covenant, *inter alia*, not to exercise any rights of set-off, counterclaim or consolidation in respect of such accounts.

General

Rating..... The Class A Notes are expected, on issue, to be assigned an Aaa/AAA rating by each of Moody’s and Fitch respectively. The Class B Notes are expected, on issue, to be assigned a Baa2/BBB rating by each of Moody’s and Fitch, respectively.

The ratings applicable to the Class A Notes do not address the likelihood of receipt of Additional Margin.

A credit 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 assigning rating organisation if, in its judgment, circumstances (including, without limitation, the underlying characteristics of the Fairhold Homes Group’s businesses from time to time, a reduction in the credit rating of the Issuer Swap Counterparties and/or the Issuer Deposit Takers and/or the Liquidity Provider) in the future so warrant. The ratings assigned by the Rating Agencies to the Notes do not address the likelihood of receipt by any Noteholder of any redemption premium (if any) in respect of any of the Notes.

Listing..... Application has been made to the Financial Regulator in Ireland, as competent authority under the Prospectus Directive, for the Prospectus to be approved. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and to trading on its regulated market.

Governing Law..... The Notes and the Transaction Documents (other than the Issuer Corporate Services Agreement and the Declaration of Trust over the Issuer’s Issued Share Capital) will be governed by English Law. The Issuer Corporate Services Agreement and the Declaration of Trust over the Issuer’s Issued Share Capital will be governed by the laws of the Cayman Islands. For further information, see “Description of Principal Documents”.

RISK FACTORS

Prospective investors in the Notes should consider, among other things, the following factors in connection with the purchase of the Notes. The following summary of certain issues is not intended to be exhaustive. Prospective investors in the Notes should also read the detailed information set out elsewhere in this document.

Risk Factors relating to the Portfolio

The principal source of funds available to the Issuer to meet payments of principal and interest on the Notes will be payments received from the Borrower under the Funding Loan Agreement (which in turn depends on receipts from the Property Owners under the Intercompany Loan Agreement), payments received from the Issuer Swap Counterparties under the Issuer ISDA Master Agreements and, in certain circumstances, monies standing to the credit of the Transfer Fee Reserve Account.

Recourse on the Funding Loan and the Intercompany Loans will be limited to the assets of the Borrower and the Property Owners including the Properties, the Leases, the Ground Rents, the Transfer Fees, the Wardens' Apartments Rentals, the Borrower ISDA Master Agreement and the Property Owners' ISDA Master Agreements. See "Description of Principal Documents" below.

The ability of these assets to generate funds is subject to a variety of factors discussed below. Consequently, the ability of the Borrower and the Property Owners to make payments on the Funding Loan and the Intercompany Loans, respectively, and therefore, the ability of the Issuer to make payments on the Notes is dependent primarily on the sufficiency of the net operating income of the Properties.

The Ground Rents: The Ground Rents generated by the Properties are subject to the following risks:

Non-Payment of Service Charges: The Leases provide that the Tenants are collectively responsible for paying for the upkeep of the common areas in their development. The current practice is to invoice the Tenants for the expected costs in that year by two semi-annual invoices with a balancing payment being due to or by the relevant Tenant at year end once the actual expenditure is ascertained.

There can be no assurance that Tenants will have enough funds to cover these costs. Moreover, there can be no assurance that if the costs of such works prove to be substantial, that the relevant Property Owner will have sufficient funds to cover all necessary upkeep for the related Property. However, as noted below, each Tenant pays the Landlord a fee of 1 per cent. of the sale price or the market value on the disposal of the individual unit as a contribution to a contingency fund to meet future capital expenditure and the contingency fund may be utilised by the relevant Property Owner in its discretion to reduce the Service Charge payable by the Tenants as well as to meet any major items of expenditure.

The liability of the Property Owners to provide the relevant services are, however, not conditional upon all such contributions being made and consequently any failure by any Tenant to pay the Service Charge contribution on the due date or at all would oblige the relevant Property Owner to make good the shortfall from its own monies, which could in turn affect its ability to make payments under the Intercompany Loan Agreement. In the event the relevant Property Owner fails to pay the costs for works completed or materials delivered in connection with any capital improvements, such Property Owner could be the subject of legal action by the relevant contractors to recover the costs of such capital improvements and/or materials.

In the event of a Tenant not paying a sum due under a Lease, the relevant Property Owner will be entitled to exercise various remedies including applying to the court for forfeiture of the relevant Lease (see "Risks Relating to the Portfolio—Forfeiture and Relief from Forfeiture" below). However, the level of arrears in the past have not been significant enough to suggest the Issuer, as a result of such shortfalls, would be unable to pay sums due under the Notes.

The Transfer Fees: The Portfolio Cashflows may be less than expected if receipt of Transfer Fees is not in line with anticipated levels. In such circumstances, the relevant Property Owner's ability to repay its respective Intercompany Loan and the Borrower's ability to repay the Funding Loan, may be impaired.

Transfer Fees Vary with Property Values: The value of property such as sheltered housing developments can be affected significantly by the supply and demand in the market for sheltered housing accommodation, perceptions by prospective tenants of the safety, convenience, condition, services and attractiveness of the Properties; the proximity and availability of competing alternatives to the Properties; the willingness and ability of the Property Owners to provide capable management and adequate maintenance; demographic factors;

consumer confidence and retroactive changes to building or similar regulations. In addition, other factors may adversely affect the Properties' value without affecting their current net operating income, including: changes in governmental regulations, fiscal policy and planning or tax laws; potential environmental legislation or liabilities or other legal liabilities; the availability of financing; and changes in interest rate levels.

Transfer Fees Vary with the Rate of Change of Ownership of the Apartments: Transfer Fees are payable in respect of the Apartments when the ownership of Apartments change. The rate at which the Property Owners receive Transfer Fees will to a large extent vary with mortality rates for Tenants at such Properties, the general health of such Tenants and the rate at which Tenants leave sheltered housing for nursing homes or hospital care.

The Wardens' Apartments Rentals: The Wardens' Apartments Rentals generated from the portfolio are subject to the following risks:

The terms of the Leases of the Wardens' Apartments provide that the Wardens' Apartments Rentals increase annually (or, in a small number of cases, every 5 years) by the higher of the increase (if any) in RPI or the market value of apartments in the relevant development. As such, there is a risk that significant increases in market value could lead to the Wardens' Apartments Rentals becoming higher than market rental rates for equivalent properties and hence Tenants at the relevant Property becoming liable to large Service Charge payments in relation thereto. In such circumstances, there can be no assurance that the Tenants would not seek legal relief from such increases. However, the Property Owners will covenant in the Intercompany Loan Agreement to act prudently in relation to this and are expected to wholly or partly waive excessive increases in Wardens' Apartments Rentals which arise by virtue of significant increases in house prices.

Ground Rents on Unsold Apartments: As at 25 November, 2005, 1096 of the Apartments (representing 7.02 per cent. of the total number of Apartments and accounting for 16.7 per cent. of total Ground Rents) are either subject to Leases granted to Peverel or certain affiliates of McCarthy & Stone (Developments) Limited (the developer of the Properties) ("McCarthy & Stone") pending their sale to individual retirees, or pending such sale subject to arrangements whereby such an affiliate of McCarthy & Stone is obliged to fulfil all of the obligations of a Tenant as if a Lease had been granted of such Apartment (including payment of Ground Rents). This reflects the usual arrangements made by McCarthy & Stone for recently built properties, which have been followed since 1996 when the Property Owners began acquiring the Properties from McCarthy & Stone. On average the Apartments get sold out within three years of the relevant lease commencement date. If Peverel or the relevant affiliates of McCarthy & Stone become insolvent or otherwise default on such obligation, the ability of the Property Owners to meet their obligations under the Intercompany Loans (and hence the ability of the Borrower to meet its obligations under the Funding Loan and the Issuer to meet its obligations under the Notes) may be adversely affected. However, in such circumstances, the relevant Property Owners will be entitled to exercise various remedies against Peverel or such affiliates (as relevant) including, where Peverel or the affiliate has been granted a Lease, applying to the court for forfeiture (see "Risk Factors Relating to the Portfolio — Forfeiture and Relief from Forfeiture" below).

Servicing and Reliance on Third Parties: The following risks arise in connection with property management and the reliance of the Issuer, the Borrower and the Property Owners on third parties:

Managing Agent: Ground Rents, Transfer Fees and Wardens' Apartments Rentals will be collected and administered by and each Property is, and will be, managed as to general upkeep and day-to-day operations by the Managing Agent (See "Description of the Principal Documents"). The Borrower and the Property Owners will rely upon the efforts, abilities and the exercise of any discretions of and by the Managing Agent for property management services and payment collection in respect of all of its respective Properties. The duties of the Managing Agent are not overly specialised (although Peverel is a highly experienced manager of such portfolios) and the duties could readily be performed by a number of alternative service providers. In the absence of a suitable substitute, however, the loss of the services of the Managing Agent or of its directors and/or officers could have a material adverse effect on the management of the Properties.

In the circumstances described under "Description of the Principal Documents", the Managing Agent is entitled to cease to act as such under the Property Management Agreements. There can be no assurance that a successor could be found who would be willing to act as managing agents. The Note Trustee has no obligation to, and will not act, as a managing agent.

Neither the Issuer nor the Note Trustee can compel the Managing Agent to perform its management duties in respect of the Properties or to comply with the terms of its Property Management Agreements in respect of the management of the Properties.

Collections by the Managing Agent: Payments of Ground Rents, Transfer Fees and Wardens' Apartments Rentals are not required to be made directly into a lockbox account, accordingly there is a risk that the Managing Agent could divert those funds. However, all Ground Rents are paid directly into a trust account entitled the "PMSL ECS Receipts Account" and are immediately transferred overnight after the day of receipt into another trust account entitled the "PMSL ECS Ground Rent Account". These amounts will be transferred on a weekly basis by the Managing Agent to the relevant Property Owner Transaction Account within one week of receipt. Transfer Fees are paid by the Managing Agent into a trust account in favour of the Landlords entitled the "PMSL Landlords Account" and are transferred to the relevant Property Owner Transaction Account within one week of the end of the relevant month. The Wardens' Apartments Rentals and other service charge amounts in the Estates Account are held on trust for the Tenants by operation of law. Nevertheless, in the event of the Managing Agent becoming insolvent, some Ground Rents, Transfer Fees, Wardens' Apartments Rentals and other amounts may be lost which may affect the Issuer's ability to make payments due under the Notes.

In addition, the Estates Account is in the name of the Managing Agent (on trust for the relevant Tenants). If at any time it becomes necessary to replace the Managing Agent, it will also be necessary to direct Tenants to redirect payments of Ground Rents, Transfer Fees and other sums to an account with the replacement managing agent. There can be no assurance that Tenants will promptly comply with such directions and accordingly there is a risk in such circumstances that the Property Owners may experience delays in collecting all amounts due to them from Tenants and/or reclaiming any mistaken payments from the Managing Agent. Although the Liquidity Facility, the General Cash Reserve Account and the Transfer Fee Reserve Account may be drawn upon in such circumstances, if such funds are insufficient these delays may result in defaults on the Intercompany Loans, the Funding Loan and the Notes.

Legal Rights of Tenants: Current law and legislation may have an adverse effect on the anticipated Portfolio Cashflows. Set out below is a brief outline of certain laws and legislative provisions relating, *inter alia*, to forfeiture and relief from forfeiture, enfranchisement and lease renewal, rights of pre-emption.

Forfeiture and Relief from Forfeiture: If a Tenant defaults in payment of Ground Rent or other sums due under his or her Lease the principal remedy available to the relevant Property Owner is to seek to forfeit the relevant Lease. However, relief from forfeiture may be granted to a Tenant by the High Court or County Court. This relief is generally available for up to six months after the forfeiture has occurred, although this can be extended depending on the circumstances of the particular case. Broadly, relief will be granted where the breach is capable of remedy, and it will be a condition of the order for relief that the breach is remedied, for example, in the case of forfeiture for non-payment of ground rent, relief would only be granted upon payment by the tenant of all outstanding arrears of rent, interest and costs. The courts have a very broad scope as to the terms and conditions of the order.

To date, save for a single isolated incident, there have been no instances of Property Owners forfeiting Leases for non-payment of Ground Rents. For further information, see "Description of the Assets and the Cashflows—Forfeiture and Relief from Forfeiture" below.

Enfranchisement: Pursuant to Part I of the Leasehold Reform, Housing and Urban Development Act 1993 (the "LRHUDA 1993"), as amended by the Housing Act 1996 and the Leasehold and Commonhold Reform Act 2002, qualifying tenants collectively have a right to purchase the freehold of the building in which they are tenants ("Enfranchisement"). In such circumstances, the Property Owners would receive a capital receipt for any enfranchisement that occurs, but there can be no assurance this will be sufficient to repay the amount of the relevant Intercompany Loan referable to the relevant Lease.

The Leases in the portfolio were entered into within the last 14 years with terms of 125 years (with a very small number having terms of 99 years). It is unlikely that the Tenants within the portfolio will obtain significant economic value from exercising their Enfranchisement or lease renewal rights ("Lease Renewal") prior to the Final Maturity Date, as Enfranchisement or Lease Renewal would add little value to their leasehold interests in the Properties and would involve considerable cost and upheaval. Additionally, all the leasehold interests of the Tenants in the portfolio will at all times up to the Final Maturity Date of the Notes meet the current standard requirement of residential mortgage lenders that such Leases have unexpired terms of at least 60 years.

The Tenants within the Properties are individuals over the minimum age of 50, although the minimum age in some developments is 55, (having a current average age of 79.8) who have chosen to live in a sheltered housing community and as such seem unlikely to wish to assume responsibility for matters such as property maintenance which they would acquire through exercising their Enfranchisement rights.

The nature of many of the Properties (particularly apartment-style Properties) is such that any request for Enfranchisement will have to be made on a collective basis. Where this is the case, at least half of all of the Tenants will have to request enfranchisement together. This results in collective Enfranchisement claims being practically very difficult to organise. In addition, the circumstances which lead Tenants in any block of flats or apartment building to enfranchise are likely to relate to general dissatisfaction with the way in which the relevant Property is being managed. In such circumstances, Tenants will be able to replace the management company without actually enfranchising and may choose to do so as this is likely to be less costly and easier to implement.

To date, there have been no instances of Enfranchisement experienced by the Property Owners. To the extent that Enfranchisement occurs, the proceeds will be used by the relevant Property Owner to prepay up to 110 per cent. of the relevant Intercompany Loan. For further information on Enfranchisement, see "Description of the Assets and the Cashflows—Enfranchisement and Lease Proceeds" below.

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 Government Department generally in connection with proposed redevelopment or infrastructure projects. No such compulsory purchase proposals have been revealed in the Certificates of Titles issued by the solicitors to the Borrower in relation to any of the Properties.

If a compulsory purchase order was made in respect of a Property (or part thereof), compensation would be payable on the basis of the open market value of all of the Property Owners' proprietary interests in the Property (or part thereof) at the time of the related purchase. In the Funding Loan Agreement, each Property Owner will covenant to deposit the full amount of any such compensation received in its Capital Receipts Account to be applied as described in "Description of the Principal Documents – Funding Loan Agreement" below.

There is often a delay between the compulsory purchase of a property and the payment of any final elements of compensation, the length of which will largely depend upon the ability of the Property Owners and the entity acquiring the property to agree on the open market value. Should such a delay occur in the case of a Property, then, unless the relevant Property Owner or the Borrower has other funds available to it, a Loan Event of Default may occur. However, due to the large number of Properties held by the Property Owners and relatively small value of the Ground Rents, Transfer Fees and Wardens' Apartments Rentals generated by each individual Property, such shortfalls are unlikely to arise unless large numbers of Properties are compulsorily acquired at or around the same time which is in itself unlikely, given the geographic spread of the Properties. The Ground Rents, the Transfer Fees and the Wardens' Apartments Rentals continue to be payable until the relevant vesting order is made which vests the Property in the acquiring party. At that stage a substantial element of compensation would be payable to the Property Owner and the Tenants.

Right to Acquire due to bad management: The Landlord and Tenant Act 1987 as amended by the Housing Act 1996 (the "LTA 1987") gives tenants acquisition rights in the event of certain circumstances relating to proven "bad management" on behalf of the landlord. In such circumstances Tenants would be required to agree to the proposed sale price of the reversionary interest specified in the landlord's notice and accordingly pay such amount to the relevant Property Owners although there may be a timing delay when such payments are made (see "Description of the Credit Structure—Resources available to the Borrower—Receipts of Capital Payments" below).

The proceeds of the exercise of a right to acquire will be credited to the relevant Capital Receipts Account (see "Description of Bank Accounts and Cash Management—Capital Receipts Accounts" below).

This particular right involves a more cumbersome procedure than the rights which are available to Tenants under the right of pre-emption under the LTA 1987 or the right to enfranchise under the LRHUDA 1993 and so it is unlikely to be a route utilised by the Tenants. Furthermore, as described in "Enfranchisement" above, Tenants have the right to change managers in the event of proven bad management and are accordingly unlikely to seek to acquire their freehold as this would be more costly and complicated.

Set Off: Each Property Owner is obliged to perform certain specified obligations which generally relate to property maintenance and insurance. Where a Property Owner is in default of its obligations under a Lease, a right of set-off could be exercised in certain limited circumstances against the Property Owner by a Tenant of the relevant Apartment in respect of his or her rental obligations. The exercise of any such rights by a Tenant may affect the ability of the Property Owners or the Borrower to meet their obligations under the Intercompany Loans or the Funding Loan, respectively, which in turn may adversely affect the timely receipt of interest and principal by the Noteholders.

Consumer Legislation: In November 2003 as part of a general review of the terms of long-term leases of residential property by the Office of Fair Trading (the “OFT”), the original developer of the Properties received a formal objection to certain provisions of the Leases (including the Transfer Fees) from the OFT pursuant to the Unfair Terms in Consumer Contracts Regulations 1999 (“UTCC 1999”). UTCC 1999 specifies that certain contracts and contract terms must comply with a requirement of fairness in order to be enforceable but excludes from the assessment of fairness terms which are in plain intelligible language and which relate to the definition of the main subject matter of the contract being assessed (in this case, the Lease terms) and the adequacy of the price or remuneration to be paid.

The objections raised by the OFT relate to (a) the Transfer Fees and (b) certain specified Lease provisions such as rights of re-entry, exclusions of liability, penalties for late payments, provisions for variation of Service Charge, exclusions of set-off, etc.

As regards the Transfer Fees, the Issuer has been advised by leading counsel that, in such counsel’s opinion, the relevant Lease term provided to him (which is the typical term applicable to the majority of the Leases providing for Transfer Fees) taken in itself would clearly satisfy the test for fairness under UTCC 1999 and would be enforceable against the Tenants. The Borrowers and the Property Owners will represent to the Issuer, that, on the Closing Date, the Transfer Fees are legally valid, binding and enforceable obligations of the Tenants. None of the Property Owners has been involved in any legal proceedings in which the enforceability of Transfer Fees was raised, nor is the Issuer aware of any decided cases on the matter.

The other provisions to which the OFT has objected are, in many cases, standard provisions for leases of the same type as the Leases in this transaction. The objections raised have to be considered in the framework of Tenants who will have received independent legal advice and a detailed explanatory information pack prior to entering into their Leases. Some of the provisions to which objections have been raised benefit the Tenants collectively and it is argued that they have been misunderstood by the OFT.

The Issuer has been advised that (apart from the Transfer Fees discussed above), if necessary, the OFT’s objections to the provisions of the Leases could be addressed by relatively minor variations to the terms of the Leases or an appropriate undertaking for the relevant Property Owner not to enforce. If these matters are not resolved between the parties, the OFT may apply to court for an order preventing the continued use of the provisions of the Leases which it considers to be “unfair”. There can therefore be no assurance that the process of amending the Leases, if required to do so, will not have a material adverse affect on any investment in the Notes.

Further Reforms: Although there are no current public plans for further reform of the rights of Tenants holding long leasehold interests in land or buildings, there can be no assurance that such reforms will not be introduced prior to the Final Maturity Date of the Notes. These reforms could include further relaxations of the conditions tenants and leases must meet to be eligible for enfranchisement or lease renewal (particularly where this is sought on a collective basis), measures to reduce the cost of application and to increase the speed of the process and reductions to the amount of compensation payable to landlords.

There can be no certainty as to when, if at all, such reforms relating to leasehold property will be enacted or what their effect on the business of the Fairhold Homes Group might be.

Insurance: The Borrower and Property Owners will covenant in the Funding Loan Agreement and the Intercompany Loan Agreement, respectively, that they will insure the Properties on a full reinstatement basis and rental value loss as the Borrower shall determine, acting reasonably, which will initially be 3 years loss of rent. The Properties are, prior to the Closing Date, insured under an “All Risks” insurance policy (subject to usual policy exclusions, terms and conditions and including terrorism, covering physical loss or damage as well as business interruption, including loss of rent insurance, gross earnings loss and extra expenses, and the cost of providing the Tenants with alternative accommodation being additional expenses incurred as a result of physical loss or damage). For a description of the insurance cover, see further “Description of the Assets and the Cashflows—Insurance”.

After the expiry of a certain limited period during which the insurer will pay all Ground Rents and Wardens’ Apartments Rentals (if any) for 3 years in respect of the affected Property, the relevant Property Owners could cease to be entitled to both the rental income from part of its Property and further loss of rent insurance. The insurer will not pay anything towards loss of Transfer Fees. In addition, if those circumstances applied, the proceeds of the insurance taken out by the Borrower and the Property Owners (which will cover the costs of reinstatement) may not be sufficient to pay, in full, all the amounts due from the Borrower and the

Property Owners under the Funding Loan Agreement and the Intercompany Loan Agreement and, hence, the Notes. However, as the portfolio of Properties comprises 335 developments spread throughout England and Wales, the risks of significant loss are considered unlikely.

Legal Proceedings: There may be pending or threatened legal proceedings against the Property Owners or the Managing Agent and their respective affiliates arising out of the ordinary course of business of the Property Owners, the Managing Agent and their respective affiliates. Although the Property Owners will represent and warrant that as at the Closing Date they had no knowledge of pending or threatened legal proceedings against themselves, there can be no assurances that any potential future litigation will not have a material adverse effect on any investment in the Notes. The Issuer is not aware of any such pending or threatened litigation relating to the Properties, the Leases, the Ground Rents, the Transfer Fees or the Wardens' Apartments Rentals.

Legal Title: All of the Properties comprise registered land.

Due Diligence: The due diligence that has been undertaken in relation to the Properties is referred to below (see "Description of the Assets and the Cashflows") and was undertaken prior to entering into the Funding Loan Agreement. Priority Land Registry searches will be undertaken in respect of the Properties (for the benefit of the Security Trustee).

The Issuer will have the benefit of certain representations and warranties given to it by, *inter alios*, the Borrower, the Property Owners and the Parent in relation to, *inter alia*, the Properties, the Leases, the Ground Rents, the Transfer Fees and the Wardens' Apartments Rentals. However, the sole remedy of the Issuer against such parties in respect of any breach of warranty if the breach is material and is not capable of remedy (or is capable of remedy and is not remedied within the specified time) will be to default the Funding Loan and the Intercompany Loans. However, the occurrence of an event of default in relation to the Funding Loan and the Intercompany Loans and an enforcement of the Security Trust and Intercreditor Deed is unlikely to result in a default on the Notes for so long as the administrative receiver appointed by the Security Trustee in relation to the assets of the Property Owners is able to realise sufficient funds from such assets to meet payments due under the Funding Loan and the Intercompany Loans.

The Property Certificates: The Certificates of Title did not identify any material issues in relation to the Properties. However, the due diligence undertaken did reveal in respect of some of the Properties, potential breaches of restrictive covenants which are registered against the relevant title. However, these are mainly historic covenants and the Property Owners have confirmed that they have not received notice of any breach. Indemnity insurance protection has been obtained where necessary in the opinion of the relevant Property Owner or McCarthy & Stone. Where a Property has the benefit of a restrictive covenant indemnity insurance policy or defective title indemnity policy, the policy does benefit a mortgagee of the relevant Property.

Each Property is affected by a restriction on the title to the Property in favour of McCarthy & Stone. Where any disposition of the Property (including by way of charge) is made, the consent of McCarthy & Stone will be required. The restriction on the title has been registered to protect McCarthy & Stone's commercial agreement with the relevant Property Owner. Osborne Clarke, solicitors to the Borrower and the Property Owners, have confirmed that they will obtain a blanket consent to the disposition following any enforcement of the charge by the Security Trustee.

As at the date of the Certificates of Titles, the local authority searches which have been conducted by solicitors to the Borrower are over three months old. In any financing of property it is usual practice to ensure that such searches remain less than three months old to ensure that the search results are as current as possible and to prevent any additional encumbrances which may affect any property from not being disclosed. Each Property Owner has however confirmed that to the best of its knowledge (including in respect of matters which may have been disclosed by a revised local authority search), information and belief, the information contained in the Certificates of Title is complete and accurate in all respects.

Limitations of Valuations: The value of the Portfolio Cashflows as at 17 August 2005 as determined by Mercer Oliver Wyman was £497,900,000 and was based on each Property's Ground Rents, the Wardens' Apartments Rentals, the Transfer Fees, their long-term residual value, other sources of income under the Leases and the management contracts and schedules showing the historic numbers and amounts of Transfer Fees received. For risks where there is no liquid market, the valuation is based on the appraiser's best estimates of business experience, with a margin for prudence where appropriate. There can be no assurance that another appraiser would come to the same conclusion as to the value of the Properties (and their income) as the current appraisers. There can be no assurance that the value of the Properties (and their income) will be equal to or

greater than the unpaid principal and accrued interest and any other amounts due under the Intercompany Loan Agreement. If the Properties (and their income) are sold following a Loan Event of Default, there can be no assurance that the net proceeds of such sale will be sufficient to pay in full all amounts due under the Intercompany Loan Agreement and thereby the Funding Loan Agreement. In particular, it should be noted that the Properties (and their income) are specialised property assets for which no ready market may exist.

Risks Related to Headleases: The Property Owners' interest in 4 of the Properties, representing 1.19 per cent. of the Properties based on numbers of units, are held under headleases. In the case of leasehold Properties (or leasehold parts of Properties) located in England which are sublet (by the Property Owner of that Property), there is also a risk of the rents being diverted to a superior landlord by a notice under Section 6 of the Law of Distress Amendment Act 1908 if the relevant Property Owner fails to pay the rent under the relevant headlease. It may also be diverted voluntarily by the sub-tenant in accordance with Section 21 of that Act. However, the amount of rent payable under headleases is nominal by comparison to the amount of rent payable by the Tenants. Any such superior landlord may only retain the amount of rent payable under the relevant headlease and not all of the rent payable by the Tenants.

Risks Relating to the Credit Structure of the Transaction

Refinancing Risk: The Funding Loan and the Intercompany Loans are not expected to amortise before their respective maturity dates in 2015. The repayment of the Funding Loan and the Intercompany Loans will depend significantly on the ability of the Borrower and the Property Owners to refinance the Funding Loan and the Intercompany Loans or to sell their respective assets prior to their respective maturity dates. The availability of credit for the Borrower and the Property Owners to refinance the Funding Loan and the Intercompany Loans or their ability to sell their respective assets at maturity will be dependent upon financial market conditions then prevailing in England and Wales, as well as the willingness and ability of lenders to make such loans. The availability of funds in the credit markets fluctuates and there can be no assurance that such funds will be available. In addition, the availability of assets similar to those of the Borrower and the Property Owners, and competition for available credit, may have a significant effect in refinancing the assets of the Borrower and the Property Owners.

The Issuer is under no obligation to provide any such refinancing and there can be no assurance that the Borrower and the Property Owners would be able to refinance the Funding Loan and the Intercompany Loans or sell any of their respective assets.

Failure by the Borrower and the Property Owners to refinance the Funding Loan and the Intercompany Loans or sell any of their respective assets on or prior to the maturity date of the Funding Loan may result in the Borrower defaulting on the Funding Loan or the Property Owners defaulting on the Intercompany Loans. 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.

Limited Remedies on Default: The principal remedy available following a default under the Notes, the Funding Loan Agreement, the Intercompany Loan Agreement, the Issuer Deed of Charge or the Security Trust and Intercreditor Deed is the appointment of a receiver over the Properties or over all of the charged assets of the Borrower, the Property Owners or the Parent (the "**Charged Assets**"). 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. Payments made in respect of such an indemnity would rank ahead of payments on the Notes.

The usual practice in England and Wales in respect of transactions where the secured creditor has the power to do so (see "Enterprise Act 2002" below) would be for the receiver appointed by the Security Trustee or Note Trustee, as appropriate to be an administrative receiver so that such receiver will have the additional rights and powers conferred on such administrative receivers by the Insolvency Act 1986, as amended, and so that by virtue of such appointment, the Security Trustee can prevent the administration (and consequent moratorium on enforcement of security) of the relevant company. An administrative 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 or the Note Trustee unduly directs or interferes with and influences the receiver's actions, a court may decide that the receiver is the Security Trustee's or the Note Trustee's agent and that the Security Trustee or the Note Trustee, as the case may be, should be responsible for the receiver's acts.

Risks Relating to the Borrower Transaction Account: The charge over the Borrower Transaction Account is expressed to be a fixed charge. However, under English law, whether or not a charge over book debts, such as the Borrower Transaction Account, is fixed or floating will depend on the circumstances of the case, and it is possible that such a charge will take effect only as a floating charge. The Borrower Transaction Account will be structured with the intention that the Security Trustee with control over the operation of the account commensurate with such security taking effect as a fixed charge.

ISDA Master Agreement Termination Risks: The Issuer will enter into an Issuer ISDA Master Agreement with each Issuer Swap Counterparty and Issuer Deposit Taker which will govern the terms of the Issuer Interest Rate Swaps, the Issuer RPI Swaps and the Issuer Deposit Contracts. Similar swaps will cascade through the structure, under the Borrower ISDA Master Agreement and the Property Owners' ISDA Master Agreements. The Issuer ISDA Master Agreements may terminate due to the occurrence of an Event of Default or a Termination Event each as defined in each of the Issuer ISDA Master Agreements. These events will include (a) failure to pay; (b) default of a non-payment obligation by the relevant Issuer Swap Counterparty and/or Issuer Deposit Taker; (c) illegality; (d) the occurrence of a Rating Event on the downgrade of the rating of the relevant Issuer Swap Counterparty or Issuer Deposit Taker; (e) a repayment of the Notes in full; (f) if the Issuer Swap Counterparty or Issuer Deposit Taker is, or there is a substantial likelihood that it will be, (i) required to pay additional amounts in respect of tax or (ii) receive payments from which the Issuer is required to deduct or withhold; and (g) the occurrence of the Loan Maturity Date. The Borrower Swaps, the Borrower Deposit Contracts, the Property Owners' Swaps and the Property Owners' Deposit Contracts will terminate only if (a) the Issuer Swaps and the Issuer Deposit Contracts terminate or (b) for reasons of illegality or the imposition of withholding tax on payments thereunder, (any such termination will result in a termination of the Issuer Swaps and the Issuer Deposit Contracts unless confirmations are available from the Rating Agencies confirming that such termination will not adversely affect the ratings of the Notes).

The Issuer ISDA Master Agreements will provide that in circumstances where the Notes are prepaid in whole or in part, a corresponding portion of the Issuer Swaps and the Issuer Deposit Contracts will terminate. As a result a corresponding portion of the Swaps and Deposit Contracts under the Borrower ISDA Master Agreement and the Property Owners' ISDA Master Agreement(s) will also terminate. In addition, although certain of the Issuer Swaps and the Issuer Deposit Contracts extend well beyond the Final Maturity Date of the Notes, the Issuer Swap Counterparties and/or the Issuer Deposit Takers will have the option to terminate the Issuer Swaps and the Issuer Deposit Contracts on the earlier of the Loan Maturity Date and the repayment of the Notes, which will in turn lead to a right on the part of the Issuer and Borrower to terminate the corresponding Swaps and Deposit Contracts under the Borrower ISDA Master Agreement and the Property Owners' ISDA Master Agreement(s) respectively. Any termination of an ISDA Master Agreement in whole or in part may give rise to a net termination payment becoming payable.

If the Issuer is unable to recover additional amounts from the Borrower under the Borrower ISDA Master Agreement and under the other Transaction Documents and/or the Borrower is unable to recover additional amounts from the Property Owners under the Property Owners' ISDA Master Agreement(s) and under the other Transaction Documents amounts available to repay amounts on the Notes will be reduced. There can be no assurance that the Issuer, the Borrower or, as the case may be, the Property Owners will have sufficient funds available to make a termination payment under the relevant ISDA Master Agreement.

Long term swaps in respect of RPI and interest rates are specialised instruments. As such there can be no assurance, should the Issuer ISDA Master Agreements terminate, that the Issuer will be able to find a replacement transactions on the same or on similar terms (particularly in relation to term and pricing), or if replacement swap transactions are entered into, that the credit rating of the replacement swap counterparty will be sufficiently high to prevent a downgrade of the then current ratings of the Notes by the Rating Agencies. If either of the Issuer ISDA Master Agreements is terminated and the Issuer is unable to find an alternative swap counterparty then the Issuer may be exposed to the risk that the amounts it receives from the Borrower may be insufficient to meet in full its payment obligations under the Notes.

For a more detailed description of the hedging arrangements for the transactions described in this Offering Circular see "Description of the Principal Documents" below.

Risks Relating to the Deposits: The Issuer, the Borrower and the Property Owners will partly rely on the Deposits pursuant to the Deposit Contracts to meet amounts due on the Notes, payments under the Funding Loan and the Intercompany Loans, respectively. If either of the Issuer Deposit Takers default in the performance of their obligations under the Issuer Deposit Contracts, the Issuer may ultimately have insufficient funds to meet its payment obligations under the Notes. This may result in a Note Event of Default. If there is

such a failure to pay by an Issuer Swap Counterparty this would constitute an Event of Default under the Issuer ISDA Master Agreement which would enable the Issuer to terminate the Issuer ISDA Master Agreement. On such termination an aggregate net termination amount would be calculated in respect of the Issuer Swaps and the Issuer Deposit Contracts. If this aggregate net amount would be payable by the relevant Issuer Swap Counterparty or Issuer Deposit Taker and such party fails to pay the amount on demand, the only remedy available to the Issuer will be to sue the Issuer Swap Counterparty or Issuer Deposit Taker for damages for breach of contract. There can be no assurance that the Issuer Swap Counterparty or Issuer Deposit Taker will have sufficient funds to meet such damages or that the Issuer will have sufficient funds to undertake such action, that such action can be completed prior to the Final Maturity Date of the Notes or that such action will be successful or will produce sufficient funds to meet all payments then due on the Notes. HBOS Treasury Services plc's obligations are guaranteed by The Governor and Company of the Bank of Scotland which is rated AA+ by Fitch and Aa2 by Moody's. UBS AG, London Branch as the other Issuer Swap Counterparty/Issuer Deposit Taker is rated AA+ and Aa2 by Fitch and by Moody's, respectively. If the credit ratings of an Issuer Swap Counterparty or Issuer Deposit Taker or its guarantor (as the case may be) are downgraded or placed on a negative creditwatch, the credit ratings of the Notes are likely to be adversely affected. If such a downgrade leads to a Rating Event then the relevant Issuer ISDA Master Agreement may be terminated.

Limited Recourse: Payments on the Notes are dependent on the receipt by the Issuer of funds under the Funding Loan Agreement, the Swaps and the Deposit Contracts.

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 to or *pari passu* with amounts due under the Notes), then the Issuer's obligation to pay such amounts will be deferred until the first anniversary of the Final Maturity Date. Enforcement of the Issuer Security is the only remedy available for the purpose of recovering amounts owed in respect of the Notes.

The Notes and the interest thereon will be primary obligations of the Issuer only and will not be obligations or responsibilities of, or guaranteed by, any other person or entity. In particular, the Notes will not be obligations or responsibilities of, and will not be guaranteed by the Relevant Parties or any company in the same group of companies as, or affiliated to, the Sponsor. Furthermore, no persons other than the Issuer will accept any liability whatsoever to the Noteholders in respect of any failure by the Issuer to pay any amount due under the Notes.

Subordination: Save as provided in the Conditions, payments of principal, interest and other amounts on the Class A Notes will be made in priority to payments of principal, interest and other amounts on the Class B Notes. Upon enforcement of the security for the Notes, there may be insufficient funds available after payment of all other claims ranking in priority to or *pari passu* with the Class B Notes to pay in full all principal, interest and other amounts in respect of the Class B Notes. Class B Noteholders should, therefore, have regard to the risk factors identified herein in determining the likelihood or extent of any such shortfall.

Subordination of Additional Margin: Additional Margin on the Class A Notes will be subordinated to interest otherwise payable on the Class A Notes. There can be no assurance that such amounts will be paid in a timely fashion or indeed at all. Furthermore, non-payment of Additional Margin does not result in a Note Event of Default. Accordingly there can be no assurance that Noteholders will receive Additional Margin.

Sufficiency of Reserves: Amounts standing to the credit of the General Cash Reserve Account will be available only to meet the payment of unpaid Borrower Senior Expenses and Property Owner Senior Expenses in the circumstances described in "Description of the Credit Structure—General Cash Reserve". The General Cash Reserve Account will also be subject to a minimum balance of £1,000,000 (the "**General Cash Reserve Required Amount**"). Amounts standing to the credit of the Transfer Fee Reserve Account will be available only to meet items (1) to (11) in the Borrower Pre-Enforcement Priority of Payments (including to make repayments on the Reserve Loans on any Loan Payment Date to enable the Property Owners to meet items (1) to (10) in the Property Owner Pre-Enforcement Priority of Payments). The Transfer Fee Reserve Account will be credited with £18,000,000 on the Closing Date, which will in certain circumstances be reduced. The Transfer Fee Reserve Account will also be subject to the Transfer Fee Reserve Required Amount as described below. On an enforcement of the Security Trust and Intercreditor Deed, amounts standing to the credit of the General Cash Reserve Account, the Transfer Fee Reserve Account and each Repayment Reserve Account will be applied to meet the claims of all of the parties referred to in the Issuer Pre-Enforcement Priority of Payments and the Borrower Post-Enforcement Priority of Payments in accordance with their respective priorities thereunder.

Availability of the Liquidity Facility: Pursuant to the terms of the Liquidity Facility Agreement, in the event that on any Loan Payment Date the Issuer is unable to pay in full items (1) to (9) of the Issuer Pre-Enforcement Priority of Payments, the Issuer will have available to it (subject to the satisfaction of the conditions to drawing) monies under the Liquidity Facility. In addition, drawings may be made under the Liquidity Facility Agreement in respect of Borrower Senior Expenses and Property Owner Senior Expenses. In such circumstances the ability of the Issuer to meet its obligations under the Notes will be dependent upon, *inter alia*, the receipt of funds by it from the Liquidity Provider. In addition, in relation to funding payments of interest on the Class B Notes only, drawings on the Liquidity Facility will be limited to £1,840,000. No drawing under the Liquidity Facility may be used to repay principal on any of the Notes. The amount available for drawings will reduce as the amount available under the Liquidity Facility is reduced in line with repayments of principal on the Notes.

Rights Available to the Issuer Swap Counterparties and Holders of Notes of Different Classes: The Note Trustee in certain circumstances is obliged to have regard only to (for so long as there are any Class A Notes outstanding) the interests of the Class A Noteholders if, in the Note Trustee's opinion, there is a conflict between the interests of the Class A Noteholders and the Class B Noteholders and/or any other Secured Creditors under the Issuer Deed of Charge. Where the outstanding unpaid balance of any class of Notes has fallen to less than 10 per cent. of its original amount as of the Closing Date, the Note Trustee will look to the interests of the holders of such class of Notes together with the holders of the next most senior class of Notes as a single class.

In relation to any meeting or resolution of Noteholders in respect of any Reserved Matter, each Issuer RPI Swap Counterparty will be entitled to attend such meeting and vote on such resolution as if they were Class A Noteholders holding Class A Notes (or, if the Class A Notes have been redeemed in full, Class B Noteholders holding Class B Notes) having a principal amount equal to the then "mark-to-market" value of their respective Issuer RPI Swaps (which may be substantial) calculated by an independent financial institution appointed by the Note Trustee.

There can be no assurance that the interests of the Class A Noteholders or, as the case may be, the Class B Noteholders and the interests of the Issuer Swap Counterparties will coincide in relation to any Reserved Matter.

Absence of Secondary Market; Limited Liquidity: Application has been made to the Financial Regulator in Ireland, as competent authority under the Prospectus Directive, for the Prospectus to be approved. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and to trading on its regulated market. There is not, at present, a secondary market in the Notes. There can be no assurance that a secondary market 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.

Ratings of Notes: The ratings assigned to the Notes by the Rating Agencies are based on the Funding Loan, the Borrower Security, the Properties and other relevant structural features of the transaction, including, *inter alia*, the short term unsecured, unguaranteed and unsubordinated debt ratings of the Issuer Swap Counterparties and the Issuer Deposit Takers. These ratings reflect only the views of the Rating Agencies. A rating does not represent any assessment of the yield to maturity that a Noteholder may experience. The ratings assigned by Moody's address the expected loss in proportion to the initial principal amount of each Class of Notes posed to any Noteholder by the Final Maturity Date. The ratings assigned by Fitch address (a) the timely payment of interest on each Payment Date and (b) the ultimate repayment of principal on a Payment Date not later than 15th October 2017. The ratings applicable to the Class A Notes do not address the likelihood of receipt of Additional Margin. 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 either or both 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 downgrade, withdrawal or qualification of any of the ratings mentioned above may impact upon the ratings 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.

Withholding Tax: In the event withholding taxes are imposed in respect of payments to Noteholders of amounts due pursuant to the Notes, neither the Issuer nor any other person is obliged to gross-up or otherwise compensate Noteholders for the lesser amounts the Noteholders would receive as a result of the imposition of such withholding taxes.

If either (a) an Issuer Swap Counterparty or an Issuer Deposit Taker is required to make a deduction or withholding for or on account of tax from any payment to be made to the Issuer under an Issuer ISDA Master Agreement and such Issuer Swap Counterparty or Issuer Deposit Taker is required to increase its payment to the Issuer so that the amount received by the Issuer is equal to the amount which the Issuer would have received had that deduction or withholding not been required to be made, or (b) an Issuer Swap Counterparty or an Issuer Deposit Taker receives a payment from the Issuer under the relevant Issuer ISDA Master Agreement in respect of which the Issuer has been required to deduct or withhold an amount for or on account of tax and consequently the amount received by the relevant Issuer Swap Counterparty or Issuer Deposit Taker is less than the amount which that Issuer Swap Counterparty or Issuer Deposit Taker would have received had that deduction or withholding not been required to be made, then the relevant Issuer Swap Counterparty or Issuer Deposit Taker may terminate the relevant Issuer ISDA Master Agreement and, in the event that a termination payment is due to be made by the Issuer to an Issuer Swap Counterparty or an Issuer Deposit Taker as a result of such termination, such termination payment and any related costs will rank ahead of all payments due to the Noteholders.

If the Issuer, the Borrower or any Property Owner is required to make a deduction or withholding for or on account of tax from any payment to be made by it under the Funding Loan, the Borrower ISDA Master Agreement, or any of the Property Owners' ISDA Master Agreements, as applicable, and the parties thereto are not able to make arrangements to avoid the application of such withholding, the Issuer may not be able to meet all payments of interest and principal on the Notes and/or an early redemption of the Notes may result.

Capital Receipts Accounts: Each Property Owner will covenant in the Intercompany Loan Agreement to deposit certain of such Property Owner's Capital Receipts associated with the Properties including, among other things, compensation for successful enfranchisement claims by Tenants and compulsory purchases of any Properties in such Property Owner's Capital Receipts Account. Each Property Owner will covenant in the Funding Loan Agreement to seek to apply certain amounts standing to the credit of the Capital Receipts Accounts towards the prepayment of the Intercompany Loans which will result in a partial early redemption of the Notes. Such circumstances could result in Noteholders being repaid principal on their Notes earlier than anticipated.

Other Legal and Regulatory Risks

E.U. Directive on the Taxation of Savings Income: On 3 June 2003, the European Council of Economics and Finance Ministers adopted a Directive on the taxation of savings income. Under the Directive, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However for a transitional period, Belgium, Luxembourg and Austria will instead be required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). The Issuer is not obliged to gross-up or otherwise compensate Noteholders for the lesser amounts the Noteholders would receive as a result of such withholding or deduction.

Introduction of the Euro: It is possible that, prior to the maturity of the Notes, the United Kingdom may become a participating Member State in Economic and Monetary Union and that therefore the euro may become the lawful currency of the United Kingdom. If so, (a) all amounts payable in respect of the Notes may become payable in euro, (b) the introduction of the euro as the lawful currency of the United Kingdom may result in the disappearance of published or displayed rates for deposits in sterling used to determine the rates of interest on the Notes or changes in the way those rates are calculated, quoted and published or displayed and (c) applicable provisions of law may allow the Issuer to re-denominate the Notes into euro and take additional measures in respect of the Notes.

If the euro becomes the lawful currency of the United Kingdom and the Notes are outstanding at the time, the Issuer intends to make payments on the Notes in accordance with the then market practice of payments on such debts. It cannot be said with certainty what effect, if any, the adoption of the euro by the United Kingdom may have on investors in the Notes. The introduction of the euro could also be accompanied by a volatile interest rate environment which could adversely affect the Borrower's ability to repay the Funding Loan.

Proposed Changes to the Basel Accord: The Basel Committee on Banking Supervision (the “Committee”) has issued proposals for reform of the 1988 Capital Accord and has proposed a framework (the “Framework”) which places enhanced emphasis on market discipline and sensitivity to risk. The third consultative paper on the New Basel Capital Accord was issued on 29 April 2003, with the consultation period ending on 31 July 2003. The Committee announced on 11 May 2004 that it had achieved consensus on the remaining issues and published the text of the new Framework on 26 June 2004 under the title Basel II: International Convergence of Capital Measurement and Capital Standards: a Revised Framework. This Framework will serve as the basis for national rule-making and approval processes to continue and for banking organisations to complete their preparations for implementation of the new Framework. The Committee confirmed that it is currently intended that the various approaches under the Framework will be implemented in stages, some from year-end 2006; the most advanced at year-end 2007. If implemented in accordance with its current form, the Framework could affect risk weighting of the Notes in respect of certain investors if those investors are subject to the new Framework following its implementation. Consequently, investors should consult their own advisers as to the consequences to and effect on them of the proposed implementation of the new Framework. No predictions can be made as to the precise effects of potential changes which might result if the Framework were adopted in its current form.

Enterprise Act 2002: On 15 September 2003, the corporate insolvency provisions of the Enterprise Act 2002 came into force, amending certain provisions of the Insolvency Act 1986 (as amended, the “Insolvency Act”). These provisions introduced significant reforms to corporate insolvency law. In particular, the reforms restrict the right of the holder of a floating charge to appoint an administrative receiver (unless an exception applies) and instead give primacy to collective insolvency procedures (in particular, administration). Previously, the holder of a floating charge over the whole or substantially the whole of the assets of a company had the ability to block the appointment of an administrator by appointing an administrative receiver, who would act primarily in the interest of the floating charge holder.

However, Section 72B of the Insolvency Act contains provisions which continue to allow for the appointment of an administrative receiver in relation to certain transactions in the capital markets. The relevant exception provides that the right to appoint an administrative receiver is retained for certain types of security (such as that created by the Issuer Deed of Charge and the Security Trust and Intercreditor Deed) which form part of a capital market arrangement (as defined in the Insolvency Act) and which involves both indebtedness of at least £50,000,000 (or, when the relevant security document (being in respect of the transactions described in this Offering Circular the Issuer Deed of Charge and the Security Trust and Intercreditor Deed) was entered into, a party to the relevant transaction (such as the Issuer) was expected to incur a debt of at least £50,000,000) and also be the issuer of a capital market investment (also defined but generally a rated, listed or traded bond).

The Issuer is of the view that the floating charges created pursuant to each of the Issuer Deed of Charge and the Security Trust and Intercreditor Deed will fall within the “capital market exception” under Section 72B of the Insolvency Act. It should, however, be noted that the Secretary of State may, by secondary legislation, modify the capital market exception and/or provide that the exception shall cease to have effect. No assurance can be given that any such modification or provision in respect of the capital market exception, or its ceasing to be applicable to the transactions described in this document, will not be detrimental to the interests of the Noteholders.

The Insolvency Act also contains a new out-of-court route into administration for a qualifying floating charge-holder, the directors or the relevant company itself. The relevant provisions provide for a notice period during which the holder of the floating charge can either agree to the appointment of the administrator proposed by the directors or the company or appoint an alternative administrator, although a moratorium on enforcement of the relevant security will take effect immediately after notice is given. If the qualifying floating chargeholder does not respond to the directors’ or company’s notice of intention to appoint, the directors’ or, as the case may be, the company’s appointee will automatically take office after the notice period has elapsed. Where the holder of a qualifying floating charge within the context of a capital market transaction retains the power to appoint an administrative receiver, such holder may prevent the appointment of an administrator (either by the new out-of-court route or by the court based procedure) by appointing an administrative receiver prior to the appointment of the administrator being completed.

The new provisions of the Insolvency Act give primary emphasis to the rescue of a company as a going concern and achieving a better result for the creditors as a whole. The purpose of realising property to make a distribution to secured creditors is secondary. No assurance can be given that the primary purposes of the new provisions will not conflict with the interests of Noteholders were the Issuer ever subject to administration in England.

In addition to the introduction of a prohibition on the appointment of an administrative receiver as set out above, Section 176A of the Insolvency Act provides that any receiver (including an administrative receiver), liquidator or administrator of a company is required to make a “prescribed part” of the company’s “net property” available for the satisfaction of unsecured debts in priority to the claims of the floating charge holder. The company’s “net property” is defined as the amount of the company’s property which would be available for satisfaction of debts due to the holder(s) of any debentures secured by a floating charge and so refers to any floating charge realisations less any amounts payable to the preference creditors or in respect of the expenses of the liquidation or administration. The “prescribed part” is defined in the Insolvency Act 1986 (Prescribed Part) Order 2003 (SI 2003/2097) to be an amount equal to 50 per cent. of the first £10,000 of floating charge realisations plus 20 per cent. of the floating charge realisations thereafter, up to a maximum of £600,000.

The obligation does not apply if the net property is less than a prescribed minimum and the relevant office holder is of the view that the cost of making a distribution to unsecured creditors would be disproportionate to the benefits. The relevant officeholder may also apply to court for an order that the provisions of Section 176A should not apply on the basis that the cost of making a distribution would be disproportionate to the benefits. Floating charge realisations upon the enforcement of the Issuer Deed of Charge and the Security Trust and Intercreditor Deed may be reduced by the operation of these “ring fencing” provisions.

The Security Trust and Intercreditor Deed will be structured to limit the amount of assets which are subject to floating charges (or which are subject to fixed charges which might be recharacterised as floating charges (See “Risks Relating to the Borrower Transaction Account” above)). However, there can be no assurance that changes in the manner in which the powers given to the Issuer and the Security Trustee under the Funding Loan Agreement and the Security Trust and Intercreditor Deed are operated or changes in law (or interpretation of law) will not result in an increase in the amount of assets of the Borrower and Property Owners which are made available for unsecured creditors under these provisions.

Insolvency Act 2000: Under the Insolvency Act 2000, certain companies (“small companies”) are entitled to seek protection from their creditors for a period of 28 days for the purposes of putting together a company voluntary arrangements with the option for creditors to extend the moratorium for a further two months. A small company is defined as one which satisfies two or more of the following criteria:

- (a) its turnover is not more than £5.6 million;
- (b) its balance sheet total is not more than £2.8 million; and
- (c) the number of employees is not more than 50.

The position as to whether or not a company is a small company may change from time to time and consequently no assurance can be given that the Issuer, the Borrower or any Property Owner, at any given time, will not 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.

Secondary legislation has been enacted which excludes certain special purpose companies in relation to capital market transactions from the optional moratorium provisions. Such exceptions including (i) a company which is a party to the agreement which is or forms part of a capital market arrangement (as defined in that secondary legislation) under which a party has incurred or when the agreement was entered into was expected to incur a debt of at least £10 million and which involves the issuer of a capital market investment (also defined, but generally a rates, listed or traded bond (and (ii) a company which has incurred a liability (including a present, future or contingent liability) of at least £10 million. While the Issuer is of the view that the Issuer, the Borrower and the Property Owners should fall within the exceptions, there is no guidance as to how the legislation will be interpreted and the Secretary of State for Trade and Industry may by regulation modify the exceptions. No assurance may be given that any modification of the eligibility requirements for these exceptions will not be detrimental to the interests of Noteholders.

If any of the Issuer and/or the Borrower and/or the Property Owners are determined to be a “small” company and determined not to fall within one of the exceptions (by reason of modification of the exceptions or otherwise), then the enforcement of the security for the Notes by the Note Trustee and/or the enforcement of the security for the Funding Loan by the Security Trustee may, for a period, be prohibited by the imposition of a moratorium.

Risks relating to the introduction of International Financial Reporting Standards: The UK corporation tax position of the Issuer, the Borrower and the Property Owners depends to a significant extent on the accounting treatments applicable to them. From 1 January 2005, the accounts of the Issuer, the Borrower and the Property Owners have been required to comply with International Financial Reporting Standards (“IFRS”) or with generally accepted accounting principles in the UK (“UK GAAP”) which is in the process of being substantially aligned with IFRS. There is a concern that companies such as the Issuer, the Borrower and the Property Owners might, under either the IFRS or UK GAAP, be forced to recognise in their accounts movements in the fair value of the assets, that could result in profits or losses for accounting purposes, which bear little relationship to the company’s actual cash position. These movements in value would generally have been brought in to charge to tax (if not relieved) as a company’s tax liability on such assets broadly follows the accounting treatment. However, regulations have been enacted (SI 2004/3256 - “disregard regulations”) which disregard for tax purposes accounting gains and losses and fair value movements arising from certain derivatives and borrowings. In addition, the Finance Act 2005 contains powers for the Treasury to make Regulations which may allow ‘securitisation companies’ to elect to prepare tax computations for accounting periods beginning on or after 1 January 2005 on a different basis from other companies in order to mitigate the impact of IFRS. The Issuer (and possibly the Borrower and the Property Owners) are likely to be securitisation companies for these purposes.

The policy of HM Revenue & Customs is that the tax neutrality of securitisation special purpose companies in general should not be disrupted as a result of the transition to IFRS and that they are working with participants in the securitisation industry to identify appropriate means of avoiding any such disruption. However, if the Regulations are not introduced by HM Revenue & Customs or do not apply to the Issuer, the Borrower or the Property Owners, then profits or losses (which are not ignored for tax purposes under the ‘disregard regulations’) could arise in the Issuer, the Borrower or the Property Owners as a result of the application of IFRS or UK GAAP which could have tax effects not contemplated in the cashflows for the transaction and as such have a negative affect on the Issuer, or the Borrower’s ability to make repayments under the Funding Loan or the Property Owners’ ability to make payments under the Intercompany Loans, and therefore have an adverse affect to payments made to the Noteholders.

Emerging Requirements of the European Community: As part of the harmonisation of securities markets in Europe, the European Commission has adopted a directive known as the Prospectus Directive (which should have been implemented by Member States on 1 July, 2005) that will regulate offers of securities to the public and admissions to trading to E.U. regulated markets. The European Commission has adopted Directive 2004/109/EC (the “**Transparency Directive**”), (which must be implemented by Member States by the end of 2006) that, among other things, imposes continuing financial reporting obligations on issuers that have certain types of securities admitted to trading on an E.U. regulated market. In addition, Directive 2003/6/EC (the “**Market Abuse Directive**”) harmonises the rules on insider trading and market manipulation in respect of securities admitted to trading on an E.U. regulated market and requires issuers of such securities to disclose any non-public, price-sensitive information as soon as possible, subject to certain limited exemptions. The listing of Notes on the Official List of the Irish Stock Exchange and the admission of the Notes to trading on the regulated market of the Irish Stock Exchange would subject the Issuer to regulation under these directives, although the requirements applicable to the Issuer are not yet fully clarified. The Note Trust Deed will not require the Issuer to maintain a listing for Notes on an E.U. stock exchange if compliance with these directives (or other requirements adopted by the European Commission or a relevant member State) becomes burdensome in the sole judgment of the Note Trustee. There is no assurance that the Notes will continue to be listed on an E.U.-Regulated Exchange or, at all, during the duration of the transaction.

Special Purpose/Single Purpose Vehicles: An insolvency of the Borrower or any Property Owner would result in a Loan Event of Default with respect to the Funding Loan and/or the relevant Intercompany Loan giving rise to an acceleration of the Funding Loan and/or the relevant Intercompany Loan and an enforcement of the Security Trust and Intercreditor Deed. This could result in significant delays in the receipt by the Issuer of payments under the relevant Property which could adversely affect its ability to make all payments due on the Notes.

SPV covenants are generally designed to limit the purpose of a borrowing or security providing entity (such as the Borrower and the Property Owners) to making repayments on the Funding Loan and taking such other actions as may be necessary to carry out the foregoing in order to reduce the risk that circumstances unrelated to the Funding Loan and related Property result in a borrower insolvency. In order to minimise the possibility that SPVs will be the subject of insolvency proceedings, provisions are generally contained in the documentation relating to the Funding Loan that (“**SPV Covenants**”), among other things, limit the indebtedness that can be incurred by such entities, restrict such entities from conducting business as an operating company (thus limiting exposure to outside creditors) and require that such entities have one independent director whose votes are

required in order to undertake certain actions including, without limitation, the commencement of voluntary insolvency proceedings.

However, there can be no assurance that the Borrower and the Property Owners will be able to comply with the SPV Covenants and even if all or most of such SPV Covenants have been complied with by the Borrower and the Property Owners, there can be no assurance that the Borrower and the Property Owners will not nonetheless become insolvent.

The Borrower was incorporated for the purposes of acquiring the entire issued share capital in, *inter alia*, the Property Owners which own the legal and beneficial interests in the Ground Rents, Transfer Fees and Wardens' Apartments Rentals (and the titles to the related Properties) (whether directly or indirectly). If the Borrower complies with the SPV Covenants, it is unlikely to become insolvent for reasons unconnected with its entry into of the Funding Loan Agreement or the Intercompany Loan Agreement. However, the Property Owners were incorporated prior to the Closing Date in connection with the acquisition of the relevant Leases from affiliated entities. As such, the Property Owners have previously formed part of groups with third party entities and have been financed (directly or indirectly) by third party lenders. Accordingly, the Property Owners do not fully satisfy SPV criteria and so are more likely to become subject to insolvency proceedings than an entity which does satisfy such criteria such as the Borrower.

The security granted by the Borrower and the Property Owners will be structured to give the Security Trustee the power to appoint an administrative receiver over the assets of the Borrower and the Property Owners so as to avoid the moratorium that would arise on an administration of such companies. Furthermore, the Issuer has been informed by the parties to the issue of the Notes that due diligence has confirmed that the historical activities of the Property Owners has been limited to owning and financing the Ground Rents, Transfer Fees and Wardens' Apartments Rentals (and the titles to the related Properties).

However, there can be no assurance that the Property Owners will not become insolvent as a result of unforeseen contingent liabilities associated with their historical activities which will give rise to a need to accelerate the Funding Loan and accelerate the Security Trust and Intercreditor Deed in circumstances where no other event of default has occurred.

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, Cayman law and administrative practice in effect as at the date of this document. No assurance can be given as to the impact of any possible change to English law, Cayman law or administrative practice after the date of this document, 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.

Environmental Risks: 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 Property or the Borrower or any Property Owners, neither the Security Trustee nor the Note Trustee should incur responsibility for such liability prior to enforcement of the Funding Loan and the Security Trust and Intercreditor Deed, unless it could be established that the Security Trustee or the Note Trustee had entered into possession of the affected Property or could be said to be in control of the Property. After enforcement, the Security Trustee or the Note Trustee, if deemed to be a mortgagee in possession, or a receiver appointed on behalf of the Security Trustee or the Note Trustee, could become responsible for environmental liabilities in respect of a Property.

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 on the Property could result in personal injury or similar claims by private plaintiffs.

Risks Relating to Non-Compliance with Data Protection Laws: A breach of data protection laws may trigger claims for compensation for losses suffered due to such infringement. Data protection infringements are, in most cases, either-way offences which may be tried in a magistrates' court or by jury in the Crown Court and may on summary conviction lead to fines of up to £5,000. In the Crown Court fines have no maximum limit. The Managing Agent will be required under the Property Management Agreements to service the Leases in a

manner that permits the Property Owners and the Borrower to remain in compliance with applicable data protection laws.

Mortgagee in Possession Liability: The Security Trustee or the Note Trustee (if the Note Trustee has taken enforcement action against the Issuer) may be deemed to be a mortgagee in possession if the Security Trustee or the Note Trustee physically enters into possession of a Property or performs an act of control or influence which may amount to possession, such as submitting a demand direct to Tenants requiring them to pay Ground Rents, Transfer Fees, Wardens' Apartments Rentals and other sums due to the Security Trustee or the Note Trustee. It is likely that following a Loan Event of Default, notice would be served on the Tenants requiring all further Ground Rents, Transfer Fees, Wardens' Apartments Rentals and other sums due to be paid directly to the Issuer; this could result in the Security Trustee (or the Note Trustee if it has taken enforcement action against the Issuer) becoming a mortgagee in possession.

A mortgagee in possession has an obligation to account for the income obtained from the relevant Property and will be liable to a Tenant for any mis-management of the relevant Property. A mortgagee 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 Borrower, the Security Trustee is likely to appoint a receiver to collect the Ground Rents, Transfer Fees, Wardens' Apartments Rentals and other sums due on behalf of the Issuer which should have the effect of reducing the risk that either the Issuer or the Note Trustee is deemed to be a mortgagee in possession.

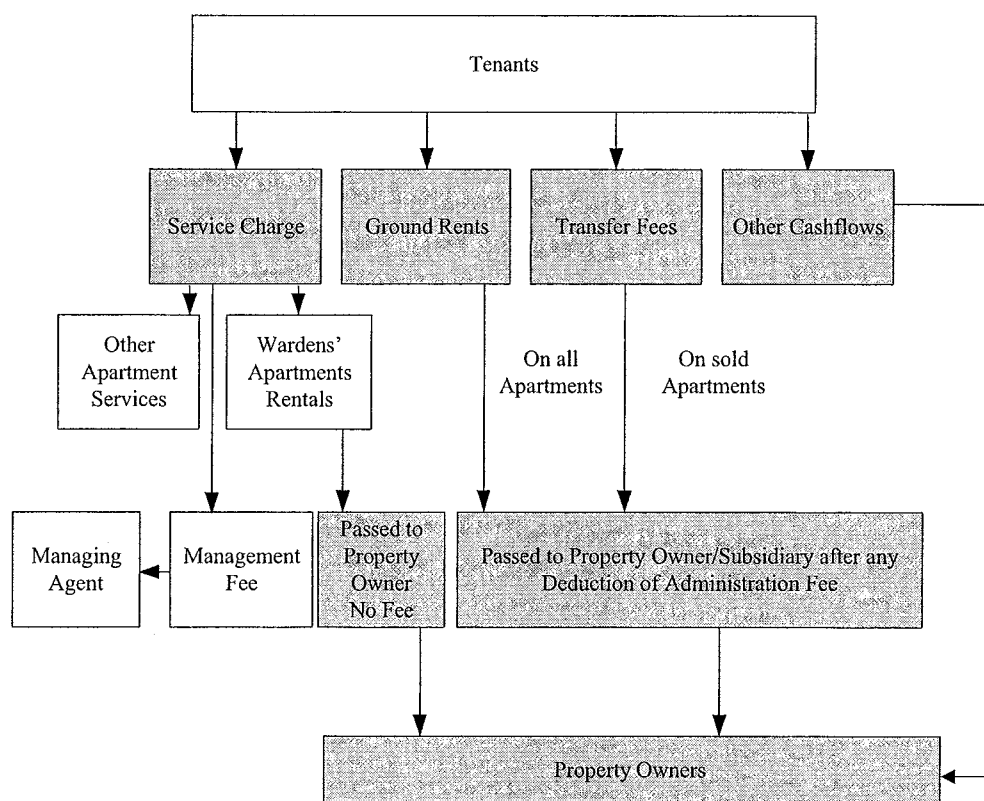
Frustration: A tenancy could, in exceptional circumstances, be frustrated under English law. Frustration may occur where superseding events radically alter the continuance of a tenancy for a party thereto, so that it would be inequitable for such a tenancy to continue.

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) (New Tenancies) 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 residential or 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.

Many of the existing tenancies in respect of the Properties as at the Closing Date were entered into before 1 January 1996 or pursuant to agreements for lease in existence before 1 January 1996. Therefore, because the Covenants Act has no retrospective effect, the original tenant of a tenancy of any such Property will remain liable under these tenancies 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 tenancy and would give an appropriate indemnity in respect of those liabilities to his predecessor in title, thus creating a "chain of indemnity".

The Issuer believes that the risks described above are the principal risks for the Noteholders inherent in the transaction, 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. The Issuer does not represent that the above stated risk factors are exhaustive. The Issuer believes that the structural elements described elsewhere in this Offering Circular go to mitigate a number of these risks for the Noteholders, nevertheless the Issuer can not give any assurance that those will be sufficient to ensure timely payment of interest, principal or any other amounts on or in connection with the Notes to the Noteholders.

DESCRIPTION OF THE ASSETS AND THE CASHFLOWS



The Properties

As at 30 March, 2006, the Property Owners collectively owned either the freehold or a long leasehold reversionary interest in 335 sheltered housing developments (each a “**Property**”), in England and Wales comprising 15,601 self-contained residential apartments (each an “**Apartment**”). The Properties forming the portfolio range in age up to 13 years from the date of the completion of construction of the relevant Property. Each Property comprises a number of Apartments which varies from 16 to 123 per Property (the average number of Apartments is 47). Each such Apartment is subject to an occupational lease granted for an original term of 125 years or, in a limited number of cases, for a term of 99 years (a “**Lease**”). Each Lease imposes a variety of covenants on the tenant reflecting the nature of the sheltered housing developments to which they relate. For example, Leases have a requirement that the person occupying the premises under such Lease or, in the case of a couple who are joint occupiers, both must be over 50 years of age (each, a “**Tenant**”) and in the majority of Properties one of the occupiers must be at least 60. In addition, each Lease has customary covenants in relation to payments and oblige the Tenants to contribute through the payment of a semi-annual service charge towards the costs of (a) insuring their Properties; (b) upkeep of the communal areas; (c) establishment of sinking funds to cover all anticipated capital expenditure and the ongoing costs of a Warden; (d) certain administrative expenses and (e) VAT payable on each of these items.

As at 25 November, 2005 7.02 per cent. of the Apartments are unsold, and either subject to Leases granted to Peverel or to certain affiliates of McCarthy & Stone pending their sale to individual retirees or pending such sale are subject to arrangements whereby an affiliate of McCarthy & Stone is obliged to fulfil all of the obligations of a Tenant (save for the obligation to pay the Transfer Fee) as if a Lease had been granted of such Apartment (including payment of Ground Rent) (for further detail, see “Unsold Apartments” below). This process reflects the customary arrangements made by McCarthy & Stone in connection with recently built properties.

The general characteristics of the Properties may be summarised as follows:

Location of Properties.....	In town centres throughout England and Wales.
Size of developments.....	On average 47 Apartments per development.
Facilities.....	Most include a resident Warden, all have security and emergency assistance communication connected to a 24 hour call centre, a majority also have car parking facilities and a dedicated guest room for accommodating visitors.
In total the portfolio of Properties comprises of:	
Number of Property Owners	8
Number of developments.....	335
Number of units.....	15,601
Number of Wardens' Apartments.....	260
Term of tenants occupational Leases	125 years from new (or 99 in some limited cases)
Total valuation of the portfolio of Properties	£497,900,000 (see Mercer Oliver Wyman Report on page 64).

The assets of the Property Owners which will be available to meet their obligations under the Intercompany Loan Agreement comprise broadly (a) the Ground Rents, (b) the Transfer Fees and (c) the Wardens' Apartments Rentals, each as described in further detail below.

Origination of the Assets

The business of the Parent and the Fairhold Homes Group comprises among other things the acquisition of portfolios of ground rents and related income streams similar to the Ground Rents, Transfer Fees and Wardens' Apartments Rentals for investment purposes.

McCarthy & Stone. To date all of the sheltered housing Ground Rents and related income streams purchased by the Fairhold Homes Group have been acquired from McCarthy & Stone and its affiliates. McCarthy & Stone specialises in the construction of purpose built properties for retired individuals and is the UK's largest developer of private sector sheltered housing for the elderly. In February 2005, McCarthy & Stone celebrated its seventh consecutive success in the Daily Express British House Builder Awards. McCarthy & Stone came either 1st or 2nd in almost every category of the latest NHBC customer satisfaction survey.

Ownership of the Assets

The Property Owners. On the Closing Date, the Ground Rents and the Transfer Fees deriving from the Properties will be owned by the following companies: (i) Fairhold Homes Limited ("Property Owner No. 1"); (ii) Fairhold Homes (No. 2) Limited ("Property Owner No. 2"); (iii) Fairhold Homes (No. 3) Limited ("Property Owner No. 3"); (iv) Fairhold Homes (No. 4) Limited ("Property Owner No. 4"); (v) Fairhold Homes (No. 6) Limited ("Property Owner No. 5"); (vi) Fairhold Homes (No. 7) Limited ("Property Owner No. 6"); and (vii) Fairhold Homes (No. 9) Limited ("Property Owner No. 7"), the companies (i) to (vii) together being the "Ground Rent Owners". Additionally, on the Closing Date the Wardens' Apartments Rentals will be owned by Littonace HMF Limited ("Property Owner No. 8" and, together with the Ground Rent Owners, the "Property Owners"). The entire issued share capital of each Property Owner will be purchased by the Borrower on the Closing Date.

The Ground Rent Owners own the economic interest in the Ground Rents and Transfer Fees through lease arrangements of the Apartments. They also own certain reversionary and sublease interests in the Wardens' Apartments. Property Owner No. 8 owns the economic interest in the Wardens' Apartments Rentals through

lease arrangements. Property Owner No. 7, as well as being a Ground Rent Owner, also acts as an intermediate holding company and owns the entire issued share capital of Fairhold Haven Limited ("FHHL").

In addition to the Ground Rents, Transfer Fees and Wardens' Apartments Rentals each Property Owner will have the benefit of the Property Owners' ISDA Master Agreements.

The Other Companies within the Fairhold Homes Group. The Borrower will also purchase on the Closing Date the entire issued share capital of certain other companies within the Fairhold Homes Group. It is anticipated that a number of the Other Companies will be wound up post Closing Date. These companies include Fairhold Homes Investment Limited, Fairhold Homes Investment (No. 2) Limited, Fairhold Homes Investment (No. 3) Limited, Fairhold Homes Investment (No. 5) Limited, Fairhold Homes Investment (No. 6) Limited, Fairhold Homes Investment (No. 7) Limited, Littonace Properties Limited, Littonace (No. 2) Limited, Littonace (No. 3) Limited, Littonace (No. 4) Limited, Littonace (No. 5) Limited, Littonace (No. 6) Limited, Fairhold Homes (No. 5) Limited, Fairhold Homes (No. 8) Limited, Fairhold Homes (No. 10) Limited, FHHL and Mediabasic Limited (together, the "Other Companies" and, with the Property Owners the "Borrower Subsidiaries").

Cash Flows

Ground Rents, Transfer Fees and Wardens' Apartments Rentals. The Portfolio Cashflows received by the Property Owners will enable the Property Owners to make payments to the Borrower under the Intercompany Loans and will provide the primary source of funds for the Borrower to make payments under the Funding Loan Agreement. In addition, the Borrower will have the benefit of (i) any amounts earned in respect of proceeds from Eligible Investments; (ii) any excess of the Transfer Fee Reserve Required Amount on the balance of the Transfer Fee Reserve Account (subject to any applicable restriction on such withdrawals); (iii) any excess of the General Cash Reserve Required Amount on the balance of the General Cash Reserve Account; and (iv) any interest earned on any of the Transfer Fee Reserve Account, the General Cash Reserve Account and/or any Repayment Reserve Account. Subject in each case to and as more particularly set out under the caption "Description of the Credit Structure" below, all payments made by the Borrower to the Issuer under the Funding Loan Agreement and all amounts of interest earned on the interest bearing current account of the Issuer with the Account Bank (the "Issuer Transaction Account"), will be used by the Issuer, *inter alia*, and subject to certain exceptions, after payments ranking higher in priority thereto to make payments of principal and interest due in respect of the Notes.

Ground Rents

The Ground Rents are payments due under the Leases in respect of the occupancy of the Apartments by the Tenants. Each Lease is subject to a semi-annual ground rent (each a "Ground Rent") payable by the Tenant to the relevant Property Owner 6 months in advance by two equal instalments on 1st March and 1st September in each year. As at 30 March, 2006, the aggregate of the current gross Ground Rents is £5,387,940 per annum (£16,083 per Property and £345 per Apartment, on average). Amounts invoiced for March and September are relied upon to meet debt service expenses in the following October and April respectively.

The Ground Rents are subject to upward only reviews 23 years after the date of each Lease and thereafter at 21 year intervals (save for some minimal cases). Save in the case of a few exceptions, these rent reviews are made by reference to the cumulative increase (if any) in the RPI on an upward only basis over the preceding 23, 44, 65, 86 and 107 year period. In a few cases the Lease provides for a rent review in the 23rd year of the term and for the remainder of the term the rent is to be increased by a figure equal to the initial rent multiplied by a multiple of 2.465 and not by reference to RPI.

If a Tenant fails to pay his or her Ground Rent for more than 28 days after the due date, the relevant Property Owner (as landlord) will have the right to forfeit the relevant Lease. This involves an application to court in which the relevant Property Owner will have to establish, *inter alia*, its entitlement to receive the Ground Rent, the fact of non-payment and that the amount due exceeds £500. The relevant Tenant can apply for relief from such forfeiture on a number of grounds, see section on "Forfeiture and Relief from Forfeiture" below, and may also halt the forfeiture proceedings at any time by payment of the arrears of Ground Rent. Should a Property Owner be granted a forfeiture order, it will be entitled to terminate the relevant Lease and then lease, sell or otherwise dispose of its interest in the same and retain all of the proceeds thereof.

Wardens' Apartments Rentals

Pursuant to a contractual requirement under each of the Leases within each Property, the Property Owners are obliged to provide the services of a warden (and in some cases a deputy warden) (each, a "**Warden**"). The majority of the Properties include an Apartment (each, a "**Warden's Apartment**") occupied by a Warden. Wardens are non-medical caretakers who are responsible for the day to day upkeep of the common parts of each Property and who are available through "panic buttons" in each Apartment to summon medical assistance in the event of an emergency.

For those Properties with resident Wardens the relevant Ground Rent Owner leases such Warden's Apartment to Property Owner No. 8 for an original term of 125 years at a peppercorn rent. Property Owner No. 8 then sub-leases such Warden's Apartment back to the relevant Ground Rent Owner for an original term of 125 years less 7 days, at a rent which may be increased as set out below (the "**Wardens' Apartments Rentals**"). This rent is paid by the Ground Rent Owner to Property Owner No. 8 and is recovered by the Ground Rent Owner through the Service Charges payable by the Tenants, the payment out of the Service Charge to the Ground Rent Owner being the Wardens' Apartment Rental which typically amounts to between 6 and 8 per cent of the value of such Warden's Apartment (as set out below). Wardens' Apartments Rentals are due semi-annually on 1 March and 1 September of each year. They amount annually to between £4,500 and £20,750 per Property with an average Wardens' Apartment Rental of £11,264.

Wardens' Apartments Rentals are subject to upwards only rent reviews. Most of these are reviewed annually, though a small number are subject to a review every 5 years. These rent reviews are made by reference to the higher of the cumulative increase (if any) in RPI or the increase in value of the Wardens' Apartment (as determined by the relevant Property Owner using extensive data from sales prices achieved for comparable properties) are calculated by reference to Transfer Fees described as follows:

First, the relevant Property Owner, using its database of sales prices of apartments derived from Transfer Fees achieved, identifies the price increase for a one or two bed flat (dependent upon the size of the Warden's Apartment) for the development concerned where the Warden's Apartment is located for the twelve months to 31 March before the rent review date. From this, the increase in the Wardens' Apartment values can be derived. This figure is then discounted by 10 per cent. on the basis that the Wardens' Apartments are generally in the least favourable position within the development and so have a lower market value. In the event that market value increases have only occurred for an apartment size other than the size of the Warden's Apartment, then the discounted figure above is further discounted or increased (as appropriate) by 20 per cent. This is because historical analysis shows that the differential between a one and two bed flat approximates 20 per cent. From this can be determined the market value increase for the Warden's Apartment;

Second, if no apartments have been sold in the relevant property in the twelve months to 31 March prior to the rent review date, then any sale of a property that occurred from 1 April to the rent review date is taken into consideration as in '*First*' above but discounted by a further 10 per cent. for prudence. From this can be determined the market value increase for the Warden's Apartment;

Third, if no apartments have been sold in the relevant property up to the rent review date, as per '*First*' and '*Second*' above, then the Property Owners will research prices at which Apartments in the relevant development are offered for sale from the website of Retirement Homes Search, one of the UK's leading specialist sellers of sheltered housing for the elderly. This price is discounted as in '*First*' above and then by a further 10 per cent. for prudence. From this can be determined the market value increase for the Warden's Apartment; and

Fourth, if no comparables are available, the movement in RPI in the twelve months to the 31 March before the rent review date is adopted.

The Wardens are employees of the Managing Agent. They occupy their apartments in connection with and as a condition of their employment as licensees from the Managing Agent. The rights of an individual Warden to occupy his or her apartment will end with their employment (see "Risk Factors" in connection to Wardens' Apartments for further detail).

Transfer Fees

If a Tenant assigns or underlets the whole of his or her interest in a Lease, the relevant Ground Rent Owner as Landlord is entitled to a fee (the “**Transfer Fee**”) payable by the transferor or, failing which, the new tenant to whom the Lease is transferred or underlet. No Transfer Fees are payable on the initial assignment of a Lease held by an affiliate of McCarthy & Stone or Peverel, but subsequent transfers will be subject to a Transfer Fee. The Transfer Fee is 1 per cent. of the actual sale price (plus VAT if chargeable) or the then market value of such Lease (whichever is the higher), and will be available to the relevant Property Owner to make payments on its respective Intercompany Loan. A Lease also requires 1 per cent. to be charged by the Landlord (the “**Contingency Fee**”) as a contribution to a “sinking fund” in trust for Tenants for future capital expenditure in relation to the related Property, and this forms part of Service Charge money held on a statutory trust for the relevant Tenants. No Contingency Fee is payable on any devolution on death or the completion of a mortgage or charge or on the assignment of a Lease held by an affiliate of McCarthy & Stone or Peverel (see sections entitled “McCarthy & Stone” and “Peverel Management Services Limited” below), but subsequent transfers will be subject to a Contingency Fee.

Other Cashflows

The Property Owners may also receive certain other sums in relation to the Properties and the Leases all of which will form part of Property Owner Available Funds and will be available to satisfy their respective obligations under the Intercompany Loans. In particular, the Property Owners could additionally receive:

- (a) fees for the provision of car parking at each Property; and
- (b) payments for the provision of guest accommodation for overnight visitors of the Tenants.

Although each of these other cashflows will be receivable by Property Owners and will be available to meet their relevant Intercompany Loan repayment obligations, these amounts have not been taken into account in the structuring of the transactions described in this Offering Circular, and are not subject to the covenants contained in the Funding Loan Agreement and other Transaction Documents.

Managing the Properties

All of the Properties are managed by Peverel Management Services Limited (“**Peverel**” and currently the “**Managing Agent**”) as the Managing Agent pursuant to standard property management agreements for each Property between Peverel and the relevant Property Owner (each a “**Property Management Agreement**”). In its capacity as Managing Agent, Peverel provides property management and ancillary services (including both resident and non-resident Wardens) to, among others, private retirement housing developments. The Managing Agent is also responsible for the collection of Service Charges, Ground Rents, Contingency Fees and Transfer Fees.

Unsold Apartments

As at 25 November, 2005 1096 of the Apartments (representing 7.02 per cent. of the total number of Apartments and accounting for 16.7 per cent. of total Ground Rents) are unsold, and either subject to Leases granted to certain affiliates of McCarthy & Stone pending their sale to individuals matching the criteria required to qualify for sheltered housing, or pending such sale subject to arrangements whereby such an affiliate is obliged to fulfil all of the obligations of a Tenant as if a Lease has been granted of such Apartment (including payment of Ground Rent). Out of all of the Property Owners, Property Owner No. 6 and Property Owner No. 7 have unsold Apartments, amounting to 276 and 820, respectively. As at the Closing Date, no other Property Owner has unsold Apartments.

Enfranchisement

Under the LRHUDA 1993 the Tenants have legal rights to buy their freeholds.

Qualification Process. To qualify for Lease Enfranchisement the following conditions must be met:

- (a) At least half of the Tenants in the premises must be qualifying tenants who between them hold leases of at least half the building;

- (b) At least half of the Tenants in the premises must request Enfranchisement (and at least half of these must have held their leases for more than two years); and
- (c) No more than 25 per cent. of the premises in which the property is located can be used for non-residential purposes.

In order to obtain the freehold the landlord and tenant must go through a detailed notice and counter notice procedure which is summarised below in relation to the rights of the tenants to buy their freeholds (similar procedures apply to Lease Renewals):

Initial notice

The tenant must serve a written initial notice on the freeholder to exercise his or her right to purchase the freehold. The notice must contain certain specified details of the tenant's claim, including a plan of the premises that are to be acquired, the grounds on which the tenant and the premises qualify for enfranchisement, and the proposed purchase price calculated in the manner described below).

Counter-notice

The freeholder will normally wish to have the premises valued and investigate whether the tenant qualifies for the right to enfranchise. Following his investigations the freeholder must give a counter-notice to the tenant by the date specified in the initial notice. The notice must contain a statement that the freeholder admits or alternatively does not admit that the tenant is entitled to the right to enfranchise. If the claim is admitted then the notice must contain further specified information, including details of the tenants' proposals that are accepted or alternatively the freeholder's counter-proposals.

Leasehold valuation tribunal

If any of the terms of acquisition remain in dispute two months after the counter-notice is given, either party may apply to a leasehold valuation tribunal to determine the matters in dispute.

The court

The county court has jurisdiction to make an order for acquisition of the freehold on the agreed terms, but only when all of the terms of acquisition have either been agreed between the parties themselves, or determined by a leasehold valuation tribunal.

The conveyance

Once the terms of acquisition have been agreed, the parties will draft, negotiate and agree a contract based on the terms of acquisition. The conveyance is the final stage and the freehold will be conveyed to the nominee purchaser, subject only to those encumbrances which have been agreed or determined by the leasehold valuation tribunal.

A complex formula is set out in the legislation for calculating the purchase price.

Amount payable for Leasehold Enfranchisement. On the assumption that the freehold of the premises is owned by a single person, the price (which is determined under Schedule 6 of the LRUHA 1993) is the aggregate of the following (with a minimum value of zero):

- (a) the value of the freeholder's interest in the premises (being the open market value of the freehold that would be realised by a willing seller, based on certain assumptions (set out in the LRUHA 1993) and excluding the nominee purchaser and the tenant from the class of potential purchasers) calculated based on (i) the rent and transfer fees receivable for the remainder of the lease discounted by a yield linked to that payable from time to time on long-term United Kingdom government debt obligations to the net present value *plus* (ii) the net present value of the premises at the termination of the lease of the property;
- (b) 50 per cent. of the marriage value (but only where the tenants' unexpired term of lease is less than 80 years) calculated on (i) the value of the premises unencumbered by the lease (its virtual freehold value); (ii) less the value of the premises with the lease attached; (iii) less the value of the freeholder's interest arrived at in (a) above times 50 per cent.; and

- (c) any additional compensation (i.e. any diminution in value of any related or nearby property owned by the freeholder to the extent that it is caused by the enfranchisement, for example loss of development value).

This test is intended to measure the increase in the value of the freehold of the premises (that would arise if it were owned by the tenant) by virtue of the tenant being able to enfranchise.

Lease Renewal

The procedure for a Lease Renewal is the same as that in an Enfranchisement claim (see above). However, if the landlord issues a counter-notice not admitting the tenant's claim he may apply to the court for a declaration that the tenant does not have the right to acquire a new lease. The tenant continues to pay rent during this process. Further, once the terms of the new lease have been agreed or determined by the leasehold valuation tribunal the landlord must prepare a lease and serve it on the tenant, subject to negotiation and agreement. Completion takes place once the lease has been agreed.

Capital Receipts

When a Property Owner receives any amounts referable to an Enfranchisement, certain Lease Renewals (to the extent this leads to a Diminution), compulsory acquisition (subject to the terms of the Leases) or any other receipt of a capital nature (each such sum being, a "**Capital Receipt**"), the relevant Property Owner will credit certain of such funds to its Capital Receipts Account (See "Description of Principal Documents—Funding Loan Agreement").

In the event that any Property Owner receives Capital Receipts, such Property Owner will deliver to the Security Trustee a certificate (a "**Capital Receipts Certificate**") stating:

- (a) whether the relevant Capital Receipts relate to Ground Rents, Transfer Fees and/or Wardens' Apartments Rentals;
- (b) whether the events which gave rise to such Capital Receipt has lead (or is expected to lead) to any diminution (a "**Diminution**") in the future anticipated Ground Rents and/or Wardens' Apartments Rentals and/or Transfer Fees owned by such Property Owner; and
- (c) if such Capital Receipts will give rise to a Diminution, the anticipated amount of such Diminution.

Following the receipt of any Capital Receipt which gives rise to a Diminution, the relevant Property Owner will be required to deposit the full amount of such Capital Receipt into its Capital Receipts Account. On the Loan Payment Date following receipt of any Capital Receipt which gives rise to a Diminution, the relevant Property Owner will be required to apply an amount equivalent to a maximum of 110 per cent. of an Allocated Loan Amount in respect of the affected tranches of the Intercompany Loans (as determined by the Cash Manager), together with (i) accrued interest thereon (if any); (ii) any termination payments connected with partially terminating the Property Owners' ISDA Master Agreements to reflect such repayment; and (iii) any other Property Owner Senior Expenses received in connection with such prepayment will be applied by the relevant Property Owners to prepay in whole or in part the affected tranches of the Intercompany Loans (each, an "**Intercompany Loan Prepayment**") (as determined by the Cash Manager), provided that (a) any Capital Receipts received 15 days or less prior to any Loan Payment Date will be allocated to the immediately following interest period and (b) no such prepayment will be due unless and until (i) the total amount of such Capital Receipts to be so applied to prepay the affected tranches of the Intercompany Loans will reduce the amount of such Intercompany Loans by at least £1,000,000 or (ii) the Property Owners elect to make such prepayment. If the Property Owners opt not to prepay, the Capital Receipts will remain on the relevant Capital Receipts Account.

The Borrower will apply all Intercompany Loan Prepayments received by it to prepay the corresponding tranches of the Funding Loan (each, a "**Funding Loan Prepayment**") after payment of prior ranking items (including, without limitation, any termination payments connected with partially terminating the Property Owners' ISDA Master Agreements or the Borrower ISDA Master Agreement or to reflect such repayment) under the Borrower Pre-Enforcement Priority of Payments.

The Issuer will then apply all Funding Loan Prepayments to redeem the class of Notes which corresponds to the Advance of the Funding Loan so prepaid after payment of prior ranking items (including, without limitation,

any termination payments connected with partially terminating the Issuer ISDA Master Agreements or the Borrower ISDA Master Agreement or to reflect such repayment) under the Issuer Pre-Enforcement Priority of Payments.

If any Capital Receipt amounting to less than 100 per cent. of an Allocated Loan Amount is received and the relevant Property Owner fails to raise such shortfall from any other source available to it, the relevant Property Owner will inform the Borrower. If, in the sole opinion of the Security Trustee, such shortfall and thus non-payment, results in a material adverse effect on the relevant Intercompany Loan, the Security Trustee may enforce the security under the Security Trust and Intercreditor Deed.

Where “**Allocated Loan Amount**” means the Tranche A1 Allocated Loan Amount and/or, as the context may require, the Tranche A2 and B Allocated Loan Amount.

“**Tranche A1 Allocated Loan Amount**” means the Amount of the Tranche A1 Advance (as at the immediately preceding Payment Date) multiplied by the A1 CR Percentage where:

“**A1 CR Percentage**” is the amount expressed as a percentage representing the reduction (arising from the Diminution) in the net present value of Ground Rents and/or Wardens’ Apartments Rentals from the next Payment Date in each case assuming a discount rate of 5 per cent., a fixed inflation rate of 2 per cent. and HPI of 0 per cent..

“**Tranche A2 and B Allocated Loan Amount**” means the Amount of the Tranche A2 Advance *plus* the Tranche B Advance (in each case, as at the immediately preceding Payment Date) multiplied by the A2 and B CR Percentage.

“**A2 and B CR Percentage**” the amount expressed as a percentage representing the reduction (arising from the Diminution) in the number of Properties from which Transfer Fees could be earned between the immediately preceding Payment Date and the immediately following Payment Date.

Forfeiture and Relief from Forfeiture. If a Tenant defaults in payment of Ground Rent or other sums due under the Lease, the principal remedy available to the relevant Property Owners is to seek to forfeit the relevant Lease. The procedure for forfeiture by the relevant Property Owner (as landlord) is normally reserved in the Lease as a power of re-entry in certain specified events, upon which the term granted by the Lease will be brought to an end. In the context of long leases, generally the only grounds for forfeiture are non-performance of the Tenant’s covenants, in particular payment of the Ground Rent.

A landlord may exercise its right of re-entry and forfeiture in the case of occupied residential properties only by commencing proceedings for possession. Service of the claim form acts as an election on the part of the landlord to forfeit the lease, but pending the success of the landlord’s action, the lease remains in existence. In addition, forfeiture can be claimed only after service of a written demand for payment (which must be at least £500) and any penalties imposed on the relevant Tenant must be reasonable.

Relief from forfeiture may be granted to a Tenant by the High Court or the County Court. This relief is generally for up to six months after the forfeiture has occurred, although this can be extended depending on the circumstances of the particular case. Broadly, relief will be granted where the breach is capable of remedy, and it will be a condition of the order for relief that the breach is rectified, for example, in the case of forfeiture for non-payment of ground rent, relief would only be granted upon payment by the tenant of all outstanding arrears of rent, interest and costs. The courts have very broad scope as to the terms and conditions of the order.

Rights of Pre-emption. The LTA 1987 gives tenants the right of first refusal if a freehold or leasehold reversion is to be sold, or the right to compel a sale by a new landlord, where the notification requirements of the LTA 1987 have not been complied with in relation to the new landlord.

In the event of the enforcement of the Borrower Security or the Property Owner Security, as the case may be, prior to selling a freehold or leasehold reversion in the exercise of such security, a notice must be served on not less than 90 per cent. of the Tenants offering to enter into a contract to sell them the reversion at the price specified. This will become binding if accepted by more than 50 per cent. of the relevant Tenants. The Tenants have a specified period of not less than two months in which to formally accept and a further 2 month period in which to nominate a purchaser and exchange contracts. During this time, the relevant Property Owners must not enter into a contract for sale with anyone other than the nominated person.

Right to Acquire due to Bad Management. The LTA 1987 also gives Tenants acquisition rights in the event of certain circumstances relating to proven bad management on behalf of the landlord. This particular right involves a more cumbersome procedure than the rights which are available to Tenants under the right of pre-emption under the LTA 1987 or the right to enfranchise under the LRHUDA 1993 and so it is unlikely to be a route utilised by the Tenants. In the event that they choose to do so, such Tenants would be required to agree to the proposed sale price of the reversionary interest specified in the landlord's notice and accordingly pay such amount to the relevant Property Owner. The Tenants have, however, the right to change managers.

Insurance

The Properties are insured on a full reinstatement basis and rental value loss currently for three years (but not loss of Transfer Fees) as the Borrower shall determine, acting reasonably, in the event of proceeds being received from the relevant insurance company from the loss or destruction of all or substantially all of a Property (a "Loss"). If, in the case of a Loss, reinstatement is not possible, the relevant Property Owner is also entitled to the land on which the Property was situated. The Properties are insured under an "All Risks" insurance policy subject to usual policy exclusions, terms and conditions and including terrorism, covering physical loss or damage as well as business interruption, including loss of rent insurance, gross earnings loss and extra expenses, and the cost of providing the Tenants with alternative accommodation being additional expenses incurred as a result of physical loss or damage.

Most of the Leases provide that, if the relevant premises are destroyed or damaged by an insured risk so as to render them unfit for use and occupation, the affected Tenants will cease to be liable to pay Ground Rent or Service Charge which includes the cost of Wardens' Apartments Rentals (or a proportionate part where the premises suffer only partial damage) until the premises are again rendered fit for use and occupation.

The insurance against loss of rental value will cover the loss of rent during the period of rent cessation, although there could be administrative delay in obtaining payment by the insurers. After the expiry of the three-year period during which the insurer will pay all Ground Rents and Wardens' Apartments Rentals (if any) in respect of the affected Property, the relevant Property Owners will cease (in the absence of another similar insurance) to be entitled to the rental income. In addition, if those circumstances applied, the proceeds of the insurance taken out by the Borrower and the Property Owners (which will cover the costs of reinstatement) may not be sufficient to pay, in full, all the amounts due from the Borrower and the Property Owners under the Funding Loan Agreement and the Intercompany Loan Agreement and, hence, the Notes.

The terms of all of the Leases require the relevant Property Owner to carry out the reinstatement of damaged premises following damage or destruction by an insured risk subject to any necessary planning permission or other consents being obtained, and to apply the proceeds of the buildings insurance (other than loss of rent insurance monies and the proceeds relating to the cost of alternative accommodation) for this purpose. Furthermore, the Borrower and the Property Owners will covenant in the Funding Loan Agreement and the Intercompany Loan Agreement respectively, to apply all insurance proceeds (other than insurance for loss of Ground Rents) to replace or reinstate the asset in respect of which it is paid.

Under the terms of the Leases and the Intercompany Loan Agreement, the Property Owners are obliged to hold on trust for the Tenants the entire amount of insurance proceeds (other than insurance for loss of Ground Rents and Wardens' Apartments Rentals) received on a Loss for the following purposes:

- (a) to be applied in reinstating and rebuilding the Property;
- (b) if (a) above is impossible or impracticable, to be held for the Property Owner and each Tenant in proportion to the monetary values of their respective interests in the Property (in the absence of an agreement on such values, to be determined by an independent arbitrator);
- (c) in respect of proceeds received with respect to costs of alternative accommodation for the Tenants, to be held on trust in proportion to the costs reasonably incurred by the individual Tenants.

Collection Methods

All payments of Ground Rents, Transfer Fees and Wardens' Apartments Rentals are collected by the Managing Agent on behalf of the relevant Property Owners under the terms of the Property Management Agreements. These amounts are collected as follows:

Ground Rents: Ground Rents are invoiced by the Managing Agent to the Tenants on a semi-annual basis. Each invoice is in a single amount combining Ground Rent and Service Charge. The Managing Agent will hold Ground Rents on trust for the relevant Property Owner pending their transfer (after deduction of any Managing Agent's administration fee) on a weekly basis to the relevant Property Owner Transaction Account.

Transfer Fees: Transfer Fees are collected as and when Properties are sold by the Tenants. The Transfer Fees are also collected by the Managing Agent and again are held by it on trust for the relevant Property Owner pending their transfer (after deduction of any Managing Agent's administration fee) on a monthly basis to the relevant Property Owner Transaction Account.

Wardens' Apartments Rentals: Wardens' Apartments Rentals are collected by the Managing Agent as an element of semi-annual Service Charge payments. As such, the Wardens' Apartments Rentals are subject to a statutory trust in favour of the relevant Tenants until such time as they are applied to meet rental payments due under the Wardens' Apartment Leases. When the Wardens' Apartments Rentals are due to be paid under the Wardens' Apartment Leases they will be transferred by the Managing Agent (at the direction of the relevant Property Owners) to the relevant Property Owner Transaction Account.

Peverel Management Services Limited

The management of the sheltered housing portfolio is outsourced under contract to Peverel Management Services Limited ("Peverel"). The Managing Agent is responsible for managing and maintaining each development, employing wardens and for calculating and making Service Charge demands on the tenants in accordance with the terms of the tenants' leases.

The Managing Agent is one of the UK's leading property managers and has been managing private retirement property since 1984. Consequently it has proven expertise in providing a first class level of service.

The Property Management Agreements terminate on various dates. On termination, the Consultant will, subject to the tenants statutory rights to be consulted, be able to either:

- (a) renew the management contracts with Peverel; or
- (b) select some other property manager.

The Consensus Business Group

The Consensus Business Group provides advisory services on numerous investments to the trustees of a family trust which is its ultimate beneficial owner. The Consensus Business Group, which is managed by Mr Vincent Tchenguiz, provides such service in respect of a number of residential and commercial property interests including approximately 160,000 ground rents situated throughout the United Kingdom, various interests in commercial and residential estate agents and a commercial property portfolio with gross assets of approximately £2bn, and various private equity investments primarily in technology and business services.

General Information

The relevant Ground Rent Owner, in its capacity as landlord (the "**Landlord**") under a Lease, is obliged to provide property services to the Tenants including in most cases a resident warden (see "Wardens' Apartments Rentals" above) and each has sub-contracted to the Managing Agent to provide these services. An emergency call system is also generally provided in each Apartment which is sub-contracted to an affiliate of McCarthy & Stone (which is entitled to outsource the provision of such service to third parties). The Landlord may recover the costs of these services from Tenants as Service Charges pursuant to the Leases, subject to statutory controls. No Lease provides for personal services, such as food, housekeeping, nursing or medical services to be provided to the Tenants.

Details on the Properties and details of the due diligence carried out in respect of the Properties as well as the Property Due Diligence Matrix, are set out below.

The registered address of each Borrower Subsidiary is at Euro House, 131/133 Ballards Lane, London, N3 1GR, England.

Portfolio Summary

Portfolio	No. of Properties	No. of Apts.	Current Ground Rent ¹ (£ p.a.)	% of total (by rent)	Ground Rent Uplift ² basis
No. 1	56	2,573	715,134	13	23 then 21
No. 2	63	3,008	924,191	17	23 then 21
No. 3	27	1,512	520,780	10	23 then 21
No. 4	27	1,169	403,590	7	23 then 21
No. 5	60	2,690	983,165	18	23 then 21
No. 6	45	2,051	790,055	15	23 then 21
No. 7	57	2,598	1,051,025	20	23 then 21
Total.....	335	15,601	5,387,940	100	n/a

1 Gross ground rent payable. Management handling and collection charges of c 2.35% apply.

2 First rental uplift occurs on 23rd anniversary of the lease, then every 21 years thereafter, i.e. years 23, 44, 65, 86 and 107, save for a few exceptions where there is only one review which is fixed to 2.465x current rent and occurs in the 23rd year of the term.

Property Location	No. of Properties	No. of Apts.	Current Ground Rent (Gross £ p.a.)	% of total (by rent)
Southeast.....	80	3,581	1,251,176	23
Greater London.....	16	743	263,476	5
Southwest.....	92	4,346	1,509,161	28
Midlands.....	98	4,576	1,549,494	29
Northeast.....	30	1,434	499,748	9
Northwest.....	19	921	314,885	6
Total.....	335	15,601	5,387,940	100

Year of Lease ¹	No. of Properties	No. of Apts.	Current Ground Rent (Gross £ p.a.)	% of total (by rent)
1992.....	4	182	52,585	1.0
1993.....	9	475	132,076	2.5
1994.....	15	557	157,814	2.9
1995.....	22	1,039	284,227	5.3
1996.....	23	1,176	332,633	6.2
1997.....	25	1,239	378,035	7.0
1998.....	28	1,386	467,175	8.7
1999.....	25	1,250	428,160	7.9
2000.....	27	1,144	396,275	7.4
2001.....	34	1,594	581,635	10.8
2002.....	35	1,515	562,185	10.4
2003.....	42	1,920	754,645	14.0
2004.....	42	1,950	788,970	14.6
2005.....	4	174	71,525	1.3
Total.....	335	15,601	5,387,940	100.0

1 The majority of the leases are for 125 years, a small number are for 99 years.

Owned Interest	No. of Properties	No. of Apts.	Current Ground Rent (Gross £ p.a.)	% of total (by rent)
Freehold	331	15,350	5,289,065	98
Leasehold.....	4	251	98,875	2
Total.....	335	15,601	5,387,940	100

Scheduled Future Ground Rent	Ground Rent p.a at Assumed Future Inflation (£m)			
Year	0.00%	1.00%	2.00%	3.00%
2005	5.26	5.26	5.26	5.26
2010	5.26	5.26	5.26	5.26
2015	5.26	5.26	5.27	5.27
2020	5.58	5.77	5.99	6.23
2025	5.93	6.62	7.43	8.37
2030	6.03	7.18	8.54	10.15
2035	6.03	7.18	8.54	10.15
2040	6.03	7.44	9.19	11.38
2045	6.03	8.13	11.00	14.92
2050	6.03	8.85	12.94	18.88
2055	6.03	8.85	12.94	18.88
2060	6.03	9.06	13.59	20.36
2065	6.03	9.80	15.94	25.96
2070	6.03	10.90	19.61	35.12

Ground Rent Billing and Payment History

% of amount due collected:						
Due Date	Within 1 month	Within 2 months	Within 3 months	Within 4 months	Within 5 months	Within 6 months
March 2003	76	92	97	98	99	99
September 2003	75	97	99	100	100	100
March 2004	82	95	98	99	99	100
September 2004	75	94	98	99	100	100
March 2005	75	94	98	99	100	100
September 2005	85	95	97	98	98	99

Property Owner No. 8 – Wardens Apartments

Review Type ¹	Number of Wardens' Apartments	Wardens' Apartments Current Rent (£) p.a.	% of total (by rent)
Annual review	236	2,721,996	92.9
5 yearly review	24	206,612	7.1
Total	260	2,928,608	100.0

¹ Rent is reviewed by reference to the higher of increases in RPI and the market value over the period.

Transfer Fee History Table

Portfolio	No. of Apts.	Transfer Information	31 Dec 1999	31 Dec 2000	31 Dec 2001	31 Dec 2002	31 Dec 2003	31 Dec 2004	31 Dec 2005
No. 1	2,573	Transfers	199	238	269	222	212	227	196
		% of total.....	7.7	9.2%	10.5%	8.6%	8.2%	8.8%	7.6%
		Average Resale £	67,599	73,134	83,569	98,770	111,789	123,098	133,735
		Transfer Fees £	134,522	174,060	224,800	219,269	236,993	279,432	262,121
No. 2	3,008	Transfers	n/a	188	267	270	232	235	238
		% of total.....	n/a	6.3	8.9	9.0	7.7	7.8	7.9
		Average Resale £	n/a	85,421	86,563	102,368	114,606	132,397	141,945
		Transfer Fees £	n/a	160,592	231,124	276,394	265,885	311,133	337,829
No. 3	2,681	Transfers	n/a	n/a	39	173	202	244	239
		% of total.....	n/a	n/a	1.5	6.5	7.5	9.1	8.9
		Average Resale £	n/a	n/a	94,329	99,526	118,834	119,739	130,313
		Transfer Fees £	n/a	n/a	36,789	172,181	240,045	292,164	311,447
and No. 4									

Transfer Fee History Table

Portfolio	No. of Apts.	Transfer Information	31 Dec 1999	31 Dec 2000	31 Dec 2001	31 Dec 2002	31 Dec 2003	31 Dec 2004	31 Dec 2005
No. 5	2,690	Transfers	n/a	n/a	n/a	n/a	55	176	211
		% of total	n/a	n/a	n/a	n/a	2.0	6.5	7.8
		Average Resale £	n/a	n/a	n/a	n/a	122,330	130,183	138,506
		Transfer Fees £	n/a	n/a	n/a	n/a	67,281	229,122	292,248
No. 6	2,051	Transfers	n/a	n/a	n/a	n/a	n/a	18	74
		% of total	n/a	n/a	n/a	n/a	n/a	0.9	3.6
		Average Resale £	n/a	n/a	n/a	n/a	n/a	120,812	142,907
		Transfer Fees £	n/a	n/a	n/a	n/a	n/a	21,746	105,751
No. 7	2,598	Transfers	n/a	n/a	n/a	n/a	n/a	n/a	n/a
		% of total	n/a	n/a	n/a	n/a	n/a	n/a	n/a
		Average Resale £	n/a	n/a	n/a	n/a	n/a	n/a	n/a
		Transfer Fees £	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Age of Tenants ¹	No. of Apartments ²	% of sample
50-55	6	0.0
55-60	75	0.6
60-65	356	2.8
65-70	830	6.5
70-75	1,739	13.6
75-80	2,933	22.9
80-85	3,640	28.5
85-90	2,252	17.6
90-95	816	6.4
95-100	115	0.9
100-105	19	0.1
Total	12,781	100.0

1 In case of joint tenancies, this table reflects the younger of the Tenants.

2 The balance between the total number of Apartments as stated in this table and the total number of Apartments within the portfolio is represented by either a) unsold new apartments, b) vacant apartments and c) a small percentage of residents (approximately 3 per cent.) who declined to give their age.

RPI Swaps

The Issuer will enter into the Issuer RPI Swaps with the Issuer RPI Swap Counterparties pursuant to the two Issuer ISDA Master Agreements on the Closing Date.

The Ground Rents and the Wardens' Apartments Rentals will increase from time to time depending on the changes to RPI. However, certain of these increases will occur at irregular intervals and increases in the Ground Rents will occur some time after the Final Maturity Date of the Notes. In order to hedge these uncertain asset cashflows and to preserve their value at refinancing, the Issuer will enter into the Issuer RPI Swaps pursuant to which, on each Loan Payment Date, certain fixed payments (specified therein) will be due to the Issuer and amounts which increase by reference to RPI will be due to each Issuer RPI Swap Counterparty. Certain of the Issuer RPI Swaps will mature beyond the Final Maturity Date and are intended to preserve the value of the long term Portfolio Cashflows. As such these hedges will be available to assist the Borrower and the Property Owners in arranging a refinancing of the transactions described in this Offering Circular on or before the Loan Maturity Date or repayment of the Notes.

The Issuer in turn will enter into substantially similar RPI hedging transactions (the "Borrower RPI Swaps") with the Borrower pursuant to which, on each Loan Payment Date, certain fixed payments (specified therein) will be due from the Issuer and amounts which increase by reference to RPI will be due from the Borrower.

Finally, the Borrower will enter into RPI hedging transactions (each, a **“Property Owner RPI Swap”** and together with the Issuer RPI Swaps and the Borrower RPI Swaps, the **“RPI Swaps”**) with each Property Owner pursuant to each of which, on each Loan Payment Date, certain fixed payments (specified therein) will be due from the Borrower and amounts which increase by reference to RPI will be due from the Property Owners.

The ability of the Issuer to perform its obligations under the Issuer RPI Swaps depends in part on the performance of the Borrower RPI Swaps and the Property Owners’ RPI Swaps. Non-performance of the Borrower RPI Swaps and/or the Property Owners’ RPI Swaps may lead to an enforcement of the security constituted by the Security Trust and Intercreditor Deed. In such circumstances, the Issuer will have direct access to the cashflows generated by the Ground Rents and Wardens’ Apartments Rentals which, to the extent of the sufficiency of the same, will also be available to meet its obligations under the Issuer RPI Swaps.

A failure by the Issuer to make timely payment of amounts due from it under the Issuer RPI Swaps will constitute a default in respect of the relevant payment due under the Issuer RPI Swaps thereunder and entitle the relevant Issuer Swap Counterparty or Issuer Swap Counterparties to terminate the Issuer ISDA Master Agreement(s). The Issuer will not be required to make a payment under the Borrower RPI Swaps and the Borrower will not be required to make a payment under the Property Owners’ RPI Swaps to the extent that the Issuer Swap Counterparties have failed to make the corresponding payment on that date to the Issuer.

For general information in relation to, among other things, Tax Events and Minimum Swap Counterparty Ratings, see “Description of Principal Documents—Interest Rate Swaps, RPI Swaps and Related Arrangements” below.

Interest Rate Swaps

The Issuer will on the Closing Date enter into the Issuer Interest Rate Swaps pursuant to each Issuer ISDA Master Agreement.

The Portfolio Cashflows, payments under the RPI Swaps and the payments under the Deposit Contracts do not vary with LIBOR, whereas the Notes will bear interest at a floating rate usually based on six-month LIBOR, exposing the Issuer to potential interest rate risk in respect of payment obligations under the Notes. In order to hedge against such exposure, the Issuer will enter into fixed/floating hedging transactions (the **“Issuer Interest Rate Swaps”**) with each Issuer Interest Rate Swap Counterparty pursuant to which, on each Loan Payment Date, interest at a fixed rate will be due from the Issuer and interest at a floating rate based on six-month LIBOR on the Notes will be due from each Issuer Interest Rate Swap Counterparty.

The Issuer in turn will enter into substantially similar fixed/floating hedging transactions (the **“Borrower Interest Rate Swaps”**) with the Borrower pursuant to which, on each Loan Payment Date, interest at a fixed rate will be due from the Borrower and interest at a floating rate based on six-month LIBOR will be due from the Issuer.

Finally, the Borrower will enter into fixed/floating hedging transactions (the **“Property Owners’ Interest Rate Swaps”**) and, together with the Issuer Interest Rate Swaps and the Borrower Interest Rate Swaps, the **“Interest Rate Swaps”**) with each Property Owner pursuant to which, on each Loan Payment Date, interest at a fixed rate will be due from each Property Owner and interest at a floating rate based on six-month LIBOR will be due from the Borrower. These Property Owners’ Interest Rate Swaps taken together will exactly match the Borrower Interest Rate Swaps.

The ability of the Issuer to perform its obligations under the Issuer Interest Rate Swaps depends in part on the performance of the Borrower Interest Rate Swaps and the Property Owners’ Interest Rate Swaps. Non-performance of the Borrower Interest Rate Swaps and the Property Owners’ Interest Rate Swaps may lead to the enforcement of the security constituted by the Security Trust and Intercreditor Deed. In such circumstances, the Issuer will have direct access to the fixed rate Portfolio Cashflows which, to the extent of the sufficiency of the same, will also be available to meet its obligations under the Issuer Interest Rate Swaps.

A failure by the Issuer to make timely payment of amounts due from it under the Issuer Interest Rate Swaps will constitute a default in respect of the relevant payment due under the relevant Issuer Interest Rate Swap thereunder and entitle the Issuer Swap Counterparty or Issuer Swap Counterparties to terminate the relevant Issuer ISDA Master Agreements.

The Issuer will not be required to make a payment under the Borrower RPI Swaps and the Borrower will not be required to make a payment under the Property Owners' RPI Swaps to the extent that the Issuer Swap Counterparties have failed to make the corresponding payment on that date to the Issuer.

For general information in relation to, among other things, Tax Events and Minimum Swap Counterparty Ratings, see "Description of Principal Documents—Interest Rate Swaps, RPI Swaps and Related Arrangements" below.

Deposit Contracts

The Ground Rents and Wardens' Apartments Rentals are expected to be insufficient to meet all payments of principal and interest due on the Intercompany Loans and accordingly, there will be insufficient funds to meet all payments of principal and interest on the Funding Loan and the Notes, during the period from the Closing Date to 2015. In return for payments in aggregate of £41,082,988 to be made on the Closing Date from the net proceeds of the issuance of the Notes, the Issuer Deposit Takers will make semi-annual payments to the Issuer (and the Issuer will make substantially similar payments to the Borrower as will the Borrower to the Property Owners) in amounts which are expected to be used in conjunction with the Wardens' Apartments Rentals, Ground Rents and certain other cashflows as follows:

Scheduled Loan Payment Dates	Initial Deposit Contract Amount (£)
April 2006	91,055
October 2006	2,878,402
April 2007	2,824,289
October 2007	2,861,513
April 2008	2,821,203
October 2008	2,821,203
April 2009	2,736,712
October 2009	2,773,936
April 2010	2,692,930
October 2010	2,730,154
April 2011	2,651,040
October 2011	2,688,264
April 2012	2,645,891
October 2012	2,645,891
April 2013	2,562,449
October 2013	2,599,673
April 2014	2,508,215
October 2014	2,545,439
April 2015	2,458,017
October 2015	2,491,549

The Issuer will enter into deposit contracts with each Issuer Deposit Taker each of which will be evidenced by a confirmation under the relevant Issuer ISDA Master Agreement. The Issuer Deposit Contracts will include short dated deposit contracts (each an "Issuer Initial Deposit Contract") and forward starting deposit contracts (each an "Issuer Forward Starting Deposit Contract" and together with each Issuer Initial Deposit Contract, the "Issuer Deposit Contracts").

The Borrower will enter into substantially similar short dated deposit contracts (each a "Borrower Initial Deposit Contract") as well as into substantially similar forward starting deposit contracts with the Issuer (each a "Borrower Forward Starting Deposit Contract" and together with each Borrower Initial Deposit Contract, the "Borrower Deposit Contracts"). Each Property Owner will also enter into substantially similar short dated deposit contracts (each a "Property Owner Initial Deposit Contract") and into substantially similar forward starting deposit contracts with the Borrower (each a "Property Owner Forward Starting Deposit Contract" and with the Property Owners' Initial Deposit Contracts, the "Property Owners' Deposit Contracts").

The Issuer Initial Deposit Contracts, the Borrower Initial Deposit Contracts and Property Owner Initial Deposit Contracts collectively, the "Initial Deposit Contracts". The Issuer Forward Starting Deposit Contracts, the Borrower Forward Starting Deposit Contracts and Property Owner Forward Starting Deposit Contracts collectively, the "Forward Starting Deposit Contracts". The Issuer Deposit Contracts, the Borrower Deposit Contracts and the Property Owners' Deposit Contracts collectively, the "Deposit Contracts".

The Forward Starting Deposit Contracts are intended to replicate the effect of the Initial Deposit Contracts after the repayment of the Notes.

The amounts payable under the Deposit Contracts may be increased and/or further deposit contracts may be made in connection with any issue of Further Notes or New Notes. The Deposit Contracts will be partially terminated in connection with any prepayment or repayment of the Notes.

The Deposit Contracts are governed by the terms of the relevant ISDA Master Agreement and amounts due on the same payment date and on any termination will be netted with payments due on the Swaps. Amounts due on termination will be netted under the relevant ISDA Master Agreement and the net sum shall be apportioned and paid as described in the relevant Priority of Payments. The Issuer Deposit Takers will have the option to terminate the Issuer Deposit Contracts on the earlier of the Loan Maturity Date and the repayment of the Notes.

For general information in relation to the Deposit Contracts, see “Description of Principal Documents - Deposit Contracts”.

ISDA Master Agreements

The Forward Starting Deposit Contracts and certain of the RPI Swaps and the Interest Rate Swaps mature well beyond the Final Maturity Date of the Notes and are intended to preserve the value of the long term Portfolio Cashflows. This will also assist the Issuer in arranging a refinancing of the transactions described in this Offering Circular on or before the Final Maturity Date of the Notes.

The Issuer ISDA Master Agreements may terminate due to the occurrence of an Event of Default or a Termination Event as defined in the relevant Issuer ISDA Master Agreement; these include (a) failure to pay; (b) default or a non-payment obligation by the relevant Issuer Swap Counterparty or Issuer Deposit Taker; (c) illegality; (d) the occurrence of a Rating Event resulting from the downgrade of the rating of an Issuer Swap Counterparty or Issuer Deposit Taker; (e) a repayment of the Notes in full; (f) if the Issuer Swap Counterparty or Issuer Deposit Taker is, or there is a substantial likelihood that it will be, (i) required to pay additional amounts in respect of tax or (ii) receive payments from which the Issuer is required to deduct or withhold; and (g) the occurrence of the Loan Maturity Date. The Borrower Swaps, the Borrower Deposit Contracts, the Property Owners' Swaps and the Property Owners' Deposit Contracts will terminate only if (a) the Issuer Swaps and the Issuer Deposit Contracts terminate or (b) for reasons of illegality or the imposition of withholding tax on payments thereunder (any such termination will result in a termination of the Issuer Swaps and the Issuer Deposit Contracts unless confirmations are available from the Rating Agencies confirming that such termination will not adversely affect the ratings of the Notes).

The Issuer ISDA Master Agreements will also provide that in circumstances where the Notes are prepaid in whole or part a corresponding portion of the Issuer Swaps and the Issuer Deposit Contracts will terminate. As a result a corresponding portion of the Swaps and Deposit Contracts under the Borrower ISDA Master Agreement and the Property Owners' ISDA Master Agreements will also terminate. In addition, although certain of the Issuer Swaps and the Issuer Deposit Contracts extend well beyond the Final Maturity Date of the Notes, the Issuer Swap Counterparties and the Issuer Deposit Takers will have the option to terminate the Issuer Swaps and Issuer Deposit Contracts on the earlier of the Loan Maturity Date and the repayment of the Notes which will in turn lead to a right on the part of the Issuer and Borrower to terminate the corresponding Swaps and Deposit Contracts under the Borrower ISDA Master Agreement and the Property Owners' ISDA Master Agreement(s) respectively. Any termination of an ISDA Master Agreement in whole or in part may give rise to a net termination payment becoming payable.

On a termination of an Issuer ISDA Master Agreement, or termination of part of the Issuer Swaps and the Issuer Deposit Contracts to reflect partial repayment of the Notes, a single net termination payment will be calculated pursuant to the terms of each agreement. However, for the purposes of determining any payments to be made to either Issuer Swap Counterparty or Issuer Deposit Taker under the Issuer Pre-Enforcement Priority of Payments and the Issuer Post Enforcement Priority of Payments, a distinction is made between amounts calculated in respect of the Issuer RPI Swaps on the one hand and the Issuer Interest Rate Swaps and the Issuer Deposit Contracts on the other hand. The relevant Issuer Swap Counterparty in its capacity as Calculation Agent (“**Calculation Agent**”) under its Issuer ISDA Master Agreement will calculate an aggregate termination value for its Issuer RPI Swaps subject to termination and a separate aggregate termination value for all its Issuer Interest Rate Swaps and Issuer Deposit Contracts subject to termination. If the aggregate termination value for its Issuer RPI Swaps gives rise to a payment due to the relevant Issuer Swap Counterparty then such amount, less the aggregate termination value for its Issuer Interest Rate Swaps and Issuer Deposit Contracts (where such

aggregate termination value gives rise to a payment by the relevant Issuer Swap Counterparty or Issuer Deposit Taker), will be referred to as the “**Issuer Net RPI Termination Amount**”. A similar distinction is made in respect of amounts owed on a termination under the Borrower ISDA Master Agreement and the Property Owners’ ISDA Master Agreements.

Payments due to an Issuer Swap Counterparty on any termination of transactions under the Issuer ISDA Master Agreement (save for Issuer Net RPI Termination Amounts and amounts owed to the relevant Issuer Swap Counterparty resulting from an Event of Default under the relevant ISDA Master Agreement by the relevant Issuer Swap Counterparty) will rank senior to amounts due on the Class A Notes in the Issuer Pre-Enforcement Priority of Payments and Issuer Post-Enforcement Priority of Payments. Issuer Net RPI Termination Amounts will rank *pari passu* with interest on the Class A Notes in the Issuer Pre-Enforcement Priority of Payments and *pari passu* with interest and principal in the Issuer Post-Enforcement Priority of Payments.

The Issuer Swap Counterparties and Issuer Deposit Takers will be obliged to make payments under the Issuer ISDA Master Agreements without any withholding or deduction for or on account of taxes. If due to action taken by a relevant tax authority or brought in a court of competent jurisdiction or any change in tax law, either of the Issuer Swap Counterparties or the Issuer Deposit Takers will, or there is a substantial likelihood that either will, on the next Loan Payment Date, be required to pay an additional amount in respect of tax under an Issuer ISDA Master Agreement or, either Issuer Swap Counterparty or Issuer Deposit Taker will, or there is a substantial likelihood that either will, receive payment from the Issuer from which an amount will be deducted or withheld for or on account of certain taxes specified therein in accordance with the relevant Issuer ISDA Master Agreement, the relevant Issuer ISDA Master Agreement may be terminated in accordance with its respective provisions. Similar provisions apply to the Borrower ISDA Master Agreement and the Property Owners’ ISDA Master Agreements.

Application of monies standing to the credit of the Transfer Fee Reserve Account

On the Closing Date, the Borrower will be obliged to credit the Transfer Fee Reserve Account with £18,000,000 from funds it receives from the Property Owners pursuant to the Reserve Loan Facility Agreement.

On each Loan Payment Date, the Borrower will be required to make such payments (after discharging all amounts due under the Funding Loan Agreement and liabilities ranking senior thereto) as are necessary to ensure that the amount of funds then standing to the credit of the Transfer Fee Reserve Account is at least equal to the Transfer Fee Reserve Required Amount for such Loan Payment Date. The balance on the Transfer Fee Reserve Account will also on any Loan Payment Date be available to make repayments on the Reserve Loans to the Property Owners to enable them to meet payments pursuant to the Property Owner Pre-Enforcement Priority of Payments.

Where:

“**Transfer Fee Reserve Required Amount**” means, with respect to any Loan Payment Date, the amount set out in the below table under the heading “*Transfer Fee Reserve Required Amount*” for such Loan Payment Date.

Scheduled Loan Payment Date	Transfer Fee Reserve Required Amount (£ million)
9 th April 2006	17.00
9 th October 2006	17.00
9 th April 2007	17.00
9 th October 2007	16.50
9 th April 2008	16.00
9 th October 2008	15.50
9 th April 2009	14.75
9 th October 2009	14.50
9 th April 2010	14.25
9 th October 2010	14.00
9 th April 2011	12.75
9 th October 2011	11.50
9 th April 2012	10.25
9 th October 2012	9.00
9 th April 2013	9.00
9 th October 2013	9.00
9 th April 2014	9.00
9 th October 2014	9.00
9 th April 2015	9.00
9 th October 2015	9.00

In addition, on any Loan Payment Date falling after 9th October 2009 and on the Loan Maturity Date: if (i) on such Loan Payment Date the amount of Transfer Fees received by the Property Owners since the immediately preceding Loan Payment Date is at least equal to Target Transfer Fee Income for such Loan Payment Date; and (ii) on such Loan Payment Date the amount of Transfer Fees received by the Property Owners since the Closing Date is at least equal to Cumulative Transfer Fee Income, then the Borrower will be entitled to withdraw amounts from the Transfer Fee Reserve Account provided that no such withdrawal may be made if the effect of the same would be to reduce the balance of the Transfer Fee Reserve Account to less than the Transfer Fee Reserve Required Amount for such Loan Payment Date.

“**Transfer Fee Income**” means, in relation to any period, the aggregate net Transfer Fees paid to or for the benefit of the Ground Rent Owners in respect of the Leases during such period *plus* interest earned or accrued with respect to the Transfer Fee Reserve Account during such period.

“**Target Transfer Fee Income**” means, with respect to any Loan Payment Date, the amount set out in the below table under the heading “*Target Transfer Fee Income*” for such Loan Payment Date.

“**Cumulative Transfer Fee Income**” means, with respect to any Loan Payment Date, the amount set out in the below table under the heading “*Cumulative Transfer Fee Income*” for such Loan Payment Date.

Scheduled Loan Payment Dates	Target Transfer Fee Income	Cumulative Transfer Fee Income (£ m)
9 th April 2006	0.00	0.00
9 th October 2006	0.62	0.62
9 th April 2007	0.68	1.30
9 th October 2007	0.69	2.00
9 th April 2008	0.75	2.75
9 th October 2008	0.77	3.52
9 th April 2009	0.83	4.35
9 th October 2009	0.85	5.20
9 th April 2010	0.91	6.11
9 th October 2010	0.93	7.04
9 th April 2011	0.99	8.03
9 th October 2011	1.01	9.04
9 th April 2012	1.07	10.11
9 th October 2012	1.10	11.21
9 th April 2013	1.15	12.36
9 th October 2013	1.18	13.54
9 th April 2014	1.23	14.78
9 th October 2014	1.26	16.04
9 th April 2015	1.31	17.36

Scheduled Loan Payment Dates	Target Transfer Fee Income	Cumulative Transfer Fee Income (£ m)
9 th October 2015	1.34	18.70

MERCER OLIVER WYMAN REPORT

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18 November 2005

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Ladies and Gentlemen

Subject:

Actuarial Valuation of the Sheltered Housing Portfolio

1. Introduction

Mercer Oliver Wyman has been instructed by Fairhold Finance Limited ("the Company") to provide actuarial advice on certain issues in connection with the securitisation of its interest in the portfolio of sheltered housing properties ("the Portfolio").

This report, which has been produced for inclusion in the Offering Circular prepared by Fairhold Securitisation Limited, sets out the scope of work and summarises the results of our work. Terms defined in the Offering Circular have the same meaning in this report.

This report should be read in conjunction with the Offering Circular, which provides a more complete description of the interests, and the risk factors relating to Fairhold Securitisation Limited. In addition, this report is subject to Reliances and Limitations set forth in Section 8 of this report.

1.1. Scope of this report

The objectives of this report are:

- To describe the methodology and assumptions used to calculate an actuarial valuation of the Portfolio, based on a market consistent approach.
- To state and describe the components of this actuarial valuation, as at 17 August 2005.
- To test the sensitivity of the actuarial valuation to changes in the valuation parameters.

MERCER OLIVER WYMAN

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- To describe the potential sources of additional value within the Portfolio, which have not been taken into account in the current valuation, but could provide additional security to investors in the securitisation.

Our valuation includes the following cash flows expected to be earned from the Portfolio:

- Ground Rents
- Transfer Fees
- Wardens' Apartments Rentals

Our valuation does not include any of the following:

- Other cash flows arising from the Portfolio in addition to the Ground Rents, Transfer Fees and Wardens' Apartments Rentals (see section 7.5).
- Cash balances which may currently be held in accounts associated with the Portfolio.
- Any ground rent or fee arrears currently recognised as being owed by either Peverel or tenants in respect of the Portfolio.

1.2. Executive Summary

The following table summarises the results of our actuarial valuation.

Component of Actuarial Value	£m
Ground rents	172.8
Wardens' Apartments Rentals	154.5
Transfer Fees	54.9
"Residual Value" after 50 years	116.5
Less Handling charges	(0.8)
Total actuarial valuation	497.9

The following table summarises the results of our projected actuarial value 10 years after the date of valuation.

Component of Projected Actuarial Value	£m	% Change
Ground rents	234.4	+36%
Wardens' Apartments Rentals	258.9	+68%
Transfer Fees	63.7	+16%
"Residual Value" after 50 years	169.3	+45%
Total actuarial valuation	726.4	+46%

The economic assumptions have been chosen to reflect market conditions on the valuation date and the demographic assumptions are based on the most relevant published actuarial tables. Mortality rates have been based on the PMA92 and PFA92 tables published by the Continuous Mortality Investigation Bureau of the Faculty and Institute of Actuaries in the UK. Nursing care leaver rates have been based on the table of admission rates to nursing care facilities from the "Report of The Long-Term-Care Experience Committee" in 1985 issued by the National Center for Health Statistics in the US. All other assumptions have been reviewed to ensure that they are appropriate for the conditions at the valuation date.

In addition, we have conducted a range of sensitivity tests, which produce actuarial valuations on a variety of different assumptions chosen to illustrate the sensitivity of the results to different business environments. This is described in more detail in section 6.

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The main conclusion is that the actuarial valuation of the Portfolio has similar sensitivities to investment risks as an index linked bond. Its length means that it should provide a good match against "real" long term liabilities which are related to inflation. The sensitivity of the actuarial valuation to most of the special characteristics of this investment, such as the exposure to mortality risk and residential property inflation are small.

2. Valuation Methodology

2.1. Market Consistent Valuation

The valuation adopts a market consistent approach and aims to value the expected future cash flows in a consistent manner with the way that analogous cash flows would be valued in the capital markets. Therefore it is based wherever possible on valuation parameters derived from current market prices, such as current market long term interest rates and long term inflation expectations.

The starting point for assumptions that are not derived from investment markets was our "best estimates" of future experience. In some cases, such as mortality, this is relatively familiar actuarial territory. In others, such as the average age of new tenants, there are no clear comparables and we have relied on information provided by the Company.

The choice of assumptions affecting future cash flows is intended to allow for the associated risk. The valuation approach is to first project forward the expected future cash flows in a way that adjusts for market related risk. For non-market related factors that should diversify across the market as a whole, such as mortality, no further adjustments were made for risk.

A further advantage of this approach is that by first adjusting each type of cash flow for the particular risks associated with it, we are able to use a single set of term dependent discount rates for all future cash flows.

2.2. The Demographic Projections Used to Estimate Transfer Fees

For each development the expected future position of each unit, including details of its tenants were projected forward monthly for a 50 year period. The modelling of the expected future tenants allowed for deaths, voluntary leasehold transfers, tenants moving out to get nursing care and the expected characteristics of new tenants joining the development. The projected tenant and unit details were then used to generate the expected cash flows in each future month of the projection period. The expected future cash flows were then summed across all developments and were discounted to the valuation date.

2.3. The "Residual Value" Concept

We have used the term "residual value" for the value of all cash flows and reversions expected to be received from the Portfolio after the 50 year projection period. This has been calculated by dividing the expected income stream in the fiftieth year of the projection by a capitalisation rate (or interest rate) to give the "residual value."

We have based the capitalisation rate on the prices paid for the Portfolio by the Company. In effect this approach means that we have valued the Company's ownership over 50 years only, and have assumed that the sheltered housing freeholds are sold back into the market on a similar pricing basis to that they were purchased at. This approach should be reasonably prudent, since one would expect the increased proximity of reversion to increase the market valuation of the freehold.

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In April 2005, The Company paid £31.5m for properties underlying Property Owner No. 7. Our model projected first year income of around £1.77m for Property Owner No. 7, giving a purchase yield of 5.6%. As this provides the best measure of current purchase prices, we have applied the capitalisation yield for valuing the “residual value” at the same sales yield of 5.6%. This capitalisation rate has not been changed in any of the sensitivity tests set out in section 7.

2.4. Taxation

Different investors have different tax positions and this position has an effect upon the subjective value of any investment opportunity. It is impossible to carry out a valuation which is appropriate for all potential tax positions.

We have adopted an approach to allowing for tax which is based on the average position for investors in the UK gilts and index-linked gilts markets as a whole. Our approach is to project forward the expected future income from the Portfolio gross of tax, and then to discount them using gross redemption yields of appropriate term.

We have assumed that there is no group relief, tax assets or synergy available which could apply for the Portfolio.

2.5. Valuation Discount Rate

One of the valuation principles set out above is that risk adjusted cash flows are discounted at a risk free rate of return. Since the Portfolio is to be held long term we have not included any additional premium to the discount rate for the illiquid nature of the investment.

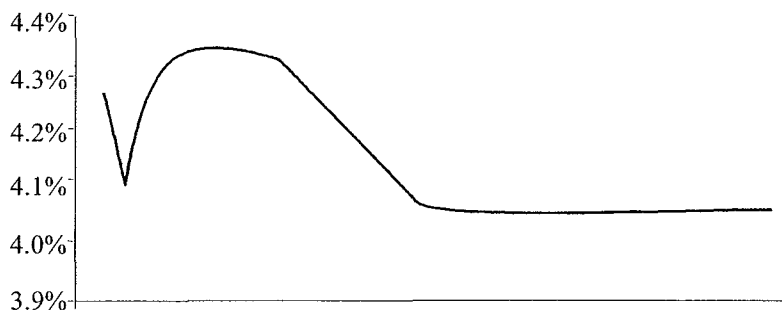
All cash flows have been treated as having the full security of the leasehold value of the Portfolio behind them. If a rent were to remain unpaid the Company could eventually reclaim the unit. We understand that the Company may also be able to charge late payment fees which would increase profitability. Therefore most of the potential variability in income is upside, and we have not made an explicit adjustment to the value of ground rent income for the risk of non payment.

We have used a term dependent structure for discount rates, based on nominal forward rates derived from the UK Government fixed interest securities as at 17 August 2005, as published in the Bank of England’s website. This approach gives a better fit with the market valuation of comparable bonds, particularly when the yield curve is not flat. Section 7 of the report also shows valuations at alternative discount rates 1% per annum above and 1% per annum below the central rates. The following graph shows the structure of the term dependent discount rates.

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Nominal Gilt Forward Rates

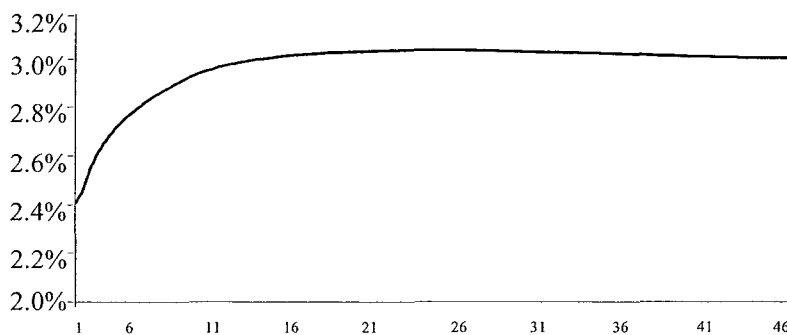


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2.6. Assumption for Future RPI Inflation

For consistency with the discount rate we have used a term dependent assumption for RPI inflation. This was based on the implied inflation rates derived from UK Government index-linked and fixed interest gilts as at 17 August 2005, as published on the Bank of England's website. Section 7 of the report also shows valuations at alternative inflation rates 1% per annum above and 1% per annum below the central rates. The following graph shows the structure of the term dependent RPI inflation assumptions.

Implied Future Inflation Forward Rates



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2.7. Inflation Linked Growth of the Expected Future Cash Flows

Many of the expected future cash flows are linked to inflation, for example:

- Ground Rent uplifts are linked to RPI
- Transfer Fees are related to property inflation
- Most reviews on Wardens' Apartments Rentals are the greater of RPI and property inflation

This mixture could be seen as offering diversified exposure to inflation, rather than just being exposed to one measure of it, such as RPI.

2.8. Management Handling Charges to Peverel

The Company incurs management handling charges of 5% plus VAT payable to Peverel in relation to some of the older properties in the Portfolio. The charges apply to all cash flows apart from the Wardens' Apartment Rental.

The Company has advised us that they would expect to negotiate away the handling charge after the expiry of the current management contracts in 2009. Our projections are based on the assumption that this will be the case. We have been informed that the Company does not incur any other management expenses in collecting income from the Portfolio.

3. Ground Rent Income

Ground Rents are the primary source of value in the Portfolio. They are paid in two instalments each year, one due on 1 March and the second due on 1 September. The developments have the same ground rent uplift rules, namely an upward only increase in line with RPI after 23 years, and every twenty one years thereafter. These have been valued allowing for the actual incidence of these uplifts for each development using our term dependent RPI inflation assumption described in section 2.7.

The value of the future Ground Rent income stream over a 50 year horizon as at xx August 2005 is £172.8m.

4. Transfer Fees

When a leasehold unit is resold 2% of the sale price is deducted from the proceeds. The Transfer Fees relate to the 1% which is passed to the Company after deduction of the handling charge for some properties. The other 1% is paid to a sinking fund which is available to cover the cost of more major or structural work required for the development, and is therefore excluded from our valuation.

The value of the Transfer Fees depends on two main factors: the value of the leasehold units and the rate of leasehold sales.

4.1. Value of Leasehold Units

The value of leasehold units is important because it affects the amount of Transfer Fees that the Company receives. Full information was available on historical value of units transferred between primary and secondary tenants. We have estimated the market value of the leasehold units from the average sale values of 1 bed and 2 bed units in each development between January 2004 and April 2005. We have applied a 10% reduction to these values for prudence.

We have recognised and allowed for the fact that 1 bed units will have a lower market value than 2 bed units. Analysis of the sale values over this time period suggests that value of 1 bed units are on average around 81% of value of the 2 bed units for the Portfolio.

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In developments where transfer data was not available, we have estimated the market values of the units based on the value of the Wardens' Apartments. In developments with no Wardens' Apartments and no transfer data, we have used the average value across the rest of the Portfolio, with a further 10% reduction for prudence.

4.2. Residential Property Value Inflation Rates

An assumption for future increases in the market value of leasehold units is required in order to project the Transfer Fees. One of the valuation principles is that we aim to project forward risk adjusted cash flows and then to discount them back at risk free rates of return. The property inflation assumption must be consistent with this risk adjusted approach.

The total return from residential property can be considered as consisting of two main parts, firstly rental income, and secondly capital appreciation (or equivalently rental growth). Unfortunately rental yield information from the rented residential property market does not provide a strong starting point here. Particular issues are the allowances for default risk, dilapidation costs and the significant effect of location on rental yields and rental growth. Therefore we have adopted a pragmatic approach setting this assumption.

We have taken the gross yield from the RICS Survey of residential property yields for October 2003. This was then reduced to reflect the costs of managing the average rental property. The costs are essentially fixed in nature so this amount expressed as a proportion of property value would be expected to fall in times of high property inflation. We have assumed these costs to be 2.0% of property values. Based on this we have adopted a risk adjusted assumption of 1.8% per annum for residential property inflation, which is lower than historic growth rates. The rationale for this choice is set out in the table below.

Item	Yield	Explanation
Gross yield	4.40%	Assumed average rate of rental income yield.
Costs	-2.00%	Allowance for voids, management costs, arrears and update costs.
Implied "clean" rental income	2.40%	This represents the "risk free" income yield from holding a residential property investment after allowing for voids, repairs, management costs and periodic updates of the property.
Risk free return	4.24%	Defined as the 25 year spot rate derived from UK Government fixed interest securities.
Implied Property Inflation Rate	1.84%	The excess of this risk free return over the "clean" rental income should be in the form of capital appreciation, or equivalently rental growth.
Chosen Property Inflation Rate	1.80%	Rounded down for prudence

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4.3. Rate of Leasehold Sales

The rate of leasehold sales has been projected forward allowing for the demographic assumptions set out below. This allowed us to build up a complete picture of the age and duration of tenancy distribution of the Portfolio in each year of the projection based on these assumptions. From this we were able to develop the expected number of leasehold transfers in each month of the projection period. After allowing for the average market value of units in each development and the property inflation assumption this allowed the expected future Transfer Fees to be estimated for each month of the projection period.

4.4. Demographic Data

The valuation method relies on the availability of data concerning the units within each development, and on the ages, sex and occupancy mix of the tenants.

The Company provided us with a database of resident ages and sexes for the Portfolio as at 20 July 2005. Where a unit included more than one resident, age data for additional residents was also provided. The Portfolio is made up of 15,601 units. The database contained resident data for 12,781 units. This leaves 2,820 units with no resident age data.

We populated the remaining 2,820 units with a random sample of resident data from developments of similar duration. We ensured that the average ages, number of people by gender and mix of single and joint tenants within the sample was representative of the survey as a whole. In particular the mean age and standard deviation of age were consistent with the data provided.

4.5. Mortality

We expect that the mortality experience of sheltered housing tenants would be broadly similar to that of pension fund annuitants. The mortality assumption is therefore based on the most recent published mortality investigation for pension fund annuitants in the UK.

The Mortality Sub-Committee of the Continuous Mortality Investigation Bureau (CMI) produce standard tables of mortality based on life assurance industry data. The last series of tables they produced was the 92 series of tables that was based on mortality experience during 1991 to 1994. Separate mortality rates are quoted for each age and sex. The tables that are most relevant to the sheltered housing tenants are the ones relating to pension fund annuitants (PMA92 and PFA92 for males and female lives respectively).

Mortality rates have reduced considerably over the last century and there is an expectation that they will continue to improve into the future with medical advancements and lifestyle changes. The most recent set of projections of mortality improvement rates, published by the CMI, contains 3 sets of mortality improvement factors, each reflecting different levels of possible improvement rates. For the purpose of the valuation, we have assumed the central set of improvement factors.

The CMI constantly review experience against their published tables. The latest paper 'Mortality Improvements and the Cohort Effect' published by the Mortality Sub-Committee of the CMI reviewed the mortality experience from 1992 to 1999. The investigation compared the mortality rates experienced against the expected rates based on the 1992 tables and the projected improvements. This showed that male mortality rates are now approximately 10% lower than assumed in the projected tables and that female rates are 5% lower. We now therefore assume 90% of PMA92 projected rates for males and 95% of PFA92 projected rates for females. We have assumed that no residents remain in occupation beyond age 100.

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4.6. Nursing Care Leaver Rates

There is no UK data available on nursing home admission rates. The closest available data is the US experience and, while this may not closely fit the UK experience, it is the best available and remains the most reliable published information in the world. One might expect that the UK rates would be a little higher due to climate differences and the generally better healthcare standards in the US.

The admission rates to nursing care facilities from the "Report Of The Long-Term-Care Experience Committee" in the 1985 national nursing home survey, provide the best fit to our needs. In our opinion, the 1985 rates with adjustments for general improvements in disability rates over time remain the most relevant point of comparison for tenants selling their leasehold units in order to enter a structured care environment. We have used the rates applicable to individuals who have not recently been discharged from another type of care facility. The rationale for choosing this table is that the rates of admission to a nursing home facility should be similar to the rates of leaving the Portfolio to receive nursing care, because the event being measured is the same.

Recent US studies have consistently concluded that disability rates have been improving in the past two decades, with the rate of improvement accelerating over time. The Centre of Demographic Studies, Duke University recently published a survey on "Changes in prevalence of chronic disability in the United States black and non-black population above age 65 from 1982 to 1999". The survey suggested a rate of improvement in overall chronic disability rates in the region of 25% from 1982 to 1999. Further, the study indicated that the annual rate of improvement from 1994 to 1999 was about 2.5% per annum. As the rate of improvement has been accelerating over time, nearly all of the 25% improvement would have occurred after 1985. For this valuation we have based the nursing care leaver rates on the assumption that the rate applicable for 2003 was 75% of the 1985 rates, with further improvements of 2.5% for each year after 2003.

We have conducted a comparison with some proprietary reinsurer data which is not available for publication, and have also sought expert opinion from our US colleagues. Both of these investigations supported our selection of the above rates.

4.7. Voluntary Leasehold Transfer Rates

It is likely that some tenants would decide to leave the development whilst they are still healthy. The factors affecting an individual's decision on whether to move are likely to depend upon how long they have lived there. If they decide they do not like the development after moving in they are more likely to move out quickly again. Moves for other reasons, such as to be closer to family may occur more evenly across the different possible durations, but might be rarer at the shorter durations.

However, we do not have any separate data on possible voluntary leasehold transfer rates and have therefore assumed a relatively low rate of 2.5% per annum for all tenancy durations.

4.8. Leasehold Transfer Delays

The model allows for a time lag between the event which makes a unit vacant (death, the need for nursing care, or voluntary transfer) and the arrival of a new tenant. This time lag delays the receipt of the Transfer Fee and also has a follow on effect upon the receipt of all subsequent Transfer Fees expected during the projection period.

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Reason for Tenant Vacating The Sheltered Housing Unit	Leasehold Transfer Delay in Months	Rationale For The Delay
Voluntary transfer of leasehold	0	<ul style="list-style-type: none"> The voluntary transfer rates refer to the expected date of moving rather than when the decision to move was taken. Therefore no additional delay is required.
Death	3 months	<ul style="list-style-type: none"> There may be probate issues to deal with before the property is put on the market. There could then be a further delay until a purchaser is found. Finally some time would be required for the conveyancing process.
Nursing care leavers	6 months	<ul style="list-style-type: none"> The delay may be greater due to the need to look for suitable alternative accommodation.

4.9. New Entrant Assumptions

We have based the initial new entrant age assumptions on the population data described in section 4.5 for the developments underlying Property Owner No. 7, which are on average 1 year old. This gives the following initial new entrant assumptions:

Entry Age		
Single tenants	Male	78.1
	Female	78.8
Joint tenants	Male	76.3
	Female	75.6

As a sheltered housing development matures it is natural for the average age of its occupants to increase due to the ageing of the existing tenants.

We have investigated whether there is any evidence of a “maturing new entrant” effect in the Portfolio, whereby the average age of replacement tenants increases over time as the average age of the existing tenants increases. Nursing home experience in the US indicates that this effect can sometimes be observed. We projected the model on 3 different assumptions for new entrant assumptions:

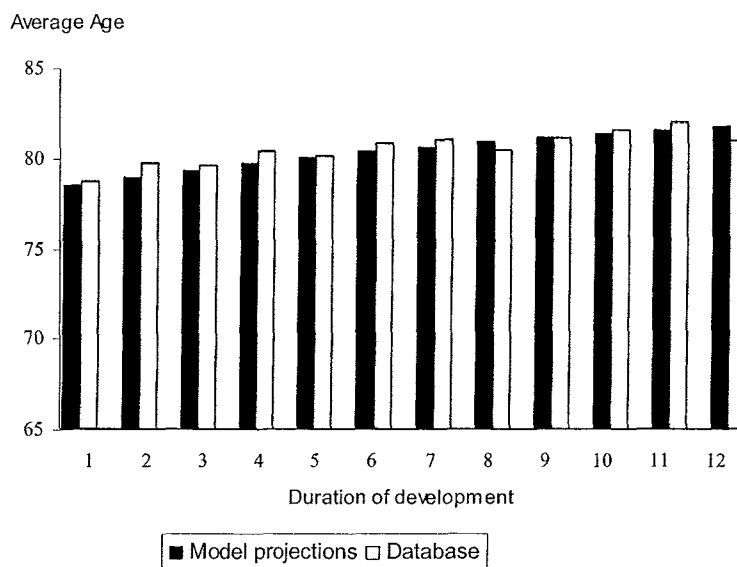
- Static new entrants as above
- New entrants ageing 1 year over a period of four years, then remaining stable
- New entrants ageing 2 years over a period of four years, then remaining stable

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We compared the projected age profile by development duration against the profile in all the developments in the Portfolio, using the “Least Squares” goodness of fit test. Our analysis indicated that a static new entrant assumption provided the best fit for the data, and we have therefore assumed that all future new entrants have the same demographic mix as the initial new entrants, and have not made any allowance for increasing new entrant ages. This is illustrated in the graph below:

Age Profile by duration of development



4.10. Peverel “Reasons for Sale” survey

We were provided with the results of Peverel’s survey on the “Reasons for Sales” provided in respect of leasehold sales in sheltered housing developments over the period from 1997 to July 2005.

The following table sets out the results of the survey:

Reason	Survey Proportion
Death or inheritance	20%
Nursing care admission	21%
Voluntary	11%
“Disposals”	34%
Others	14%

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Peverel has indicated that "Disposals" are mostly related to deaths, but other reasons may be possible. Taking account of this uncertainty, the survey is consistent with the results of our projections.

4.11. Valuation

The value of the future Transfer Fee income stream over a 50 year horizon as at 17 August 2005 is £54.9m.

5. Wardens' Apartments Rentals

Wardens' Apartments Rentals are passed from Peverel to the Company without any deduction of handling charges. The Portfolio consists of 261 developments with Wardens' Apartments where rent is payable. We understand that there are further 5 developments where no rent is chargeable in respect of Wardens' Apartments. The remaining developments do not have Wardens' Apartments.

5.1. "Optionality" Benefits In The Wardens' Apartment Rental Stream

The information we have been provided with shows the developments as falling into one of the following categories:

	Lease Type A	Lease Type B
Number of developments	235	26
Review Period	One year	Five years
Movement	Upward only	Upward only
Rental growth	Rental growth is the greater of property value growth and RPI inflation over the past year	Rental growth is the greater of property value growth and RPI inflation over the 5 year period

Under both of the lease types, future rentals increase by the higher of property value inflation or RPI at each review date. This "option-like" rental review agreement adds a significant benefit to the value of future uplifts, as it captures the upside volatility in property value inflation or RPI, while providing protection against the downside volatility. The "optionality" benefit is material because historical data shows that property value inflation and the RPI index tend to move independently of each other, i.e. there is no material statistical correlation between property inflation and the RPI index.

We have valued the "optionality" benefit using stochastic simulation of RPI and property value growth rates, based on our statistical analysis of historical volatility for property value growth and RPI index. The expected value of RPI inflation was based on the Bank of England's 25 year implied spot inflation rate of 2.86%. The expected value of property inflation was the same as set out in section 4.2. This calculation suggested that the "optionality" benefits could be expressed as 1.95% per annum for type A leases and 0.63% per annum for type B leases, in addition to RPI inflation.

This collective approach to valuing the option should be prudent because it does not allow for the fact that different increases could apply in different developments. A Warden's Apartment in a region of high house price inflation would increase at that high local rate when the rest of the Portfolio was just increasing at RPI. In theory to allow for this effect we should use a higher volatility rate which takes into account regional variations. However sufficiently robust statistics were not available for this and we have taken the prudent approach of using national volatility rates, which understates the value of the "optionality" benefit.

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5.2. Valuation

The value of the future Wardens' Apartment Rental income stream over a 50 year horizon as at 17 August 2005 is £154.5m.

6. Results and Sensitivity Tests

6.1 Actuarial Value of the Portfolio

The following table sets out the total actuarial value of the Portfolio as at 17 August 2005:

Component of Actuarial Value	£m	% of Total Value
Ground Rents	172.8	35%
Wardens' Apartment Rental	154.5	31%
Transfer Fees	54.9	11%
"Residual value" after 50 years	116.5	23%
Handling Fees	(0.8)	0%
Total	497.9	100%

The following table sets out the actuarial value of each Property Owner in the Portfolio:

Property Owner	£m	% of Total Value
Property Owner No. 1	41.9	8.4%
Property Owner No. 2	51.2	10.3%
Property Owner No. 3 & No. 4	47.7	5.5%
Property Owner No. 5	48.8	4.1%
Property Owner No. 6	40.1	9.8%
Property Owner No. 7	51.1	10.3%
Property Owner No. 8	217.1	43.5%
Total	497.9	100%

In addition to the projections on our central set of assumptions, we have produced results on a variety of different assumptions. Individual assumptions were varied one at a time and the effect on the present value of future cash flows recorded. The results of these investigations are set out below.

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6.2. Discount Rate Sensitivities

The following table sets out the results on discount rates 1.0% greater and 1.0% lower than our set of term dependent rates.

£m	Discount Rate % p.a.		
	Central - 1%	Central	Central + 1%
Total actuarial valuation	673.8	497.9	379.1
Change	+35%		-24%

As expected, a reduction in long term gilt rates would increase the actuarial valuation, and an increase in long term gilts rates would reduce it.

The actuarial valuation is very sensitive to changes in long term gilts rates. Changes of the order 1.0% have occurred over reasonably short time periods in the UK in recent years and could be considered as fairly normal. Since the valuation basis is active any such movement would be immediately recognised in the actuarial valuation.

6.3. RPI Inflation Rate Sensitivities

The following table sets out the results assuming RPI inflation rates 1% greater and 1% lower than our set of term dependent rates. This does not take account of any corresponding change in interest rates which might be expected to offset the impact of the inflation change to some extent.

£m	RPI Inflation Rate % p.a.		
	Central - 1%	Central	Central + 1%
Total actuarial valuation	424.9	497.9	603.2
Change	-15%		+21%

An increase or decrease in the RPI inflation rates will have an effect on the "optionality" benefit. For example, a reduction in the RPI inflation rate by 1% will increase the "optionality" benefit relating to lease type A by 0.53%, alternatively an increase of 1% will decrease the benefit by 0.43%. This has been allowed for in the sensitivity test.

The actuarial valuation is very sensitive to general inflation and should provide a good match for "real" long term liabilities, which are expected to grow in line with general price levels in the economy. In fact the greatest sensitivity is to real yields. Comparing the result from increasing inflation by 1% against that in the previous section of decreasing the discount rate by 1% shows that both exhibit changes of a similar magnitude.

Therefore the main conclusion is that the actuarial valuation exhibits many of the sensitivities of index-linked gilts. Small changes in real yields on index linked gilts could have a very significant impact.

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6.4. Property Inflation Rate Sensitivities

The following table sets out the results using residential property inflation rates 1% higher and 1% lower than our central assumption of 1.8% per annum. The main ways this affects the valuation is through the impact on future Transfer Fees and on future Wardens' Apartments Rentals.

£m	Property Inflation Rate % p.a.		
	Central - 1%	Central	Central + 1%
Total actuarial valuation	461.7	497.9	548.2
Change	-7%		+10%

An increase or decrease in the property inflation rates will have an effect on the "optionality" benefit used in the valuation of the Wardens' Apartment Rental income. For example, a reduction in the property inflation rate by 1% would decrease the "optionality" benefit relating to lease type A by 0.39%, alternatively an increase of 1% would increase the benefit by 0.45%. This has been allowed for in the sensitivity test.

Therefore the actuarial valuation is relatively insensitive to changes in property inflation, and less sensitive than it is to general inflation.

6.5. Other Sensitivities

We have also investigated a number of other sensitivity tests. The results show that in general any reasonably normal deviation in mortality experience has very little impact on the actuarial valuation. For example, a 20% change in mortality experience results in a change of less than 2%. The value of the Transfer Fees is more sensitive to changes in the discount rate, general inflation rate and property inflation rate than to demographic rates.

7. Security of the Cash Flows Underlying the Valuation

7.1. Security Offered by Leasehold Interest

The value of the leasehold provides security for all the future cash flows provided the leasehold interest continues to have a high value compared against the value of the freehold. The only case where this would break down would be if a development became derelict. A partial example of this could occur if a development became run down and it became difficult to market the units to new tenants. We understand from the Company that:

- this is unlikely because the developments are actively managed, and
- the land value also provides security, and
- in the unlikely event of a development becoming run down, the Company could preserve the value of the leasehold by refurbishing the development for a premium.

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7.2. Enfranchisement Risk

Enfranchisement risk is the risk that the tenants of one or more developments may collectively decide to enfranchise. This has not been taken into account in the main actuarial valuation calculations.

At first sight enfranchisement could be considered to be a major risk to the value of the Company's investment because some of the landlord's income streams may not be included in the sale valuation if the transaction goes before the Leasehold Valuation Tribunal. In addition the discount rates used to value these income streams are currently much higher than is available on other comparable investments and this tends to undervalue the freehold.

Enfranchisement risk is difficult to assess due to its subjective nature. The Company has informed us that there have not been any enfranchisements in the Portfolio to date, and that given the special characteristics of sheltered housing there are good reasons why one would not expect enfranchisement to take place. In particular, the Company believes that collective enfranchisement is a dramatic change that requires a considerable amount of effort and the management of the development after enfranchisement would be particularly onerous. This is an important factor as the average duration of tenancy is low (due to the high average age of the tenants). Therefore, the Company considers it unlikely that enfranchisement will occur in any of the developments in the Portfolio. However in order to investigate the potential impact on value we have carried out a separate "enfranchisement scenario" valuation based on the following assumptions:

- Developments are enfranchised at the rate of 1% per annum.
- Compensation is paid for the loss of Ground Rents and Wardens' Apartments Rentals only. No allowance is included for future rental growth or ground rent uplifts.
- The value paid to the Company on enfranchisement is based on discount rate of 10% p.a.
- No compensation is paid for the freeholder's share of marriage value, loss of Transfer Fees or any other income entitlements.

In this relatively extreme enfranchisement scenario the actuarial valuation would reduce by around 21%, which is less than the sensitivity to a 1% increase in discount rates.

7.3. Regulatory and Legislative Risk

The risk of regulatory or legislative change has not been taken into account in the main actuarial valuation calculations. This is difficult to assess because it depends upon political and social change as well as the actions of other companies and individuals.

7.4. The projected Growth in the Actuarial Value of the Portfolio

Enfranchisement, regulatory and legislative risks are subjective and relatively long term by nature. These should be considered relative to the expected growth in value of the Portfolio over time, and the prudent nature of the "residual value" calculation.

We have projected the actuarial value of the Portfolio, 10 years after the date of valuation. This uses the same approach as the main valuation, but is based on projected tenant occupancy of the sheltered housing developments, and uses projected market consistent economic assumptions derived from current market conditions on the valuation date.

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The following table sets out the projected actuarial value of the Portfolio as at 17 August 2015:

Component Of Projected Actuarial Value	£m	% increase in projected value
Ground Rents	234.4	36%
Wardens' Apartment Rental	258.9	68%
Transfer Fees	63.7	16%
"Residual value" after 50 years	169.3	45%
Handling Fees	(0.0)	0%
TOTAL	726.4	46%

7.5. Cash Flows not included in the Valuation

In addition to the Ground Rents, Transfer Fees and Wardens' Apartments Rentals, the Portfolio also has the potential to generate other future income streams. We have not valued these potential income streams, but understand that they contribute to the security for investors in the securitisation.

The Company is entitled to earn commissions on the placement of insurance on termination of the Property Agreements. In addition, The Company also has an opportunity to market other types of insurance products.

The Company does not currently charge for guest room rentals and car parking spaces, but has the right to do so. The Company has informed us that it intends charge for guest room rentals and car parking spaces in the future.

8. Reliances and Limitations

8.1. Limitations

The valuation of the Portfolio is based on actuarial principles set out in this report. Accordingly the valuation does not address the issues that would be considered by a professional surveyor or property valuer. There can be no assurance that another appraiser would come to the same conclusion as to the value of the Portfolio. In addition, there can be no assurance as to the amount which would be realised on a sale of the Portfolio.

This report is for the exclusive use of our clients to whom it is addressed and their professional advisers. It does not represent investment advice or provide an opinion regarding the fairness of any transaction to any and all parties. There are no third party beneficiaries with respect to this report, no third parties are entitled to rely on this report, and we shall not be liable to any third party, including without limitation any investors or prospective investors in the Notes.

This report is intended to be read and used as a whole and not in parts. Separation or alteration of any section or page from the main body of this report invalidates this report. This report is not intended for general circulation or publication, nor is it to be used, reproduced or distributed for any purpose other than those that may be set forth herein without the prior written permission of Mercer Oliver Wyman. Neither all nor any part of the contents of this report, any opinions expressed herein, or the firm with which this report is connected, shall be disseminated to the public through advertising media, public relations, news media, sales media, mail, direct transmittal, or any other public means of communications, without the prior written consent of Mercer Oliver Wyman.

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Information furnished by others, upon which all or portions of this report are based, is believed to be reliable but has not been verified. No warranty is given as to the accuracy of such information. Public information and industry and statistical data, including without limitation information and data with respect to mortality rates, ill health rates, property values, and investment market prices and yields are from sources we deem to be reliable; however, we make no representation as to the accuracy or completeness of such information and have accepted the information without further verification.

In rendering this report, we have also relied upon and assumed the accuracy of the information provided by the Company regarding the properties held within the Portfolio, and the characteristics of the tenants in those properties.

No responsibility is taken for changes in market conditions or laws or regulations and no obligation is assumed to revise this report to reflect changes, events or conditions, which occur subsequent to the date hereof.

Mercer Oliver Wyman has performed this work for the intended purposes for use by person or persons technically competent in the areas addressed and for the stated purpose only.

Unless otherwise stated in the report no attempt has been made by us to determine the effect of any litigation by or against the Company on the potential value of the Portfolio.

The Company may provide copies of this report to third parties, provided that: (a) the Company notifies us prior to such disclosure of the identity of each prospective recipient and we consent in writing to such disclosure; (b) the entire report is provided to the recipient; and (c) such party agrees in writing not to distribute the report to any other party and not to make any claim against Mercer Oliver Wyman based on the report or data contained therein or otherwise assert any duty or liability by Mercer Oliver Wyman to such party.

8.2. Reliances

The following is a list of the main information provided by the Company. We have relied on this and other verbal and written communication with the Company for our valuation.

- Database of resident ages and sexes in respect of each unit in the Portfolio as at 20 July 2005
- Latest information in respect of each development in the Portfolio as at 12 May 2005 on current Ground Rents and Wardens' Apartments Rentals
- General information in respect of each development in the Portfolio, including Wardens' Apartments Rentals uplift frequency and the number of 1 bed and 2 bed units
- Information memoranda received from the vendor prior to each of the purchases made by the Company
- Database of transfer values in respect of each unit as at 30 April 2005

Yours faithfully
Mercer Oliver Wyman

John Whitworth FIA

Marc Loh FIA

Property Due Diligence

Sample Properties. Osborne Clarke (solicitors to the Borrower and the Property Owners) has carried out a full investigation of title in the form of a certificate of title which is addressed to the Borrower and has obtained the searches normally obtained for a purchaser of this type of property in relation to an agreed sample of Properties spread across the portfolio, there being six portfolios of Properties in total. The sample (42) has been chosen to include developments identified by the Borrower as contributing firstly, the 3 highest ground rents to the relevant portfolio and otherwise randomly selected for the purpose of the diligence (the “**Sample Properties**”). The certificates also covers a summary of the limited investigation in relation to the non-sample properties within each portfolio. This limited investigation included the obtaining and checking of the office copy register entries to confirm that the relevant Property Owner is the registered proprietor and to check whether there are any restrictions on the title to each non-sample Property which require the consent of a third party for the purposes of creating security over the relevant Property. Each certificate also contains a summary of the standard form letting document of the Apartments for each portfolio together with a report on a sample of such letting documents. Any variations from the standard form letting document in respect of the reviewed sample are also reported. The certificate also reports on the terms of the standard form headlease and underlease for the wardens’ apartments within the sample properties in the portfolio. From the information disclosed, Cadwalader, Wickersham & Taft LLP has produced a property due diligence matrix (the “**Property Due Diligence Matrix**”) comprising the matrices set out below.

Title Matrix. Office copy register entries have been obtained by Osborne Clarke for all of the title numbers shown in the title matrix which relate to all the developments in the portfolio, confirming the name of the registered proprietor of that property, its address and title number, its freehold or leasehold status and whether there is any registered financial charge or restriction on charging which will require release (or an appropriate consent to charge in the case of a restriction) on the Closing Date have been disclosed in the relevant certificate of title. Land Registry searches have been carried out in relation to all of the titles shown in the title matrix as being registered freehold or leasehold properties for the purpose of obtaining information as to any registered financial charges or restrictions on charging which may have been registered since the date of the office copy register entries which will require release (or an appropriate consent to charge in the case of a restriction) on the Closing Date. Land Registry searches were carried out on 14 and 15 March 2006. The title numbers in the title matrix have been provided to Osborne Clarke by the Property Owners who have confirmed that, to the best of their knowledge and belief, such title numbers comprise the whole of the portfolio concerned. No independent verification thereof has been undertaken by Osborne Clarke.

Occupational Lease Matrix. This matrix has been completed following a review of leases in the Sample Properties as disclosed in the certificates. One of each form of lease from each portfolio of developments has been summarised and nine leases at each development listed in the matrix have been reviewed against the summary. Each lease in the sample has been reviewed for the purpose of obtaining the following information: term length and commencement date; ground rent at commencement of term; basis of review of ground rent; rent payment dates; payment of transfer fees; whether there is provision for forfeiture of the lease for non-payment of rent; and whether the ground rent is payable without set-off or counter-claim. No documents, information or records supplemental to the sample leases have been reviewed and no searches or enquiries raised of the parties to the lease or of any third party. Variations between those leases in the sample which Osborne Clarke have reviewed and the standard form of lease have been disclosed. Osborne Clarke are not in a position to identify any variations between those leases which it has reviewed and any other leases within the relevant development.

Wardens’ Apartments Rentals Matrix. This matrix has been completed following a review of the information disclosed in the relevant certificate of title in respect of the Wardens’ Apartments within the relevant Sample Properties (where applicable). Each lease has been reviewed for the purpose of obtaining the following information: term length and commencement date; initial rent; basis of review of rent; rent payment dates; rent review dates; number of bedrooms in the Wardens’ Apartments and the number of flats managed by the Wardens. Other provisions have generally not been reported on, but any unusual provisions have been mentioned in the comments column in the matrix. No documents, information or records supplemental to the sample leases have been reviewed unless specifically referred to on the matrix. No searches or enquiries have been raised of the parties to the lease or of any third party. Variations between those leases in the sample which it has reviewed and the standard form leases have been disclosed in the relevant certificate of title. Osborne Clarke are not in a position to identify any variations between those leases which it has reviewed and any other leases within the relevant development.

DESCRIPTION OF THE ISSUER

Introduction

The Issuer was incorporated in the Cayman Islands on 15 August 2005 with company number 153441 as an exempt company with limited liability under the Companies Law (2004 Revision) of the Cayman Islands which is also the relevant primary legislation under which the Issuer operates. The Issuer is a special purpose vehicle established for the purpose of issuing the Notes. The registered office of the Issuer is located at PO Box 1093GT, Queensgate House, South Church Street, George Town, Grand Cayman, Cayman Islands (telephone number +1 345 945 7099) at which the Issuer's register of members is kept. The authorised share capital of the Issuer is £20,000 comprising of 20,000 ordinary shares of £1.00 each, 250 of which are fully paid up and held by Maples Finance Limited on trust for charitable purposes. The Issuer has no subsidiaries. The accounting reference date of the Issuer is 31 October.

Principal Activities

The principal purpose of the Issuer is to issue the Notes and enter into all financial arrangements in connection with such issue.

Directors and Secretary

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

Name	Business Address	Other Principal Activities
SFM Directors Limited	35 Great St. Helen's London EC3A 6AP	Directors of special purpose vehicles
SFM Directors (No.2) Limited	35 Great St. Helen's London EC3A 6AP	Directors of special purpose vehicles

Capitalisation and Indebtedness Statement

The capitalisation of the Issuer as at the date of this Offering Circular, adjusted for the Notes to be issued on the Closing Date is as follows:

Share Capital	£
Authorised share capital of 20,000 ordinary shares of which 250 shares have been issued and fully paid	250
Class A Notes	329,000,000
Class B Notes	24,000,000
Total capitalisation and indebtedness	353,000,250

Save for the foregoing, at the date of this Offering Circular, the Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued, or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

DESCRIPTION OF THE BORROWER

Introduction

The Borrower was incorporated in England and Wales on 19 July 2005 (registered number 5512842) with limited liability under the Companies Act 1985. The Borrower is a special purpose vehicle established for the purpose of this transaction. The registered office of the Borrower is at Euro House, 131/133 Ballards Lane, London, N3 1GR. The authorised share capital of the Borrower as of the date of this Offering Circular is £1,000, divided into 1000 ordinary shares of £1.00 each, one of which has been issued and is held by the Parent. On the Closing Date, it is expected that the subsidiaries of the Borrower will be the Borrower Subsidiaries. The accounting reference date of the Borrower is 31 October.

Principal Activities

The principal objects of the Borrower are set out in its Memorandum of Association and are, *inter alia*, to carry on the business of a general commercial company.

The Borrower has not, since its incorporation, engaged in any activities other than those incidental to its incorporation under the Companies Act 1985, the authorisation of its entry into any of the transaction documents to which it is or will be a party and matters which are incidental or ancillary to the foregoing.

Directors and Secretary

The director of the Borrower and his business address and other principal activities are:

Name	Business Address	Other Principal Activities
Mr William Procter	35 Park Lane, London, W1K 1RB	CEO of Ground Rent Operations for Consensus Business Group Limited

Mr William Procter is chairman of the Borrower. The company secretary of the Borrower is Mr Alan Wolfson, whose business address is Euro House, 131/133 Ballards Lane, London, N3 1GR.

The Borrower has no employees.

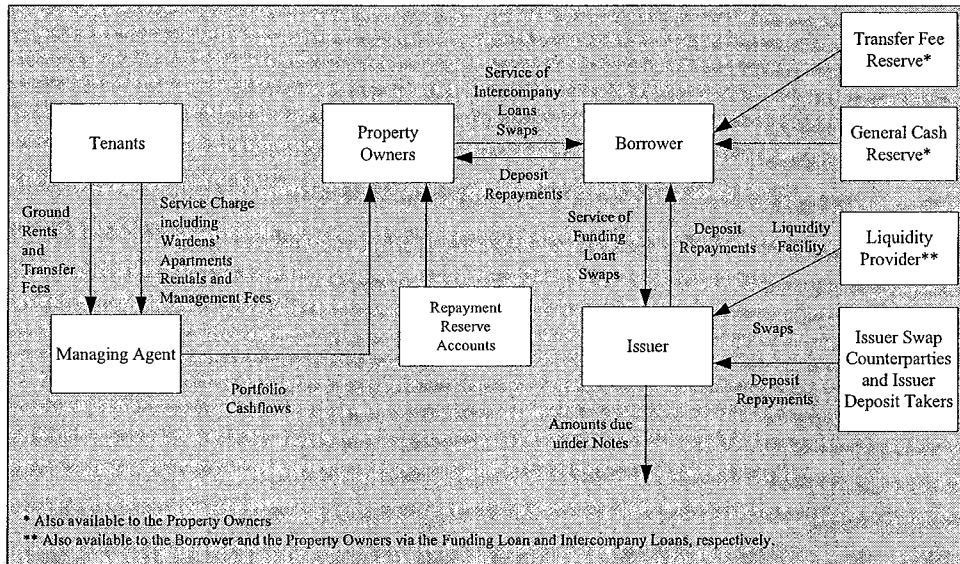
Capitalisation and Indebtedness Statement

The capitalisation of the Borrower as at the date of this Offering Circular, adjusted for the Funding Loan Agreement, is as follows:

Share Capital	£
Authorised share capital of 1000 ordinary shares of which 1 share has been issued and is fully paid.....	1.00
Tranche A1 Advance	309,000,000
Tranche A2 Advance	20,000,000
Tranche B Advance.....	24,000,000
Total capitalisation and indebtedness	353,000,001

Save for the foregoing (save for approximately £221,000,000 owed to the Parent), at the date of this Offering Circular, the Borrower has no borrowings or indebtedness in the nature of borrowings (including loan capital issued, or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

DESCRIPTION OF THE CREDIT STRUCTURE



Resources Available to the Property Owners

Receipts of Portfolio Cashflows and other amounts. The payment of Portfolio Cashflows to the Property Owners in connection with the Properties will provide the primary source of funds for the Property Owners to make payments due under the Intercompany Loan Agreement. The Property Owners may also receive certain additional amounts in respect of the Properties including car parking fees, payments in respect of guest rooms and commissions on insurances and other contracts. Each of these amounts will also be available to meet the obligations of the Property Owners under the Intercompany Loans.

Swaps. On the Closing Date the Borrower will enter into the Property Owners' Swaps with the Property Owners governed by the terms of the Property Owners' ISDA Master Agreements. The Interest Rate Swaps will give the Property Owners access to floating rate payments which vary with LIBOR as required by the terms of the Intercompany Loan Agreement. The RPI Swaps will be entered into in connection with Ground Rents and Wardens' Apartments Rentals to hedge amounts linked to RPI and are designed to lock in the level of increase in Ground Rents and Wardens' Apartments Rentals when uplifts occur.

Property Owners' Deposit Contracts. The Property Owners will place a certain amount from the proceeds of their respective Intercompany Loan on deposit with the Borrower pursuant to the Property Owners' Deposit Contracts. Each such Property Owner Deposit Contract will be evidenced by a confirmation and will supplement and form part of the relevant Property Owner ISDA Master Agreement. The Property Owners' Deposit Contracts will provide the Property Owners with payments on each Loan Payment Date at a fixed rate of interest, the Property Owners' Deposit Contracts are designed to cover certain shortfalls in their rental income and made additional funds available to assist in meeting their obligations under the Intercompany Loans.

The amounts payable under the Property Owners' Deposit Contracts may be increased and/or further deposit contracts may be entered into in connection with any issue of Further Notes or New Notes. The Property Owners' Deposit Contracts will be partially terminated in connection with any prepayment of the Intercompany Loans.

Repayment Reserve. Following the occurrence of a Repayment Reserve Trigger Event, each Property Owner's respective Property Owner Available Funds (other than prepayments of such Property Owner's Intercompany Loan) in excess of amounts required to meet scheduled payments on each Intercompany Loan and certain other amounts in priority to such payments set out in the Property Owner Pre-Enforcement Priority of Payments will be retained by such Property Owner and credited to such Property Owner's Repayment Reserve Account established at the Account Bank in the name of such Property Owner. Each Property Owner, or the

Security Trustee following enforcement of the security for the Intercompany Loans, will be entitled to withdraw funds standing to the credit of its Repayment Reserve Account to meet payments then due on its Intercompany Loans and other amounts payable in priority to amounts due on its Intercompany Loan.

A “**Repayment Reserve Trigger Event**” will occur if:

- (a) an Intercompany Loan Event of Default, a Funding Loan Event of Default or a Note Event of Default occurs;
- (b) any drawing has been made on the Liquidity Facility and such drawing has not been reimbursed to the Liquidity Provider in accordance with the Liquidity Facility Agreement; or
- (c) the Intercompany Loans have not been repaid in full by the Loan Payment Date falling in October 2012.

Provided that following the occurrence of a Repayment Reserve Trigger Event in the immediately following 12 months no other Repayment Reserve Trigger Event occurs ((a) and (b) above being capable of being cured, a “**Repayment Reserve Cure**”), all funds credited to the Repayment Reserve Accounts by reason of such Repayment Reserve Trigger Event will be released from the Repayment Reserve Accounts and applied as Property Owner Available Funds in accordance with the Property Owner Pre-Enforcement Priority of Payments unless and until a further Repayment Reserve Trigger event occurs.

In addition, after the Loan Maturity Date, all funds credited to the Repayment Reserve Accounts will be available to repay, *inter alia*, principal on the Intercompany Loans.

Reserve Loan Facility Agreement. Subject to the provisions of the Transaction Documents and following the determinations of the Cash Manager on the immediately preceding Calculation Date, the Borrower will on each Loan Payment Date make repayments on the Reserve Loans to the Property Owners to enable them to make payments in respect of Property Owner Senior Expenses.

Resources Available to the Borrower

Intercompany Loans. All payments made by the Property Owners to the Borrower under the Intercompany Loan Agreement, all amounts of interest earned on the Borrower Transaction Account and amounts received under the Borrower ISDA Master Agreement and the Property Owners’ ISDA Master Agreements will be used by the Borrower to pay amounts due under the Funding Loan and any amounts due to the Borrower Secured Creditors in accordance with the Borrower Pre-Enforcement Priority of Payments.

General Cash Reserve. On the Closing Date, the Borrower will be obliged to credit the General Cash Reserve Account with £1,000,000 from funds received by way of the Reserve Loan Facility Agreement from the Property Owners on or about the Closing Date. The Borrower will, following the determinations of the Cash Manager on the immediately preceding Calculation Date, be entitled to withdraw funds standing to the credit of the General Cash Reserve Account to meet any unpaid Borrower Senior Expenses and to make repayments on the Reserve Loans to the Property Owners to enable the Property Owners to meet any unpaid Property Owner Senior Expenses.

Transfer Fee Reserve Account. On the Closing Date, the Borrower will be obliged to credit the Transfer Fee Reserve Account with £18,000,000 from funds it receives from the Property Owners by way of the Reserve Loan Facility Agreement. During each interest period and following the determinations of the Cash Manager on the immediately preceding Calculation Date, the Borrower will be entitled to withdraw funds standing to the credit of this Transfer Fee Reserve Account to meet items (1) to (11) of the Borrower Pre-Enforcement Priority of Payments (including to make repayments on the Reserve Loans to the Property Owners to enable the Property Owners to meet items (1) to (10) of the Property Owner Pre-Enforcement Priority of Payments). Such amounts will then be applied by the Borrower according to the relevant Priority of Payments to Borrower Secured Creditors. The Borrower will be required to maintain the balance of the Transfer Fee Reserve Account at the Transfer Fee Reserve Required Amount. In addition the Borrower will be entitled to withdraw any funds in excess of the Transfer Fee Reserve Required Amount, if any, on each Loan Payment Date falling after October 2009.

Swaps. On the Closing Date the Borrower will enter into the Borrower Swaps with the Issuer. These swaps will assist the Borrower in meeting its obligations under the Property Owners’ ISDA Master Agreements.

Borrower Deposit Contracts. The Borrower will place certain of the deposit monies received in respect of the Property Owners' Deposit Contracts on deposit with the Issuer pursuant to the Borrower Deposit Contracts. Each Borrower Deposit Contract will be evidenced by a confirmation and will supplement and form part of the Borrower ISDA Master Agreement. The Borrower Deposit Contracts will provide the Borrower with semi-annual repayments plus an agreed amount of interest on each Loan Payment Date in order to assist the Borrower to meet its obligations under the Funding Loan.

Resources Available to the Issuer

Issuer Available Funds. All payments made by the Borrower to the Issuer under the Funding Loan Agreement, all amounts of interest earned on the Issuer Transaction Account, amounts received under the Issuer Swaps, amounts drawn pursuant to the Liquidity Facility and all amounts earned by the Issuer from Eligible Investments made on its behalf will be used by the Issuer to pay amounts due under the Notes and any amounts due to the Issuer Secured Creditors in accordance with the Issuer Pre-Enforcement Priority of Payments. Issuer Available Funds do not include any collateral posted by the Issuer Swap Counterparties pursuant to any applicable credit support annex.

Swaps. On the Closing Date the Issuer will enter into the Issuer Swaps with each of the Issuer Swap Counterparties. The Issuer Swaps will assist the Issuer in meeting its obligations under the Borrower ISDA Master Agreement.

Issuer Deposit Contracts. The Issuer will place certain of the deposit monies received in respect of the Borrower Deposit Contracts on deposit with the Issuer Deposit Takers pursuant to the Issuer Deposit Contracts. Each Issuer Deposit Contract will take the form of a confirmation each of which supplement and form part of each Issuer ISDA Master Agreement. The Issuer Deposit Contracts will provide the Issuer with semi-annual repayments plus an agreed amount of interest on each Loan Payment Date to assist the Issuer in meeting its obligations under the Notes.

Liquidity Facility. On the Closing Date the Issuer will enter into the Liquidity Facility Agreement with the Liquidity Provider pursuant to which the Liquidity Provider will make available to the Issuer the Liquidity Facility. The maximum committed amount under the Liquidity Facility will be £30,852,000. If the Issuer has no other funds available for such purpose and has at such time no outstanding drawings under the Liquidity Facility, the Issuer will have the then maximum amount available under the Liquidity Facility which is expected to enable it to meet all payments of interest under the Class A Notes for a period of 24 months and interest on the Class B Notes for a period of 18 months. In relation to payments of interest on the Class B Notes drawings will be limited to £1,840,000. The Liquidity Facility may be used to meet certain other expenses of the Issuer, the Borrower or the Property Owners, as the case may be. No drawing under the Liquidity Facility may be used to make payments of principal. If there are drawings under the Liquidity Facility on two successive Loan Payment Dates and such drawings have not been reimbursed by the third following Loan Payment Date, this will result in a Repayment Reserve Trigger Event.

Eligible Investments. The Cash Manager on behalf of the Issuer will, upon receipt of written instructions, invest certain cash credited to the Issuer Transaction Account or any other bank account of the Issuer in Eligible Investments, provided that, *inter alia*, such investments mature before the next succeeding Calculation Date. The Cash Manager, on behalf of the Borrower and the Property Owners will, upon receipt of written instructions, invest certain cash credited to the Borrower Accounts and the Property Owner Accounts or any other bank account of the Borrower and the Property Owners, in Eligible Investments, provided that, *inter alia*, such investments mature before the next succeeding Calculation Date.

Enforcement Reserve Account. The Enforcement Reserve Account will be available for the Issuer in a similar manner to the way in which it is made available to the Borrower as described under "Resources Available to the Borrower".

Priority of Payments to the Property Owner Secured Creditors Prior to Enforcement

The "Property Owner Available Funds" on any day means all amounts of Ground Rents, Wardens' Apartments Rentals and Transfer Fees and all other amounts standing to the credit of each of the Property Owner Transaction Accounts on such day including: (a) all amounts received under the Property Owners' Deposit Contracts and all net amounts received on the Property Owners' Swaps; (b) funds standing to the credit of the Repayment Reserve Accounts; (c) amounts received under the Property Owner Guarantees; (d) all repayments received under the Reserve Loan Facility Agreement; (e) all Expenses Advances received under the

Intercompany Loan Agreement; (f) any insurance proceeds; and (g) any capital injections allowed pursuant to the Intercompany Loan Agreement.

Amounts due on the termination (whether in part or in whole) of each Property Owner's RPI Swaps will be netted off against amounts payable under the Property Owners' Interest Rate Swaps and the Property Owners' Deposit Contracts pursuant to the terms of the relevant ISDA Master Agreement. If the aggregate termination value for a Property Owner's RPI Swaps gives rise to a payment due to the Borrower then such amount, less the aggregate termination value for its Property Owners' Interest Rate Swaps and Property Owners' Deposit Contracts (where such aggregate termination value gives rise to a payment by the Borrower), will be referred to as the "**Property Owners' Net RPI Termination Amount**" and will rank (i) prior to enforcement, *pari passu* with interest payments and senior to payments of principal under the Intercompany Loans and (ii) post enforcement, *pari passu* with interest and principal owed under the Intercompany Loans.

"**Property Owner Subordinated Hedge Amounts**" means any amounts due as a result of termination of any of the Property Owners' Swaps or the Property Owners' Deposit Contracts (i) arising from an Event of Default, as defined in the relevant agreement, where the Borrower is the Defaulting Party; or (ii) arising by virtue of an Event of Default where the Issuer Swap Counterparty or the Issuer Deposit Taker is the Defaulting Party or a Rating Event in respect of the Issuer Swaps and/or the Issuer Deposit Contracts.

On each Loan Payment Date prior to the enforcement of the security under the Security Trust and Intercreditor Deed, the Property Owner Available Funds will be applied by each Property Owner or the Cash Manager on its behalf in making the following payments in the following order of priority but in each case only if and to the extent that the prior ranking payments have been made in full (the "**Property Owner Pre-Enforcement Priority of Payments**" and, together with the Borrower Pre-Enforcement Priority of Payments and the Issuer Pre-Enforcement Priority of Payments, the "**Pre-Enforcement Priorities of Payments**");

First, to meet the remuneration, costs and expenses of the Security Trustee, (inclusive of any value added tax ("VAT")), which may be chargeable at the then applicable rate), including those in connection to tax and any costs, charges, liabilities, indemnity claims and expenses incurred by the Security Trustee;

Second, pro rata to meet the remuneration, costs and expenses (inclusive of any VAT, which may be chargeable at the then applicable rate) of the Cash Manager, the Managing Agent (or any successor managing agent) and the Account Bank under the Cash Management Agreement, the Property Management Agreements and the Bank Account Agreement (such amounts, together with the amounts referred to in "*First*" above, being the "**Property Owner Senior Expenses**");

Third, in or towards satisfaction of all amounts due but unpaid to the Borrower in respect of any Expenses Advances made under the Intercompany Loans;

Fourth, to meet any indemnity claims under any of the Intercompany Loans in respect of Issuer Senior Expenses (if any), Borrower Senior Expenses (if any) and Senior Liquidity Costs (if any);

Fifth, amounts due and payable to the Borrower under the Property Owners' ISDA Master Agreements in respect of the Property Owners' Swaps and the Property Owners' Deposit Contracts, other than any Property Owner Net RPI Termination Amounts and the Property Owner Subordinated Hedge Amounts;

Sixth, in or towards satisfaction of the amount, if any, of tax (including corporation tax) due by the Borrower or the Property Owners;

Seventh, pro rata and pari passu in or towards satisfaction of (i) interest due but unpaid to the Borrower in respect of the tranches of the Intercompany Loans relating to the Tranche A1 Advance and the Tranche A2 Advance and (ii) any Property Owner Net RPI Termination Amounts due and payable to the Borrower under the Property Owners' RPI Swaps, other than any Property Owner Subordinated Hedge Amounts;

Eighth, pro rata and pari passu in or towards satisfaction of all amounts of principal and other amounts due and payable but unpaid to the Borrower in respect of the tranches of the Intercompany Loans relating to the Tranche A1 Advance and the Tranche A2 Advance;

Ninth, in or towards satisfaction of interest due and payable but unpaid to the Borrower in respect of the Tranche B Advance;

Tenth, in or towards satisfaction of all amounts of principal and other amounts due and payable but unpaid to the Borrower in respect of the Tranche B Advance to the extent of any Intercompany Loan Prepayments;

Eleventh, to the Borrower to the extent (if any) that the Borrower may require the Property Owners (or any of them) to make any further advances to it under the Reserve Loan Facility Agreement in respect of (i) any General Cash Reserve Required Amount or (ii) any Transfer Fee Reserve Required Amount on such Loan Payment Date;

Twelfth, in or towards satisfaction of Additional Margin;

Thirteenth, for so long as any Repayment Reserve Trigger Event is subsisting, each Property Owner's excess Property Owner Available Funds (subject to the proviso contained in the definition of Repayment Reserve Trigger Event) will be deposited in such Property Owner's Repayment Reserve Account;

Fourteenth, in or towards payment of any Property Owner Subordinated Hedge Amounts then due to the Borrower;

Fifteenth, to meet any indemnity claims under the Intercompany Loans in respect of any Subordinated Liquidity Amounts;

Sixteenth, in or towards payment of all amounts due to the Tranche C Lender under the Tranche C Loan Agreement;

Seventeenth, in or towards payment of all sums due to the Property Owners' Subordinated Lender under the Property Owners' Subordinated Loans;

Eighteenth, in or towards payment to the other Borrower Subsidiaries in respect of any counter-indemnity claims the same may have pursuant to the Property Owner Guarantees in respect of the Intercompany Loans; and

Nineteenth, the balance (if any) to be available for the Property Owners' General Account for the general corporate purposes of the Property Owners (including payment of dividends), without limitation.

Priority of Payments to the Property Owner Secured Creditors Post-Enforcement

On enforcement of the security created under the Security Trust and Intercreditor Deed, the Security Trustee is required to apply the proceeds of such security in or towards satisfaction of the following amounts in the following order of priority (the "**Property Owner Post-Enforcement Priority of Payments**" (and together with the Property Owner Pre-Enforcement Priority of Payments, the "**Property Owner Priority of Payments**") and, together with the Borrower Post-Enforcement Priority of Payments and the Issuer Post-Enforcement Priority of Payments, the "**Post-Enforcement Priorities of Payments**" and, together with the Pre-Enforcement Priorities of Payments, the "**Priorities of Payments**" and each a "**Priority of Payment**"):

First, to meet the remuneration, costs and expenses of the Security Trustee (and any receiver it may appoint), (inclusive of any VAT, which may be chargeable at the then applicable rate) and any costs, charges, liabilities, indemnity claims and expenses incurred by the Security Trustee (and any receiver it may appoint);

Second, pro rata in or towards satisfaction of all amounts due to be paid by the Borrower to the Cash Manager, the Managing Agent (and to any successor managing agent) and the Account Bank under the Cash Management Agreement, the Property Management Agreements and the Bank Account Agreement;

Third, in or towards satisfaction of all amounts due but unpaid to the Borrower in respect of any Expenses Advances made under the Intercompany Loans;

Fourth, to meet any indemnity claims under any of the Intercompany Loans in respect of Issuer Senior Expenses (if any) and Borrower Senior Expenses (if any);

Fifth, in or towards satisfaction of (a) the amounts due to the Borrower under the Property Owner ISDA Master Agreements in respect of the Property Owners' Swaps and the Property Owners' Deposit Contracts, other than any Property Owner Net RPI Termination Amounts and (b) all Senior Liquidity Costs (if any) owing to the Liquidity Provider under the Liquidity Facility Agreement;

Sixth, pro rata and pari passu, in or towards satisfaction of (i) all amounts of interest, principal and any other amounts due and payable but unpaid to the Borrower in respect of the tranches of the Intercompany Loans relating to the Tranche A1 Advance and the Tranche A2 Advance and (ii) the Property Owner Net RPI Termination Amounts;

Seventh, in or towards satisfaction of all amounts of interest, principal and any other amounts due and payable but unpaid to the Issuer in respect of the Tranche B Advance and any other amounts due but unpaid to the Issuer under the Funding Loan Agreement;

Eighth, in or towards satisfaction of Additional Margin;

Ninth, for so long as any Repayment Reserve Trigger Event is subsisting, each Property Owner's excess Property Owner Available Funds (subject to the proviso contained in the definition of Repayment Reserve Trigger Event) will be deposited to such Property Owner's Repayment Reserve Account;

Tenth, to meet any indemnity claims under the Intercompany Loans in respect of any Subordinated Liquidity Amounts;

Eleventh, in or towards payment of all amounts due to the Borrower under the Reserve Loan Facility Agreement;

Twelfth, in or towards payment of all amounts due to the Tranche C Lender under the Tranche C Loan Agreement;

Thirteenth, in or towards payment of all sums due to the Property Owners' Subordinated Lender under the Property Owners' Subordinated Loans;

Fourteenth, in or towards payment to the other Borrower Subsidiaries in respect of any counter-indemnity claims the same may have pursuant to the Property Owner Guarantees in respect of the Intercompany Loans; and

Fifteenth, the balance (if any) to the Property Owners' General Account.

Priority of Payments to the Borrower Secured Creditors Prior to Enforcement

The "**Borrower Available Funds**" on any day means all amounts standing to the credit of the Borrower Transaction Account on such day including (a) all amounts received from the Property Owners under the Intercompany Loan Agreement; (b) earnings on Eligible Investments made with funds standing to the credit of the Borrower Accounts; (c) all Expenses Advances received under the Funding Loan Agreement; (d) all amounts advanced to it by the Property Owners under the Reserve Loan Facility Agreement; (e) net amounts received under the Borrower ISDA Master Agreement and the Property Owners' ISDA Master Agreements; (f) the Intercompany Loan Prepayments received since the preceding Loan Payment Date; (g) amounts drawn from the Transfer Fee Reserve Account in accordance with the Reserve Loan Facility Agreement; (h) the amounts transferred from the General Cash Reserve Account in accordance with the Funding Loan Agreement; and (i) any capital injections allowed pursuant to the Funding Loan Agreement.

Amounts due on the termination (whether in part or in whole) of the Borrower RPI Swaps will be netted off against amounts payable under the Borrower Interest Rate Swaps and the Borrower Deposit Contracts pursuant to the terms of the Borrower ISDA Master Agreement. If the aggregate termination value for the Borrower RPI Swaps gives rise to a payment due to the Issuer then such amount, less the aggregate termination value for the Borrower Interest Rate Swaps and Borrower Deposit Contracts (where such aggregate termination value gives rise to a payment by the Issuer), will be referred to as the "**Borrower Net RPI Termination Amount**" and will rank (i) prior to enforcement, *pari passu* with interest payments and senior to payments of principal under the Funding Loan and (ii) post enforcement, *pari passu* with interest and principal owed under the Funding Loan.

"**Borrower Subordinated Hedge Amounts**" means any amounts due as a result of termination of any of the Borrower Swaps or the Borrower Deposit Contracts (i) arising from an Event of Default, as defined in the relevant agreement, where the Issuer is the Defaulting Party; or (ii) arising by virtue of an Event of Default where the Issuer Swap Counterparty or the Issuer Deposit Taker is the Defaulting Party or a Rating Event in respect of the Issuer Swaps and/or the Issuer Deposit Contracts.

On each Loan Payment Date prior to the enforcement of the security under the Security Trust and Intercreditor Deed, amounts standing to the credit of the Borrower Transaction Account will be applied by the Borrower, or the Cash Manager on its behalf, in making the following payments in the following order of following priority but in each case only if and to the extent that the prior ranking payments have been made in full (the “**Borrower Pre-Enforcement Priority of Payments**”):

First, to meet the remuneration, costs and expenses of the Security Trustee, (inclusive of any VAT, which may be chargeable at the then applicable rate), including those in connection to tax and any costs, charges, liabilities, indemnity claims and expenses incurred by the Security Trustee;

Second, pro rata to meet the remuneration, costs and expenses (inclusive of any VAT, which may be chargeable at the then applicable rate) of the Cash Manager, the Managing Agent (or any successor managing agent) and the Account Bank under the Cash Management Agreement, the Property Management Agreements and the Bank Account Agreement (such amounts, together with the amounts referred to in “*First*” above, being the “**Borrower Senior Expenses**”);

Third, pro rata and pari passu in or towards satisfaction of (i) making any Expenses Advances then required to be made to any Property Owner under the Intercompany Loans (subject to satisfaction of the conditions precedent thereto described therein); and (ii) making any repayments required to be made under the Reserve Loan Facility Agreement;

Fourth, in or towards satisfaction of all amounts due but unpaid to the Issuer in respect of any Expenses Advances made under the Funding Loan Agreement;

Fifth, to meet any indemnity claims under the Funding Loan Agreement in respect of Issuer Senior Expenses (if any) and Senior Liquidity Costs (if any);

Sixth, in or towards satisfaction of (a) to the extent amounts have been received from the Issuer under the relevant Borrower Swaps and the Borrower Deposit Contracts, the amounts due to the Property Owners under the Property Owners’ ISDA Master Agreements in respect of the Property Owners’ Swaps and the Property Owners’ Deposit Contracts; and (b) any amounts due to the Issuer under the Borrower ISDA Master Agreement in respect of the Borrower Swaps and the Borrower Deposit Contracts, other than any Borrower Net RPI Termination Amounts and the Borrower Subordinated Hedge Amounts;

Seventh, in or towards satisfaction of the amount, if any, of tax (including corporation tax) due by the Borrower;

Eighth, pro rata and pari passu, in or towards satisfaction of (i) interest due but unpaid to the Issuer in respect of the Tranche A1 Advance and the Tranche A2 Advance and (ii) any Borrower Net RPI Termination Amounts due to the Issuer under the Borrower RPI Swaps, other than any Borrower Subordinated Hedge Amounts;

Ninth, pro rata and pari passu, in or towards satisfaction of all amounts of principal and other amounts due and payable but unpaid to the Issuer in respect of the Tranche A1 Advance and the Tranche A2 Advance;

Tenth, in or towards satisfaction of all amounts of interest due and payable but unpaid to the Issuer in respect of the Tranche B Advance;

Eleventh, in or towards satisfaction of all amounts of principal and other amounts due and payable but unpaid to the Issuer in respect of the Tranche B Advance;

Twelfth, in or towards satisfaction of Additional Margin;

Thirteenth, to the Transfer Fee Reserve Account and the General Cash Reserve Account to the extent required to ensure the balance thereof is equal to the Transfer Fee Reserve Required Amount and the General Cash Reserve Required Amount, respectively;

Fourteenth, in or towards payment of any Borrower Subordinated Hedge Amounts then due to the Issuer;

Fifteenth, to meet any indemnity claims under the Funding Loan Agreement in respect of any Subordinated Liquidity Amounts;

Sixteenth, in or towards payment of all amounts due to the Property Owners under the Reserve Loan Facility Agreement; and

Seventeenth, the balance (if any) to be available for the Borrower General Account for the general corporate purposes of the Borrower (including payment of dividends), without limitation.

Priority of Payments to the Borrower Secured Creditors Post-Enforcement

On enforcement of the security created under the Security Trust and Intercreditor Deed, the Security Trustee will be required to apply the proceeds of such security in or towards satisfaction of the following amounts in the following order of priority (the “**Borrower Post-Enforcement Priority of Payments**” and together with the Borrower Pre-Enforcement Priority of Payments, the “**Borrower Priorities of Payments**”):

First, to meet the remuneration, costs and expenses of the Security Trustee (and any receiver appointed by it), (inclusive of any VAT, which may be chargeable at the then applicable rate) and any costs, charges, liabilities, indemnity claims and expenses incurred by the Security Trustee (and any receiver appointed by it);

Second, pro rata, in or towards satisfaction of all fees, costs, expenses, charges, liabilities, indemnity claims all inclusive of VAT due to be paid by the Borrower to the Cash Manager, the Managing Agent (and to any successor managing agent) and the Account Bank under the Cash Management Agreement, the Property Management Agreements and the Bank Account Agreement respectively;

Third, in or towards satisfaction of all amounts due but unpaid to the Issuer in respect of any Expenses Advances made under the Funding Loan Agreement;

Fourth, to meet any indemnity claims under the Funding Loan Agreement in respect of Issuer Senior Expenses (if any);

Fifth, in or towards satisfaction of (a) to the extent amounts have been received from the Issuer under the Borrower Swaps and the Borrower Deposit Contracts, the amounts due to the Property Owners under the Property Owners’ ISDA Master Agreements in respect of the Property Owners’ Swaps and the Property Owners’ Deposit Contracts; (b) the amounts due to the Issuer under the Borrower ISDA Master Agreement in respect of the Borrower Swaps and the Borrower Deposit Contracts, other than any Borrower Net RPI Termination Amounts; and (c) all Senior Liquidity Costs (if any) owing to the Liquidity Provider under the Liquidity Facility Agreement;

Sixth, pro rata and pari passu, in or towards satisfaction of (i) all amounts of interest, principal and any other amounts due and payable but unpaid to the Issuer in respect of the Tranche A1 Advance and the Tranche A2 Advance and (ii) the Borrower Net RPI Termination Amounts;

Seventh, in or towards satisfaction of all amounts of interest, principal and any other amounts due and payable but unpaid to the Issuer in respect of the Tranche B Advance and any other amounts due but unpaid to the Issuer under the Funding Loan Agreement;

Eighth, in or towards satisfaction of Additional Margin;

Ninth, to meet any indemnity claims under the Funding Loan Agreement in respect of any Subordinated Liquidity Amounts; and

Tenth, the balance (if any) to the Borrower General Account.

Priority of Payments to the Issuer Secured Creditors Prior to Enforcement

The “**Issuer Available Funds**” on any day means all amounts standing to the credit of the Issuer Transaction Account including (a) all amounts received from the Borrower under the Funding Loan Agreement; (b) earnings on Eligible Investments made with funds standing to the credit of the Issuer Transaction Account; (c) drawings made under the Liquidity Facility Agreement; and (d) net amounts received in respect of the Issuer ISDA Master Agreements and the Borrower ISDA Master Agreement. The Issuer Available Funds do not include any collateral posted by the Issuer Swap Counterparties pursuant to the applicable credit support annex or any monies credited to the Issuer Share Capital Account.

Amounts due from the Issuer on the termination (whether in part or in whole) of the Issuer RPI Swaps will be netted off against amounts payable under the Issuer Interest Rate Swaps and the Issuer Deposit Contracts pursuant to the terms of the relevant Issuer ISDA Master Agreement. The aggregate termination values for each of the Issuer RPI Swaps, the Issuer Interest Rate Swaps and the Issuer Deposit Contracts subject to termination are calculated by each Calculation Agent under its Issuer ISDA Master Agreement. If the aggregate termination value for its Issuer RPI Swaps gives rise to a payment due to the relevant Issuer Swap Counterparty or Issuer Deposit Taker then such amount, less the aggregate termination value for its Issuer Interest Rate Swaps and Issuer Deposit Contracts (where such aggregate termination value gives rise to a payment by the relevant Issuer Swap Counterparty or Issuer Deposit Taker), will be referred to as the “**Issuer Net RPI Termination Amount**” and will rank (i) prior to enforcement, *pari passu* with interest payments and senior to payments of principal under the Class A Notes and (ii) post enforcement, *pari passu* with interest and principal owed under the Class A Notes.

“**Affected Party**” has the meaning specified in Section 5(b) of the 1992 ISDA Master Agreement (Multicurrency-Cross Border).

“**Defaulting Party**” has the meaning specified in Section 6(a) of the 1992 ISDA Master Agreement (Multicurrency-Cross Border).

“**Rating Event**” means a circumstance where the Issuer Swap Counterparties and Issuer Deposit Takers do not: (a) post acceptable collateral; (b) transfer their rights and obligations to an acceptable swap provider or deposit taker; or (c) obtain an acceptable guarantee within 30 days of falling below the Minimum Swap Counterparty Ratings.

On each Loan Payment Date prior to the enforcement of the Issuer Security, amounts standing to the credit of the Issuer Transaction Account will be allocated by the Issuer or the Cash Manager on its behalf in making provision for the following payments in the order of following priority but in each case only if and to the extent that the prior ranking payments have been provided for in full (the “**Issuer Pre-Enforcement Priority of Payments**”). The Issuer will hold all funds so allocated on trust for the parties entitled thereto (in accordance with their respective entitlements under the Issuer Pre-Enforcement Priority of Payments) until the Payment Date immediately following such allocation on which date such funds will be disbursed to the parties entitled thereto.

First, to meet the remuneration, costs and expenses of the Note Trustee (inclusive of any VAT, which may be chargeable at the then applicable rate) and any costs, charges, liabilities, indemnity claims and expenses incurred by the Note Trustee under the Note Trust Deed, the Conditions and the Issuer Deed of Charge;

Second, to meet the costs, expenses and annual registration fees (inclusive of any VAT which may be chargeable at the then applicable rate) of the Issuer;

Third, *pro rata* and *pari passu*, in or towards satisfaction of the fees, costs and expenses (inclusive of any VAT, which may be chargeable at the then applicable rate) of the Paying Agents, the Cash Manager, the Account Bank, the Issuer Corporate Services Provider, the Corporate Officers Provider and the Rating Agencies and all amounts due in respect of other costs, charges, liabilities and expenses incurred by or owed to the Paying Agents, the Cash Manager, the Account Bank, the Issuer Corporate Services Provider or the Corporate Officers Provider (such amounts, together with the amounts referred to in “*First*” and “*Second*” above, being the “**Issuer Senior Expenses**”);

Fourth, *pari passu*, in or towards satisfaction of (a) all amounts owing to the Liquidity Provider under the Liquidity Facility Agreement (other than any Subordinated Liquidity Amounts) (“**Senior Liquidity Costs**”); and (b) amounts due and payable by the Issuer in respect of each Issuer ISDA Master Agreement in respect to the Issuer Swaps and the Issuer Deposit Contracts other than any Issuer Subordinated Hedge Amounts and any Issuer Net RPI Termination Amounts;

Fifth, to make any Expenses Advances then required to be made to the Borrower under the Funding Loan Agreement (subject to satisfaction of the conditions precedent thereto described therein);

Sixth, *pari passu*, to the extent amounts have been received from the Issuer Swap Counterparties and Issuer Deposit Takers under each Issuer ISDA Master Agreement, the amounts due and payable to the Borrower under the Borrower ISDA Master Agreement in respect of the Borrower Swaps;

Seventh, pro rata and pari passu, in or towards satisfaction of (i) interest due but unpaid under the Class A Notes and (ii) any Issuer Net RPI Termination Amounts other than any Issuer Subordinated Hedge Amounts;

Eighth, pro rata, and pari passu, in or towards satisfaction of all amounts of principal and any other amounts due and payable but unpaid under the Class A Notes;

Ninth, in or towards satisfaction, (*pro rata* among the Class B Notes) of all amounts of interest due and payable but unpaid under the Class B Notes;

Tenth, in or towards satisfaction of all amounts of principal and any other amounts due and payable but unpaid under the Class B Notes, to the extent of any Funding Loan Prepayments;

Eleventh, in or towards satisfaction of Additional Margin;

Twelfth, pari passu, in or towards payment of (a) any amounts due as a result of termination of any of the Issuer Swaps or the Issuer Deposit Contracts (i) arising from an Event of Default, as defined in the relevant agreement, where the relevant Issuer Swap Counterparty is the Defaulting Party; or (ii) where the relevant Issuer Swap Counterparty is the Affected Party following a Rating Event (the “**Issuer Subordinated Hedge Amounts**”); and (b) any amounts due under the Liquidity Facility Agreement in respect of withholding taxes or increased costs as a result of a change in law (“**Subordinated Liquidity Amounts**”) to the Liquidity Facility Provider; and

Thirteenth, the balance (if any) be available for the Issuer General Account for the general corporate purposes of the Issuer, without limitation.

Priority of Payments to the Issuer Secured Creditors Post-Enforcement

On enforcement of the Issuer Security, the Note Trustee is required to apply monies available for distribution in or towards the satisfaction of the following amounts in the following order of priority (the “**Issuer Post-Enforcement Priority of Payments**” and together with the Issuer Pre-Enforcement Priority of Payments, the “**Issuer Priorities of Payments**”):

First, to meet the remuneration, costs and expenses of the Note Trustee (and any receiver appointed by it) (inclusive of any VAT, which may be chargeable at the then applicable rate) and any costs, charges, liabilities, indemnity claims and expenses incurred by the Note Trustee or any receiver under the Note Trust Deed, the Conditions or the Issuer Deed of Charge;

Second, pro rata, in or towards satisfaction of the fees, costs, expenses, charges and liabilities (inclusive of any VAT, which may be chargeable at the then applicable rate) of the Paying Agents, the Cash Manager, the Account Bank, the Issuer Corporate Services Provider, the Corporate Officers Provider and the Rating Agencies and all amounts due in respect of other costs, charges, liabilities and expenses incurred by or owed to the Paying Agents, the Cash Manager, the Account Bank, the Issuer Corporate Services Provider and the Corporate Officers Provider under the provisions of the Paying Agency Agreement, the Cash Management Agreement, the Bank Account Agreement, the Issuer Corporate Services Agreement and the Corporate Officers Agreement respectively;

Third, pari passu, in or towards satisfaction of (a) all amounts due and payable by the Issuer in respect of each Issuer ISDA Master Agreement other than any Issuer Net RPI Termination Amounts; and (b) all Senior Liquidity Costs due and payable to the Liquidity Provider under the Liquidity Facility Agreement;

Fourth, pro rata and pari passu, in or towards satisfaction of (i) all amounts of interest, principal and any other amounts due but unpaid in respect of the Class A Notes and (ii) the Issuer Net RPI Termination Amounts;

Fifth, in or towards payment (*pro rata* among the Class B Notes) of all amounts of interest, principal and any other amounts due but unpaid in respect of the Class B Notes;

Sixth, in or towards satisfaction of Additional Margin;

Seventh, in or towards payment of any Subordinated Liquidity Amounts;

Eighth, to the extent amounts have been received from the Issuer Swap Counterparties and Issuer Deposit Takers under the Issuer Swaps and the Issuer Deposit Contracts, in or towards payment of all amounts owed to the Borrower under the Borrower Swaps and the Borrower Deposit Contracts; and

Ninth, the balance (if any) be available for the Issuer General Account for the general corporate purposes of the Issuer (including the payment of dividends), without limitation.

To the extent any party is being paid its remuneration, costs and expenses pursuant to multiple Priorities of Payments, such party shall be paid first under any claim it may have under the Property Owner Priorities of Payments, second (to the extent of any excess) under any claim it may have under the Borrower Priorities of Payments and third (to the extent of any excess) under any claim it may have under the Issuer Priorities of Payments.

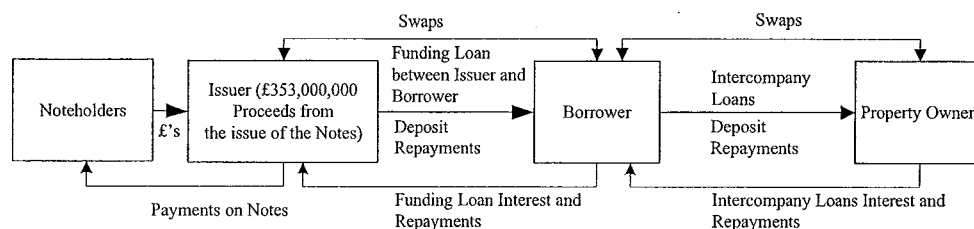
Transaction Bank Accounts

The principal accounts are the Issuer Transaction Account, the Borrower Transaction Account, the Property Owner Transaction Accounts, the Estates Account, the General Cash Reserve Account, the Transfer Fee Reserve Account, the Capital Receipts Accounts and the Repayment Reserve Accounts.

For further information regarding the Cash Management Agreement and the principal accounts, see "Description of Bank Accounts and Cash Management" below.

DESCRIPTION OF THE PRINCIPAL DOCUMENTS

The following is intended only to be a summary of certain provisions of the Funding Loan Agreement, the Intercompany Loan Agreement and other documents relating to the Notes and the relevant bank accounts.



Funding Loan Agreement

Under the terms of the Funding Loan Agreement, the Issuer will agree to make available to the Borrower on the Closing Date the facilities as described below.

The Notes are divided into two classes, the senior ranking Class A Notes and the subordinated Class B Notes. The Funding Loan and the Intercompany Loans will be tranching to reflect this division of the Notes with the Class A and Class B tranches having interest rates, repayment and prepayment terms, maturities, subordination and other provisions which match the related class of Notes.

The tranches of the Funding Loan and the Intercompany Loans which relate to the Class A Notes will be further sub-divided into Tranche A1 Advances and the Tranche A2 the Advances. The Tranche A1 Advance, Tranche A2 Advance and Tranche B Advance of the Funding Loan and the Intercompany Loans will have identical terms in all other respects save that monies standing to the credit of the Transfer Fee Reserve Account will be, in the first instance, used to meet payments under the Tranche A2 Advance, and thereafter, the Tranche B Advance.

The Initial Term Advances. Under the terms of the Funding Loan Agreement, subject to satisfaction of certain conditions precedent, the Issuer will agree to make three Advances to the Borrower on the Closing Date (the "Tranche A1 Advance", the "Tranche A2 Advance" and the "Tranche B Advance", together, the "Advances"). On the Closing Date the Advances will be applied by the Borrower to make the Intercompany Loans.

The Issuer's rights and interests in the Funding Loan Agreement, the Issuer ISDA Master Agreements, the Borrower ISDA Master Agreement, the Property Owners' ISDA Master Agreements and the Security Trust and Intercreditor Deed described below will be its principal assets.

Repayment. Each such Advance (and any Further Advances) will be repayable by the Borrower on the Loan Payment Date falling in October 2015 (the "Loan Maturity Date") on terms similar to those applicable to the Notes of the corresponding class. Each Expenses Advance will be repayable by the Borrower in instalments commencing on the Loan Payment Date falling immediately after the date of drawdown of the same from funds available to it for such purposes after payment in full of all other amounts then due on the Funding Loan and amounts ranking in priority thereto under the Borrower Pre-Enforcement Priority of Payments. In addition, any repayments or prepayments of principal made to the Borrower by any Property Owner under the Intercompany Loans will be applied by the Borrower (after payment of prior ranking expenses) to repay or, as the case may be, prepay the Funding Loan.

To the extent that the Borrower has insufficient funds to meet all payments due by it on any Loan Payment Date under the Funding Loan Agreement and amounts ranking in priority thereto, the Cash Manager on behalf of the parties shall take the following actions in the following order: (a) call upon the other Property Owners to make up such shortfall under their cross-guarantees under the Intercompany Loan Agreement; (b) if the shortfall still exists, draw upon the General Cash Reserve Account; (c) if the shortfall still exists, draw upon the Transfer Fee Reserve Account; and (d) if the shortfall still exists, request the relevant parties to make an Expenses Advance, in each case to the extent the same is available in respect of such shortfall in accordance with the provisions of the Transaction Documents.

Prepayment. The Borrower may at any time prepay any of the Advances (other than the Expenses Advances) on terms (including notice periods) similar to those applicable to the Notes of the corresponding class. In certain circumstances such prepayment will attract a prepayment fee which will vary depending on the date of such prepayment. The fees will reflect the premiums payable, if any, on an optional redemption of the Notes under Condition 5(c) (*Redemption, Purchase and Cancellation – Optional Redemption*).

In addition, if the Borrower receives any prepayments under the Intercompany Loans arising from a Capital Receipt (each an “**Intercompany Loan Prepayment**”), the Borrower will apply such Intercompany Loan Prepayments to prepay first the corresponding Advances of the Funding Loan (each a “**Funding Loan Prepayment**”) on the next Loan Payment Date after payment of prior ranking items under the Borrower Pre-Enforcement Priority of Payments including, without limitation, any costs associated with partially terminating the Borrower Swaps and Borrower Deposit Contracts in amounts required to reflect the effect of such prepayment. Such Funding Loan Prepayments will not attract a prepayment fee.

Any purchase of Notes by the Borrower will result in the Notes being offered for cancellation to the Issuer and, to the extent of such purchase and cancellation, the Advance(s) corresponding to such Notes will be treated as having been prepaid to the extent of such purchase and cancellation. No repayment or prepayment of the Funding Loan may be made unless the corresponding Swaps and Deposit Contracts are partially terminated in amounts necessary to reflect the effect of such repayment or prepayment and any termination payments are made to the relevant counterparty from funds available for such repayment or prepayment. As set out in, and subject to the provisions of, the Priorities of Payments, all repayments and prepayments made under the Funding Loan Agreement will be applied first to meet, *inter alia*, payments in respect of termination payments due in respect of such prepayments under the Borrower ISDA Master Agreement and the Property Owners’ ISDA Master Agreements.

Interest. Interest on the Advances (other than the Expenses Advances which will bear no interest) will be payable on each Loan Payment Date at the relevant Loan Rate of Interest.

“**Loan Rate of Interest**” means:

- (a) in respect of the Tranche A1 Advance, 6-month LIBOR (or, in the case of the period commencing on (and including) the Closing Date and ending on (but excluding) 15th April 2006, two week LIBOR) plus 0.24 per cent. per annum and after the Loan Payment Date falling in October 2012 0.635 per cent. per annum;
- (b) in respect of the Tranche A2 Advance, 6-month LIBOR (or, in the case of the period commencing on (and including) the Closing Date and ending on (but excluding) 15th April 2006, two week LIBOR) plus 0.24 per cent. per annum and after the Loan Payment Date falling in October 2012 0.635 per cent. per annum;
- (c) in respect of the Tranche B Advance, 6-month LIBOR (or, in the case of the period commencing on (and including) the Closing Date and ending on (but excluding) 15th April 2006, two week LIBOR) plus 1.26 per cent. per annum.

The Borrower will also pay to the Issuer a fee on the outstanding balance of the Funding Loan equal to the anticipated amounts of expenses of the Issuer which rank in priority to the Notes. All payments of principal and interest and any other amounts in respect of the Funding Loan will be made free and clear of, and without withholding or deduction for, tax (if any) applicable to the Funding Loan in the United Kingdom or the Cayman Islands, unless such withholding or deduction is required by law. In that event, the Borrower will be obliged to pay such additional amounts as will result in the receipt by the Issuer of such amounts as would have been received by it if no such withholding or deduction had been required.

Indemnities. The Borrower will indemnify the Issuer from and against all Senior Liquidity Costs and all Issuer Senior Expenses incurred by it. The Borrower will make any payments required under these indemnities to the Issuer on each Loan Payment Date in addition to all other payments then due by it in respect of the Funding Loan.

Representations. No independent investigation with respect to the matters warranted in the Funding Loan Agreement will be made by the Issuer, the Security Trustee, the Issuer Swap Counterparties, the Issuer Deposit Takers or the other Borrower Secured Creditors. In relation to such matters, the Borrower Secured Creditors (including the Issuer and the Security Trustee) will rely entirely on the representations and warranties to be

given by the Borrower, the Property Owners and the Parent which will be contained in the Funding Loan Agreement. These will include warranties, which will in certain cases be limited by a knowledge and/or materiality qualification, as to the following and other matters:

- (a) status and due incorporation of the Borrower, the Property Owners and the Parent;
- (b) legal validity and enforceability of the Transaction Documents;
- (c) the giving of all necessary governmental and other consents, approvals, licences and authorisations necessary for the Borrower, the Property Owners and the Parent to carry on its business;
- (d) the ownership of the issued share capital of the Borrower, the Property Owners and the Parent;
- (e) that no litigation, arbitration, administrative proceedings, or governmental or regulatory investigations, proceedings or disputes have been commenced or threatened against the Borrower, the Property Owners or the Parent or any of its respective assets or revenues;
- (f) that no encumbrances exist over all or any of the present or future revenues, undertakings or assets, other than certain permitted encumbrances of the Borrower, the Property Owners or the Parent;
- (g) that no default has occurred and is continuing under the Funding Loan Agreement; and
- (h) each Transaction Document creates the security interest which it purports to create and the claims of the Borrower Secured Creditors against the Borrower, the Property Owners or the Parent will rank at least *pari passu* with all other obligations of the Borrower, the Property Owners or the Parent, except for obligations mandatorily preferred by law applying to companies generally.

Certain of the representations and warranties will also be repeated on each Loan Payment Date, by reference to the facts and circumstances then existing and subject to the effect of breach being in some cases limited by reference to an awareness or materiality qualification. Breach of representations or warranties will, subject to a cure period and the qualification in relation to repetition set out above, constitute an event of default entitling the Security Trustee to accelerate the Funding Loan and to enforce the Security Trust and Intercreditor Deed.

Conditions Precedent to the making of the Initial Term Advances. It will be a condition precedent to the Issuer making the Advances available to the Borrower that the Security Trustee is satisfied on the Closing Date that, *inter alia*:

- (a) the Notes are issued and the subscription proceeds therefor are received by or on behalf of the Issuer;
- (b) delivery is made of certified copies of all resolutions, statutory declarations, comfort letters and other documents required to ensure that the entry into by the Borrower, the Property Owners and the Parent of the Transaction Documents to which they are a party does not and will not constitute the unlawful giving of financial assistance under the Companies Act 1985;
- (c) deeds of release and discharge are duly executed in respect of all the existing security affecting the Properties or any of them;
- (d) delivery is made of solvency certificates from the Borrower, the Property Owners and the Parent; and
- (e) each of the Transaction Documents is duly executed by the parties thereto.

Guarantee. The obligations of the Borrower under the Funding Loan Agreement will be guaranteed (on a secured basis) by the Parent and the Property Owners.

Conditions precedent to the making of New Advances or Further Advances. Any Further Advance and New Advance will be financed by the Issuer and will only be permitted if the Security Trustee is satisfied that the following conditions precedent are satisfied:

- (a) it is for a minimum aggregate principal amount of £15,000,000;

- (b) the Rating Agencies confirm in writing to the Security Trustee that there will not as a result of the Issuer issuing any Further Notes or New Notes be any adverse effect on the ratings of any class of Notes then outstanding;
- (c) an amount equal to the aggregate principal amount together with any premium will be on-lent by the Issuer to the Borrower pursuant to the provisions of the Funding Loan Agreement and in turn on-lent by the Borrower to the Property Owners under the Intercompany Loan Agreement; and
- (d) no Loan Event of Default and/or breach of financial covenant is subsisting at the relevant drawdown date.

Expenses Advances. Pursuant to the Funding Loan Agreement, the Borrower is allowed to request further advances from the Issuer to cover Borrower Senior Expenses and Property Owner Senior Expenses. Each such Expenses Advance will be funded by making of a drawing under the Liquidity Facility by the Issuer.

Conditions precedent to making an Expenses Advance. Expenses Advances will only be permitted if the following conditions precedent are satisfied:

- (a) if the Expenses Drawing is in respect of any Property Owner Senior Expenses, an amount equal to the aggregate principal amount together with any premium will be on-lent by the Borrower to the relevant Property Owner pursuant to the provisions of the Intercompany Loan Agreement;
- (b) no Loan Event of Default and/or breach of financial covenant has occurred and is subsisting at the relevant drawdown date under the Funding Loan Agreement or (in the case of any Expenses Drawing in respect of any Property Owner Senior Expenses) the Intercompany Loan Agreement; and
- (c) the Cash Manager has certified to the Issuer and the Note Trustee that the Expenses Advance is required to pay Borrower Senior Expenses or Property Owner Senior Expenses and no other funds are available for such purposes.

Property Covenants. The Borrower, the Property Owners and the Parent will each undertake not to dispose of or to create any encumbrance over any of its assets without the prior written consent of the Security Trustee (other than as expressly permitted in the Funding Loan Agreement or required by law). However:

- (a) The Borrower, the Property Owners and the Parent shall have the right to dispose of any assets (other than any interest in any of the Properties which produce Ground Rents, Transfer Fees or Wardens' Apartments Rentals for any of the Property Owners, the Borrower and the Parent) which have outlasted their useful life or which are not income producing or otherwise required for the efficient operation of the business of the Borrower, the Property Owners or the Parent.
- (b) The Borrower, the Property Owners and the Parent shall be permitted to make any disposal which is required to be made by law (including any Enfranchisement or Lease Renewal).

In addition, the Property Owners will covenant as to the following matters:

- (a) maintenance of insurance;
- (b) environmental compliance; and
- (c) to use reasonable endeavours to maintain rating of Notes, and to manage the business of operating the Properties prudently and having due regard to all of their obligations under the Transaction Documents.

The Borrower and the Property Owners will also covenant to procure that at all times the Managing Agent or another reputable managing agent is at all times appointed to manage the Properties on behalf of the Borrower and the Property Owners. The Borrower will enter into the Consultancy Deed on the Closing Date with the Consultant pursuant to which the Consultant will supervise the Managing Agent on behalf of the Borrower and procure the appointment of a replacement managing agent on the expiry or termination of a Property Management Agreement.

Covenants relating to Accounts: The Borrower will covenant to exercise its powers under the Reserve Loan Facility Agreement to require the Property Owners to provide cash collateral in respect of their indemnity obligations thereunder and under the Funding Loan Agreement to the extent, from time to time, of any General

Cash Reserve Required Amount or any Transfer Fee Reserve Required Amount. The Borrower will deposit any such advances into the General Cash Reserve Account or the Transfer Fee Reserve Account, as appropriate.

Other Covenants: Additional covenants will include, *inter alia*, maintenance of insurances (subject to availability), provision of information and accounts, notification of default, provisions of compliance certificates, maintenance of authorisations and consents, ranking of liabilities, restrictions on change of business, restrictions on mergers and acquisitions (subject to approval), no new subsidiaries or joint ventures in relation to the Properties (subject to approval), no surrender of tax losses other than for full value to any member of the Fairhold Homes Group (in which regard, any such payments received will be held in a separate account, designated for use in funding any subsequent tax payments by the surrendering company which would have been relieved by such tax losses, and may be applied pending such use in making Eligible Investments) further assurance and delivery of deeds, making of registrations and filings, permitting access to Properties and payment of taxes and property covenants.

The Borrower will covenant in the Funding Loan Agreement not to have any outstanding financial indebtedness other than indebtedness incurred pursuant to the Transaction Documents it is a party to, provided however, that the Borrower will be allowed to incur certain unsecured indebtedness in connection with a cash injection from a third party lender as further described under "Events of Default".

In particular, the Borrower will covenant in the Funding Loan Agreement not to create or permit to subsist any mortgage, sub-mortgage, charge, sub-charge, pledge, lien (unless arising by operation of law), hypothecation or other security interest whatsoever over any of its assets (including the Properties and any uncalled capital) or its undertaking, present or future, or sell or otherwise dispose of the whole or any part of its assets (including the Properties and any uncalled capital) or its undertaking, present or future, or the security created by the Security Trust and Intercreditor Deed.

Further, the Borrower and the Property Owners will undertake not to 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 including, without limitation, the Properties and the Leases.

The Borrower will also covenant to ensure or procure at all times that its bank accounts are maintained with an Eligible Bank and if at any time the Account Bank ceases to be an Eligible Bank to transfer the Borrower Accounts to a bank that is an Eligible Bank.

Events of Default. The Funding Loan Agreement sets out a number of events of default (each a "**Funding Loan Event of Default**"). In addition to standard loan events of default (non-payment and insolvency), the Funding Loan Events of Default will include the following events which are specific to the transactions described herein:

- (a) disputes with Tenants arising which would have a material adverse effect on the business or operations of the Borrower or its ability to meet its obligations under the Funding Loan Agreement;
- (b) the termination of the appointment or resignation of the Managing Agent in circumstances where no suitable replacement has been appointed within a period of 6 months commencing on the date of such termination or resignation;
- (c) where less than 100 per cent. of an Allocated Loan Amount is received (within 10 days of a Payment Date) and the relevant Property Owner fails to raise such shortfall from any other source available to it (including any cash injections from the Parent) and the Security Trustee in its sole discretion determines that such non-payment has a material adverse effect on such Property Owners' ability to make payments on the applicable Intercompany Loans; and
- (d) the occurrence of an event of default on the Notes.

Certain grace periods before a Funding Loan Event of Default may be called have been agreed and any Funding Loan Event of Default capable of being cured may be cured by cash from a third party unsecured lender, provided, however, that such unsecured third party payments may only occur once in every three year period.

The occurrence of a Funding Loan Event of Default will result in the security granted by the Borrower and contained in the Security Trust and Intercreditor Deed becoming enforceable. A Funding Loan Event of Default

(in respect of insolvency, insolvency proceedings or non-payment only) will not of itself necessarily constitute an event of default under the Notes (see Condition 9 (*Events of Default*) below).

Further Advances. The Funding Loan Agreement will provide that the Borrower may at any time before the Loan Payment Date falling in October 2012 by written notice to the Issuer (with a copy to the Security Trustee and the Note Trustee) request one or more further advances (the “**Further Advances**”) or new advances (the “**New Advances**”). A Further Advance is one which will rank *pari passu* with, and on the same terms, *mutatis mutandis*, as the Advances. In this Offering Circular, the expressions “**Tranche A1 Advance**”, “**Tranche A2 Advance**”, “**Tranche B Advance**” and “**Advances**” will, unless the context otherwise requires, include any Further Advances forming a single class with the Tranche A1 Advance, Tranche A2 Advance or the Tranche B Advance, as the case may be. The New Advances, financed by the issue of New Notes by the Issuer, are ones which will rank no higher than the Tranche A1 Advances but can rank, *pari passu* with the existing Tranche A1 Advances and the Tranche A2 Advances, or below the Tranche A1 Advances and the Tranche A2 Advances but ahead of the Tranche B Advances or *pari passu* with the Tranche B Advances or below the Tranche B Advances.

Each Further Advance will be financed by the issue of Further Notes by the Issuer and will be permitted only if the Further Notes to be issued by the Issuer for the purpose of financing such Further Advance are issued in accordance with Condition 16 (*Further Issues and Replacement Issues*) and the subscription proceeds therefor are received by or on behalf of the Issuer. Following any Further Advance, the amount(s) due on the succeeding Loan Payment Dates in respect of the relevant class of Advance will increase *pro rata*.

The Funding Loan Agreement will provide that the Borrower may at any time by written notice to the Issuer (with a copy to the Security Trustee and the Note Trustee) request one or more further advances (the “**Expenses Advances**”). An Expenses Advance is one which will rank senior to the Advances. In this Offering Circular, the expression “**Advances**” will, unless the context otherwise requires, include any Expenses Advances. The Funding Loan Agreement will also allow the Borrower to incur certain subordinated indebtedness.

Each Expenses Advance to the Borrower will be funded by the making of a Liquidity Drawing. Expenses Advances under the Funding Loan Agreement may only be made to pay for Borrower Senior Expenses or Property Owner Senior Expenses if no other funds are available for such purposes including funds from the General Cash Reserve Account or the Transfer Fee Reserve Account.

The Funding Loan Agreement will be governed by English law.

Intercompany Loan Agreement

On the Closing Date, the Borrower will apply the proceeds of the Advances made to it under the Funding Loan to make eight loans (each an “**Intercompany Loan**”), one to each of the Property Owners, pursuant to the terms of a loan agreement made between, *inter alios*, the Borrower and the Property Owners (the “**Intercompany Loan Agreement**”). The terms of the Intercompany Loan Agreement will be similar (in terms of indemnities, representations, warranties, covenants and tranching) to the Funding Loan Agreement.

The proceeds of the Intercompany Loans will be applied by the Property Owners (i) to repay loans from the Other Companies (and which will enable certain third party indebtedness to be repaid) on the Closing Date, in an amount of approximately £251,000,000, (ii) to fund a deposit with the Borrower on the Closing Date, (iii) to make an initial advance of £19,000,000 to the Borrower under the Reserve Loan Facility Agreement with the Borrower will use to fund the General Cash Reserve and the Transfer Fee Reserve on the Closing Date, (iv) to pass monies to the Borrower which, in turn the Borrower will apply to pay amounts due by it to Moormead Property Holdings Limited as partial payment of the consideration for the purchase of the entire issued share capital of the Borrower Subsidiaries, (v) to put the Issuer in funds to meet certain expenses in connection with the issue of the Notes and related transactions on the Closing Date, and (vi) to meet certain expenses of the Property Owners in connection with the issue of the Notes and related transactions on the Closing Date.

The Intercompany Loan Agreement will also provide that the Borrower will make Expenses Advances available to the Property Owners. Expenses Advances under the Intercompany Loan Agreement will be funded by Expenses Advances made available to the Borrower under the Funding Loan Agreement. Expenses Advances will be made under the Intercompany Loan Agreement only if no funds are available from the General Cash Reserve Account or the Transfer Fee Reserve Account to repay the Reserve Loans in accordance

with the terms of the Transaction Documents. Expenses Advances under the Intercompany Loan Agreement will be used to meet Property Owner Senior Expenses.

In the event that any Property Owner receives any net capital amounts in respect of Properties pursuant to Enfranchisement, Lease Renewal, Loss, compulsory acquisition at law (subject to the terms of the Leases), insurance proceeds or any other receipt of a capital nature (each a "**Capital Receipt**"), such Property Owner will deliver to the Security Trustee a certificate (a "**Capital Receipts Certificate**") stating:

- (a) whether the relevant Capital Receipts relate to Ground Rents, Transfer Fees and/or Wardens' Apartments Rentals;
- (b) whether the events which gave rise to such Capital Receipt has lead (or is expected to lead) to any diminution (a "**Diminution**") in the future anticipated Ground Rents and/or Wardens' Apartments Rentals owned by such Property Owner; and
- (c) if such Capital Receipts will give rise to a Diminution, the anticipated amount of such Diminution.

Following the receipt of any Capital Receipt which gives rise to a Diminution, the relevant Property Owner will be required to deposit the full amount of such Capital Receipt into its Capital Receipts Account. On the 9th day of April and October in each year or if such a day is not a Business Day then the next following Business Day (each a "**Loan Payment Date**") following receipt of any Capital Receipt which gives rise to a Diminution, a maximum of 110 per cent. of an Allocated Loan Amount in respect of the affected tranches of the Intercompany Loans (as determined by the Cash Manager) together with (i) accrued interest thereon (if any); and (ii) any termination payments connected with partially terminating the Property Owners' Interest Rate Swaps to reflect such repayment and (iii) any other Property Owner Senior Expenses, but less any termination payments made under the Property Owners' Deposit Contracts received in connection with such prepayment after payment of any other prior ranking items (including, without limitation, any costs associated with partially terminating the Borrower Swaps in amounts required to reflect the effect of such prepayment) under the Borrower Pre-Enforcement Priority of Payments, will be applied by the relevant Property Owner to prepay the affected tranches of the Intercompany Loans (each an "**Intercompany Loan Prepayment**") (as determined by the Cash Manager) provided that (a) any Capital Receipts received 15 days or less prior to any Loan Payment Date will be allocated to the immediately following interest period and (b) no such prepayment will be due unless and until (i) the total amount of such Capital Receipts to be so applied to prepay the affected tranches of the Intercompany Loans will reduce the amount of such Intercompany Loans by at least £1,000,000 or (ii) the Property Owners elect to make such prepayment. If the Property Owners opt not to prepay, the Capital Receipts will remain on the relevant Capital Receipts Account. The Borrower will apply all Intercompany Loan Prepayments received by it to prepay the corresponding tranches of the Funding Loan (each a "**Funding Loan Prepayment**").

The Issuer then will apply all Funding Loan Prepayments to redeem the class of Notes which corresponds to the Advance of the Funding Loan so prepaid after payment of prior ranking items (including, without limitation, any termination payments associated with partially terminating the Issuer Swaps and the Issuer Deposit Contracts in amounts required to reflect the effect of such redemption) under the Issuer Pre-Enforcement Priority of Payments.

If any Capital Receipt amounting to less than 100 per cent. of an Allocated Loan Amount is received and the relevant Property Owner fails to raise such shortfall from any other source available to it (including any cash injections from a third party lender), the relevant Property Owner will inform the Borrower. If, in the sole opinion of the Security Trustee, such shortfall and thus non-payment, results in a material adverse effect on the relevant Intercompany Loan, the Security Trustee may enforce the security under the Security Trust and Intercreditor Deed. Where amounts are credited to the Capital Receipts Accounts fifteen (15) days prior to a Loan Payment Date, such amounts are allocated to the next succeeding Interest Period.

"**Allocated Loan Amount**" means the Tranche A1 Allocated Loan Amount and/or, as the context may require, the Tranche A2 and B Allocated Loan Amount.

"**Tranche A1 Allocated Loan Amount**" means the Amount of the Tranche A1 Advance (as at the immediately preceding Payment Date) multiplied by the A1 CR Percentage.

"**A1 CR Percentage**" is the amount expressed as a percentage representing the reduction (arising from the Diminution) in the Net Present Value of Ground Rents and/or Wardens Apartment Rentals from the next

Payment Date in each case assuming a discount rate of 5 per cent., a fixed inflation rate of 2 per cent. and HPI of 0 per cent..

“**Tranche A2 and B Allocated Loan Amount**” means the Amount of the Tranche A2 Advance *plus* the Tranche B Advance (in each case, as at the immediately preceding Payment Date) multiplied by the A2 and B CR Percentage.

“**A2 and B CR Percentage**” the amount expressed as a percentage representing the reduction (arising from the Diminution) in the number of properties from which transfer fees could be earned between the immediately preceding Payment Date and the immediately following Payment Date.

The Intercompany Loans will be guaranteed (on a secured and joint and several basis) by the Property Owners (each a “**Property Owner Guarantee**”).

The Property Owners will also apply all amounts released to them from the Repayment Reserve Accounts (which will include all amounts standing to the credit thereto on the Loan Maturity Date to, *inter alia*, prepay the Intercompany Loans.

As set out in, and subject to the provisions of, the Priorities of Payments, all repayments and prepayments made under the Intercompany Loan Agreement will be applied first to meet, *inter alia*, payments in respect of termination payments due in respect of such prepayments under the Property Owners’ ISDA Master Agreements in respect of partially terminating the Property Owners’ Swaps or, as the case may be, the Property Owners’ Deposit Contracts.

To the extent that any of the Property Owners have insufficient funds to meet all payments due by them on any Loan Payment Date under the Intercompany Loan Agreement and amounts ranking in priority thereto, the Cash Manager on behalf of the parties shall take the following actions in the following order: (a) call upon the other Property Owners to make up such shortfall under their cross-indemnities under the Intercompany Loan Agreement; (b) if the shortfall still exists, draw upon the General Cash Reserve Account; (c) if the shortfall still exists, draw upon the Transfer Fee Reserve Account; and (d) if the shortfall still exists, request an Expenses Advance, in each case to the extent the same is available in respect of such shortfall in accordance with the provisions of the Transaction Documents.

The Intercompany Loan Agreement sets out a number of events of default (each an “**Intercompany Loan Event of Default**” and, together with each Funding Loan Event of Default, each a “**Loan Event of Default**”) which are equivalent to the Funding Loan Events of Default. The occurrence of an Intercompany Loan Event of Default will result in the security granted by the relevant Property Owner and contained in the Security Trust and Intercreditor Deed becoming enforceable. However, an Intercompany Loan Event of Default (in respect of insolvency, insolvency proceedings or non-payment that would not be remedied by a deemed payment from the Transfer Fee Reserve Account) will not of itself constitute a Funding Loan Event of Default or an event of default under the Notes (see Condition 9 (*Events of Default*) below); a Funding Loan Event of Default relating to non-payment will only occur if the Borrower has insufficient funds to meet its obligations under the Funding Loan Agreement.

The following chart sets out the key terms of the Intercompany Loans. In all other respects the Intercompany Loans will be subject to provisions equivalent to those of the Funding Loan:

Property Owner	Total Amounts	Tranche A1	Tranche A2	Tranche B	Interest Rate(s) A1/A2/B	Additional Margin
No. 1.....	£35,118,167	£28,677,476	£2,927,587	£3,513,104	0.25/0.25/1.27%	0.645%
No. 2.....	£41,384,023	£33,670,897	£3,505,966	£4,207,160	0.25/0.25/1.27%	0.645%
No. 3.....	£22,843,655	£18,544,106	£1,954,340	£2,345,209	0.25/0.25/1.27%	0.645%
No. 4.....	£17,158,890	£13,909,149	£1,477,155	£1,772,586	0.25/0.25/1.27%	0.645%
No. 5.....	£41,892,376	£33,907,193	£3,629,629	£4,355,554	0.25/0.25/1.27%	0.645%
No. 6.....	£32,421,364	£26,192,471	£2,831,315	£3,397,578	0.25/0.25/1.27%	0.645%
No. 7.....	£41,784,062	£33,701,245	£3,674,008	£4,408,809	0.25/0.25/1.27%	0.645%
No. 8.....	£120,397,463	£120,397,463	0.00	0.00	0.25/0.25/1.27%	0.645%

Liquidity Facility Agreement

The Note Trust Deed will contain a covenant requiring the Issuer to maintain, save as described below, the Liquidity Facility with a bank or banks having a rating assigned for its unsecured, unsubordinated and unguaranteed short-term debt obligations of at least P-1/F1 (or its equivalent) from the Rating Agencies. Thereafter, the Liquidity Provider must have a long-term rating which is commensurate with the rating assigned to the Notes, from time to time by the Rating Agencies.

The maximum committed amount under the Liquidity Facility will be £30,852,000. If the Issuer has no other funds available for such purpose and has at such time no outstanding drawings under the Liquidity Facility, the Issuer Liquidity Facility is expected to enable it to meet all payments of interest under the Class A Notes for a period of 24 months and for a period of 18 months on the Class B Notes.

The Liquidity Facility Agreement entered into on the Closing Date will be a 364-day commitment to lend under which a drawing may be made on any Loan Payment Date in the circumstances further set out below. The proceeds of any such drawing will be used to meet the Issuer's obligations in respect of items (1) to (9) of the Issuer Pre-Enforcement Priority of Payments save as specified below. In addition, drawings may be made under the Liquidity Facility Agreement in respect of Borrower Senior Expenses and Property Owner Senior Expenses *provided always that* (i) no amounts may be drawn or used to cover any termination payments due to the Issuer Swap Counterparties; (ii) the funding of interest on the Class B Notes will be limited to £1,840,000; and (iii) no amounts may be drawn or used to repay principal on any of the Notes. The amount available under the Liquidity Facility Agreement will reduce alongside repayments of principal on the Notes.

Any payments in respect of withholding tax or increased costs that may become due to the Liquidity Provider under the terms of the Liquidity Facility Agreement will be subordinated to payments on the Notes.

Interest will accrue on a drawing under the Liquidity Facility Agreement at the rate per annum of LIBOR plus an agreed margin. Interest so accrued on drawings will be funded through additional amounts payable pursuant to the Funding Loan Agreement. In the event of a Stand-By Drawing, interest on such Stand-By Drawing will accrue at investment income plus a commitment fee.

On enforcement of the Issuer Deed of Charge, all indebtedness outstanding to the Liquidity Provider under the Liquidity Facility Agreement (other than Subordinated Liquidity Amounts) will rank in priority to the Notes.

The Cash Manager will be authorised to make drawings under the Liquidity Facility on behalf of the Issuer.

The Issuer will covenant in the Note Trust Deed that if (a) any party then being a Liquidity Provider ceases to be rated at least P-1/F1 by the Rating Agencies or (b) the Liquidity Provider(s) elect not to renew the facility prior to the end of its term (for the purposes of the election to renew, the Liquidity Provider(s) will only elect to renew if either all parties comprising the Liquidity Provider(s) agree to the extension request or they are able to replace any declining party to the full extent of the declining party's commitment with another bank or financial institution with the Requisite Ratings) and no replacement has been found, the Issuer (with the consent of the Note Trustee) may either request (in the case of (a) above) the affected party or (in the case of (b) above) all the parties then comprising the Liquidity Provider(s) to make a Stand-By Drawing) of (in the case of (a) above) the affected party's commitment or (in the case of (b) above) all commitments then available for drawing under the Liquidity Facility Agreement or appoint one or more suitably rated replacements to the extent of the relevant Liquidity Provider(s) commitment and place the same in an interest bearing deposit account ("**Stand-By Account**") with the Account Bank in the case of (a) in the case of (a) above and with the Liquidity Provider in the case of (b) above so that the same may be drawn upon by the Cash Manager (on behalf of the Issuer) (a "**Stand-By Drawing**") for the same purposes as drawings permitted under the Liquidity Facility Agreement.

The Liquidity Facility Agreement will be governed by English law.

Cash Management Agreement

Under the Cash Management Agreement, the Cash Manager will be appointed as cash manager to perform various services including the provision of cash management services to the Issuer, the Borrower and the Property Owners and the application of monies standing to the credit of their respective Accounts. The Cash Manager's duties will include, but are not limited to: (i) instructing the Account Bank to make transfers from the Issuer Accounts, the Borrower Accounts and the Property Owners' Accounts; (ii) notifying, *inter alia*, the Note Trustee of the amounts credited to and debited from the Issuer Accounts and the Security Trustee of the amounts

credited to and debited from the Borrower Accounts and the Property Owners' Accounts; (iii) arranging for the payment of Issuer Senior Expenses and the advance of funds under Expenses Advances requested under the Funding Loan Agreement and the Intercompany Loan Agreement in respect of Borrower Senior Expenses and Property Owner Senior Expenses by arranging for a Liquidity Drawing, to the extent that such expenses cannot be paid under the applicable Priority of Payments; (iv) with the assistance of the Borrower and the Property Owners, allocating Ground Rent receipts to the Payment Dates and Calculation Dates in respect of the period it was invoiced; (v) making calculations, determinations and allocations in connection with prepayments of the Funding Loan with Capital Receipts; and (vi) making determinations on each Calculation Date and arranging for repayments of and further advances under the Reserve Loan Facility Agreement and instructing the relevant parties to maintain the General Cash Reserve Account and the Transfer Fee Reserve Account at their respective required amounts from time to time.

The Cash Manager, following written instructions from the Issuer or, as the case may be, the Borrower or, as the case may be, the Property Owners shall invest in Eligible Investments specified by the Issuer or, as the case may be, the Borrower, or as the case may be, the Property Owners, certain sums standing to the credit of the Issuer Accounts, the Borrower Accounts and the Property Owners' Accounts.

The Cash Management Agreement will be governed by English law.

Bank Account Agreement

Pursuant to the Bank Account Agreement, the Account Bank will establish and maintain each of the Property Owners' Accounts in favour of the Property Owners, the Borrower Accounts in the name of the Borrower and the Issuer Accounts in the name of the Issuer. The Account Bank will undertake not to exercise any rights of set-off, counterclaim or consolidation of accounts in respect of the Property Owner' Accounts, the Borrower Accounts or the Issuer Accounts.

The Bank Account Agreement will be governed by English law.

Interest Rate Swaps, RPI Swaps and Related Arrangements

The Issuer will enter into the Issuer RPI Swaps and the Issuer Interest Rate Swaps under each of the Issuer ISDA Master Agreements with the two Issuer Swap Counterparties on the Closing Date. The Issuer Swaps are replicated at the Borrower and the Property Owner levels. The Borrower Swaps and the Borrower Deposit Contracts will be documented under the Borrower ISDA Master Agreement and the Property Owners' Swaps and the Property Owners' Deposit Contracts will be documented under the Property Owners' ISDA Master Agreements. The Swaps relate to both interest rate and RPI exposure of the Portfolio Cashflows and are designed to align the cash flows (in particular with regard to interest rates and inflation) received by the relevant parties to their payment obligations under the Transaction Documents.

The Issuer ISDA Master Agreements will provide, that if due to action taken by a relevant tax authority or brought in a court of competent jurisdiction or any change in tax law, an Issuer Swap Counterparty or the Issuer Deposit Taker will, or if there is a substantial likelihood that it will, on the next date of payment under the relevant Issuer ISDA Master Agreement, be required to pay an additional amount in respect of tax or if the relevant Issuer Swap Counterparty or Issuer Deposit Taker will, or there is a substantial likelihood that either will, receive payment from the Issuer from which an amount will be deducted or withheld for or on account of tax in accordance with the relevant Issuer ISDA Master Agreement, the relevant Issuer Swap may be terminated in accordance with its respective provisions. Similar provisions apply to the Borrower Swaps and the Property Owners' Swaps. The ISDA Master Agreements will contain certain other limited termination events and events of default which will entitle a party thereto to terminate the same.

The Issuer Swaps and Issuer Deposit Contracts will extend well beyond the Final Maturity Date of the Notes. However, the Issuer Interest Rate Swap Counterparties and Issuer Deposit Takers will have the option to terminate the Issuer Swaps or Issuer Deposit Contracts, as the case may be, on the Loan Maturity Date and the repayment of the Notes.

The Borrower Swaps and the Property Owners' Swaps will terminate only if (a) the Issuer Swaps terminate or (b) for reasons of illegality or the imposition of withholding tax on payments thereunder (any such termination will result in a termination of the Issuer Swaps unless confirmations are available from the Rating Agencies confirming that such termination will not adversely affect the ratings of the Notes).

Each Issuer Swap Counterparty (or such Issuer Swap Counterparty's Guarantor) and each Issuer Deposit Taker will, on the Closing Date, have a rating assigned to its short-term, unsecured, unsubordinated and unguaranteed debt obligations of "P-1" by Moody's and "F-1" by Fitch and to its long-term, unsecured, unsubordinated and unguaranteed debt obligations of at least "Aa2" by Moody's and "AA" by Fitch. If (i) an Issuer Swap Counterparty's or Issuer Deposit Taker's short-term, unsecured, unsubordinated and unguaranteed debt obligations cease to be rated at least "Prime-1" by Moody's or "F-1" by Fitch or (ii) if an Issuer Swap Counterparty's or Issuer Deposit Taker's long-term unsecured, unsubordinated and unguaranteed debt obligations cease to be rated at least "A1" by Moody's or "A" by Fitch (the "**Minimum Swap Counterparty Ratings**"), such Issuer Swap Counterparty or Issuer Deposit Taker, as the case may be, must, at its option and within 30 days, either (a) post acceptable collateral, (b) transfer its rights and obligations to a swap provider provided (i) the Note Trustee consents, such consent conditional upon the Rating Agents confirmation that the Notes will not be downgraded or placed on a credit watch with negative implications as a result and (ii) such transferee must have the Minimum Swap Counterparty Ratings required by Moody's or to be as otherwise agreed by Moody's, (c) obtain an acceptable guarantee. If an Issuer Swap Counterparty's or Issuer Deposit Taker's, as the case may be, short-term obligations cease to be rated at least "Prime-2" by Moody's or "F-3" by Fitch or an Issuer Swap Counterparty's or Issuer Deposit Taker's long-term unsecured, unsubordinated and unguaranteed debt obligations cease to be rated at least "A3" by Moody's, only the options in clauses (b) and (c) above will be available or such other action as may be agreed by the Rating Agencies to maintain the rating of the Notes. If an Issuer Swap Counterparty or Issuer Deposit Taker does not perform (a), (b) or (c) above, then the Issuer will attempt to enter into a replacement swap transaction or deposit contract, as the case may be, with another appropriately rated entity unless confirmations are available from the Rating Agencies confirming that no downgrade to the then current ratings of the Notes would occur as a result of the failure to do so. If an Issuer Swap Counterparty or Issuer Deposit Taker defaults in its obligations under any Issuer Swap or, as the case may be, any Issuer Deposit Contract, resulting in the termination thereof, the Issuer will be obliged to use reasonable efforts to procure a replacement swap transaction or deposit contract, as the case may be, within 30 days of such default unless and for so long as the Rating Agencies confirm that no downgrade to the then current ratings of the Notes would occur as a result of the Issuer Swaps or the Issuer Deposit Contracts being terminated.

Deposit Contracts

The Issuer will enter into deposit contracts with each Issuer Deposit Taker each of which will be documented as a transaction under the relevant Issuer ISDA Master Agreement and evidenced by a confirmation.

Each Issuer Deposit Taker (or any Issuer Deposit Taker's guarantor) is rated AA+ and Aa2 by Fitch and Moody's respectively as at the date of this Offering Circular. As described above, the Issuer Deposit Takers will have certain obligations if they cease to have such ratings failing which the Issuer may seek a replacement deposit contract.

The Issuer Deposit Contracts, the Issuer RPI Swaps and the Issuer Interest Rate Swaps are all documented under the Issuer ISDA Master Agreements. Amounts owing under such Issuer Deposit Contracts and such Issuer Swaps (including termination payments) will be netted against each other and paid as described in the relevant Priority of Payments.

The Borrower Deposit Contracts and the Property Owners' Deposit Contracts will terminate only if (a) the Issuer Deposit Contracts terminate or (b) for reasons of illegality or the imposition of withholding tax on payments thereunder (any such termination will result in a termination of the Issuer Deposit Contracts unless confirmations are available from the Rating Agencies confirming that such termination will not adversely affect the ratings of the Notes).

For a detailed description of the Deposit Contracts, see "Description of the Assets and the Cashflows – The Deposit Contracts".

The Deposit Contracts will be governed by English law.

Note Trust Deed

The Note Trustee will be appointed pursuant to the Note Trust Deed to represent the interests of the Noteholders. The Note Trustee will agree to hold the benefit of the covenants of the Issuer contained in the Note Trust Deed on trust for use and for the benefit of the Noteholders and the Security created by or under the Issuer Deed of Charge for the benefit of, *inter alios*, the Noteholders.

Among other things, the Note Trust Deed:

- (a) sets out when, and the terms upon which, the Note Trustee will be entitled or obliged, as the case may be, to take steps to enforce the Issuer's obligations under the Notes and certain other relevant documents or to enforce the Issuer Security created by the Issuer under the Issuer Deed of Charge;
- (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 Note 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 Note Trustee against liabilities, losses and costs arising out of the Note Trustee's exercise of its powers and performance of its duties;
- (d) sets out whose interests the Note Trustee should have regard to when there is a conflict between the interests of different classes of Noteholders;
- (e) provides that the determinations of the Note Trustee shall be conclusive and binding on the Noteholders;
- (f) sets out the extent of the Note Trustee's powers and discretions, including its rights to delegate the exercise of its powers or duties to 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 Note Trustee's liability for any breach of duty or breach of trust, negligence or wilful default in connection with the exercise of its duties, including losses resulting from any disposal of any assets held by it by way of security made by it pursuant to the Issuer Deed of Charge;
- (h) sets out the terms upon which the Note Trustee may, without the consent of the Noteholders, waive or authorise any breach or proposed breach of covenant by the Issuer or determine that a Note Event of Default or an event which will become a Note Event of Default with the giving of notice or the passage of time shall not be treated as such;
- (i) sets out the terms upon which the Note Trustee may, without the consent of the Noteholders, make or sanction any modification to the Conditions or to the terms of the Note Trust Deed or certain other Transaction Documents; and
- (j) sets out the requirements for and organisation of Noteholder meetings.

The Note Trust Deed also contains provisions governing the retirement or removal of the Note Trustee and the appointment of a successor note trustee. The Note Trustee may at any time and for any reason resign as Note Trustee upon giving no 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 Note Trustee from office. No retirement or removal of the Note Trustee (or any successor Note Trustee) will be effective until a trust corporation has been appointed to act as successor Note Trustee.

The appointment of a successor Note Trustee shall be made by the Issuer or, where the Note Trustee has given notice of its resignation and the Issuer has failed to make any such appointment by thirty days prior to the expiry of the applicable notice period, by the Note Trustee itself.

Pursuant to the Note Trust Deed, the Note Trustee may, at any time, at its discretion and without notice, take such proceedings against the Issuer or any other person as it may think fit to enforce the provisions of the Notes or any of the other Transaction Documents and, at any time after the occurrence of a Note Event of Default, the Note Trustee may, at its discretion and without further notice, take such steps as it may think fit to enforce the Issuer Security constituted by the Issuer Deed of Charge, but shall not be bound to take any such proceedings or steps unless, among other things, 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.

The Note Trust Deed will be governed by English law.

Security Trust and Intercreditor Deed — Borrower Security and Property Owner Security

Pursuant to the terms of the Security Trust and Intercreditor Deed the Borrower will grant certain security to the Security Trustee who will hold such security on trust for the benefit of the Borrower Secured Creditors. Additionally, the Property Owners will grant security under the Security Trust and Intercreditor Deed in favour of the Security Trustee by first fixed security over all the property, undertaking and assets of the Obligors.

Under the Security Trust and Intercreditor Deed each of the Borrower and the Property Owners will grant the following security in favour of the Security Trustee, who will hold such security on trust for the benefit of the Borrower Secured Creditors and the Property Owner Secured Creditors as appropriate:

- (a) a mortgage (which will not be registered in the register of shareholders of the relevant companies and so will take effect in equity only) of all its shares in each of the Borrower and the Property Owners;
- (b) assignments by way of security of its right, title, interest and benefit, present and future, in and under each of the Property Owners' ISDA Master Agreements;
- (c) a charge over all of the amounts from time to time standing to the credit of the Borrower Accounts and the Property Owners' Accounts;
- (d) a floating charge over all assets and undertaking of the Borrower and such Borrower Subsidiary not effectively charged or effectively assigned by way of fixed security under the Security Trust and Intercreditor Deed;
- (e) a charge over any Eligible Investments; and
- (f) an assignment by way of security over its rights, title, interest and benefit, present and future in and under the Transaction Documents to which it is a party (other than the Security Trust and Intercreditor Deed).

Additionally under the Security Trust and Intercreditor Deed, the Borrower will grant, *inter alia*, the following security in favour of the Security Trustee, who will hold such security on trust for the benefit of the Borrower Secured Creditors:

- (a) assignments by way of security over its rights, title, interest and benefit, present and future in and under the Intercompany Loan Agreement and the Reserve Loan Facility Agreement and the security for the same; and
- (b) assignments by way of security over its right, title, interest and benefit, present and future, in and under the Borrower ISDA Master Agreement.

In addition, the Parent will grant to the Security Trustee as security for its obligations under the Funding Loan Agreement an equitable mortgage of its shareholdings in the Borrower, an assignment by way of first fixed security over any of the Transaction Documents to which it is a party and a first ranking floating charge over all the assets and undertaking of the Parent.

Also each Property Owner will grant, *inter alia*, the following security in favour of the Security Trustee, who will hold such security on trust for the Property Owner Secured Creditors:

- (a) a mortgage (which will not be registered at HM Land Registry and so will take effect in equity only) of its right, title and interest (if any) (present and future) in the Properties;
- (b) a charge over all its right, title and interest in, to and under monies standing to the credit of the Estates Account, the PMSL ECS Receipts Account, the PMSL ECS Ground Rent Account and the PMSL Landlords Account in respect of Ground Rents, Wardens' Apartments Rentals, Transfer Fees, any other amounts therein to which it is entitled, the Repayment Reserve Accounts and the Capital Receipts Accounts; and
- (c) an assignment by way of security over its right, title, benefit and interest in, to and under all amounts owing and by the Borrower under the Reserve Loan Facility Agreement.

The mortgages over the interests of the Property Owners in the Properties will be equitable as it is not intended to register such charges with the Land Registry or the Land Charges Registry. However, the title deeds in respect of the interests of the Property Owners in the Properties will be held by, or to the order of, the Security Trustee.

The Issuer's interest in the Security Trust and Intercreditor Deed will be charged and, as applicable, assigned to the Note Trustee pursuant to the Issuer Deed of Charge. The Note Trustee, as sub-chargee under the Issuer Deed of Charge, will hold the benefit of the Borrower Security under the Security Trust and Intercreditor Deed on trust for the benefit of the Issuer Secured Creditors, upon and subject to the terms of the Issuer Deed of Charge.

The Borrower's interest in the Security Trust and Intercreditor Deed will be charged and, as applicable, assigned to the Security Trustee pursuant to the Security Trust and Intercreditor Deed as security for its obligations to the Borrower Secured Creditors. The Security Trustee, as sub-chargee under the Security Trust and Intercreditor Deed, will also hold the benefit of the security created by the Borrower Subsidiaries pursuant to the Security Trust and Intercreditor Deed on trust for the benefit of the Borrower Secured Creditors, upon and subject to the terms of the Security Trust and Intercreditor Deed.

All proceeds of realisation of the security received by the Note Trustee and the Security Trustee will be applied in the order of application of payments specified in the Issuer Post-Enforcement Priority of Payments, the Borrower Post-Enforcement Priority of Payments and the Property Owner Post-Enforcement Priority of Payments as appropriate, as set out in the "Description of the Credit Structure" above.

Pursuant to the terms of the Security Trust and Intercreditor Deed, upon the service of an enforcement notice by the Security Trustee under the Funding Loan Agreement or the Intercompany Loan Agreement, all payments under or arising from the Security Trust and Intercreditor Deed will be required to be made to the Security Trustee or to its order (except as otherwise provided for in the Security Trust and Intercreditor Deed). All rights or remedies provided for by the Security Trust and Intercreditor Deed or available at law or in equity to the Issuer will, following the service of such an enforcement notice, be exercisable by the Security Trustee.

In circumstances where the Funding Loan and/or any of the Intercompany Loans and the related security for the same under the Security Trust and Intercreditor Deed has been enforced by the Security Trustee but no enforcement has occurred on the Notes or the Funding Loan, respectively, the Security Trustee will establish the Enforcement Reserve Account with the Account Bank. The Security Trustee will deposit in the Enforcement Reserve Account: (a) all amounts received from enforcing the Security Trust and Intercreditor Deed against the Capital Receipts Accounts and the Repayment Reserve Accounts; (b) all amounts that would have been but for the enforcement of the Funding Loan and/or any of the Intercompany Loans deposited in the Capital Receipts Accounts and the Repayment Reserve Accounts; and (c) such other amounts received from enforcing the Security Trust and Intercreditor Deed which the Security Trustee deems prudent to reserve against ultimate maturity of the Notes or, as the case may be, the Funding Loan, in each case which are not otherwise required to be applied to meet the obligations of the Issuer or the Borrower under the Issuer Pre-Enforcement Priority of Payments or, as the case may be, the Borrower Pre-Enforcement Priority of Payments.

Pursuant to the terms of the Security Trust and Intercreditor Deed, without prejudice to the right of indemnity by law given to trustees, the Obligors will indemnify the Security Trustee in respect of all proceedings (including claims and liabilities in respect of taxes other than on its own overall net income), claims and demands and all costs, charges, expenses (including, without prejudice to the generality of the foregoing, legal expenses and travelling expenses), and liabilities to which it (or any person appointed by it to whom any trust, power, authority or discretion may be delegated by it in the execution or purported execution of the trusts, powers, authorities or discretions vested in it by or pursuant to the Security Trust and Intercreditor Deed and any of the Transaction Documents to which the Security Trustee is a party) may be or become liable or which may be incurred by it (or any such person as aforesaid) in the execution or purported execution of any of its trusts, powers, authorities and discretions hereunder or its functions under any such appointment or in respect of any other matter or thing done or omitted in any way relating to the Security Trust and Intercreditor Deed and any of the Transaction Documents to which the Security Trustee is a party, or any such appointment and the Security Trustee shall be entitled to be indemnified out of the Charged Assets in respect thereof save to the extent that the same arises as a result of wilful default, wilful misconduct, fraud or breach of trust on the part of the Security Trustee.

The Security Trust and Intercreditor Deed will be governed by English law.

Issuer Deed of Charge

Under the Issuer Deed of Charge, the Issuer will grant the following security in favour of the Note Trustee who will hold such security on trust for the benefit of itself, the Noteholders, each Issuer Swap Counterparty, each Issuer Deposit Taker, the Liquidity Facility Provider, the Cash Manager, the Account Bank, the Issuer Corporate Services Provider, the Corporate Officers Provider and the Paying Agents (together, the “**Issuer Secured Creditors**”):

- (a) an assignment by way of security of its rights, title, interest and benefit, present and future, in, to and under the Funding Loan Agreement, each of the other Transaction Documents (excluding the Issuer Deed of Charge) to which it is or may become a party and all other contracts, agreements, deeds and documents to which it is or may become a party;
- (b) an assignment by way of security of its rights, title, interest and benefit, present and future, in, to and under the Security Trust and Intercreditor Deed;
- (c) a charge over all of its rights, title, interest and benefit, present and future, in, to and under the Eligible Investments permitted to be made pursuant to the Cash Management Agreement;
- (d) a charge over all of its rights, title, interest and benefit, present and future, in and to all the amounts from time to time standing to the credit of the Issuer Accounts (other than the Issuer Share Capital Account); and
- (e) a floating charge over all assets and undertaking of the Issuer not effectively charged or assigned by way of fixed security interests referred to above (other than the Issuer Share Capital Account).

Pursuant to the terms of the Issuer Deed of Charge, without prejudice to the right of indemnity by law given to trustees or given in the Note Trust Deed, the Issuer will covenant and undertake with the Note Trustee, each of the Issuer Secured Creditors and any Receiver to fully indemnify the Note Trustee, each of the Issuer Secured Creditors and any Receiver and their respective officers and employees in respect of all proceedings (including claims and liabilities in respect of taxes other than on its own overall net income), claims and demands and all costs, charges, expenses (including, without prejudice to the generality of the foregoing, legal expenses, insurance premia and travelling expenses), and liabilities to which it (or any person appointed by it to whom any trust, power, authority or discretion may be delegated by it in the execution or purported execution of the trusts, powers, authorities or discretions vested in it by or pursuant to the Issuer Deed of Charge and any of the other Transaction Documents to which the Note Trustee is a party) may be or become liable or which may be incurred by it (or any such person as aforesaid) in the execution or purported execution of any of its trusts, powers, authorities and discretions hereunder or its functions under any such appointment or in respect of any other matter or thing done or omitted in any way relating to the Issuer Deed of Charge and any of the other Transaction Documents to which the Note Trustee is a party, or any such appointment and the Note Trustee shall be entitled to be indemnified out of the assets described in Clauses 3.1 to 3.5 of the Issuer Deed of Charge (the “**Issuer Charged Assets**”) in respect thereof save to the extent that the same arises as a result of wilful default, wilful misconduct, negligence, fraud or breach of trust on the part of the Note Trustee.

The Issuer Deed of Charge will be governed by English law.

Property Management Agreements

Pursuant to the Property Management Agreements, Peverel Management Services Limited has been appointed by the Property Owners to provide property management services with respect to the Properties in accordance with the terms of the relevant Leases. The Property Management Agreements terminate at various dates. After termination and up to 31 August 2009 an affiliate of McCarthy & Stone may choose a replacement manager whose appointment is valid up to and including 31 August 2009. After 31 August 2009 the Consultant will, pursuant to the Consultancy Deed, supervise Peverel or any other managing agent and, at the end of a management contract, either renew the arrangement with the then managing agent or appoint another replacement managing agent.

Peverel, as the Managing Agent, will covenant to use its best endeavours to collect all sums owed by the Tenants under the relevant Leases and to deposit and transfer such sums in and from the Estates Account in the manner described in “Description of the Principal Documents” above (without, however, being obliged themselves to pay any such amounts or any costs of collection thereof). The Security Trustee will have the right

to terminate the appointment of Peverel as Managing Agent and appoint a replacement if arrears of collections exceed certain levels.

The Borrower will covenant in the Funding Loan Agreement to ensure that at all times the Managing Agent or another reputable and experienced managing agent is at all times appointed to manage the Properties on behalf of the Borrower and the Property Owners.

Property Owners' Subordinated Loan Agreement

Under the terms of the Property Owners' subordinated loan agreement (the "**Property Owners' Subordinated Loan Agreement**"), Castlechime Limited (the "**Property Owners' Subordinated Lender**") may agree to make eight loans to the Property Owners on the Closing Date known as the Property Owners' subordinated loans (the "**Property Owners' Subordinated Loans**"). Such advances may be used by the Property Owners for its general corporate purposes.

The Property Owners' Subordinated Loans may be repaid in accordance with Property Owners Pre-Enforcement Priority of Payments from Property Owner Available Funds in whole or in part at any time after payment in full of all amounts owing on the Intercompany Loans.

For so long as the Intercompany Loans are outstanding, the Property Owners' Subordinated Lender will agree with the Security Trustee not to seek repayment of amounts owing to it nor, to institute insolvency proceedings in respect of any Property Owners. Interest on outstanding principal and accrued interest under the Property Owners' Subordinated Loan Agreement will accrue semi-annually and will be payable on demand but only after the Intercompany Loans have been repaid in full.

Tranche C Loan Agreement

The Property Owners will have the option of entering into a loan agreement (each a "**Tranche C Loan Agreement**") with one or more lenders (the "**Tranche C Lenders**") who will agree that it may make loans to the Property Owners after the Closing Date (the "**Tranche C Loans**"). Such advance, if drawn, will be used by the Property Owners for general corporate purposes.

Any Tranche C Loan may be repaid from excess funds of the Property Owners in whole or in part at any time.

Any Tranche C Lender will accede to the Security Trust and Intercreditor Deed with, *inter alios*, the Property Owners' Subordinated Lender and the Security Trustee pursuant to which the Tranche C Lender and the Property Owners' Subordinated Lender will regulate their respective rights to repayment from the Property Owners. Additionally, the Security Trust and Intercreditor Deed will restrict the Tranche C Lender and the Property Owners' Subordinated Lender from taking steps to recover payments due to them or causing an insolvency, winding-up or administration of the Property Owners while amounts are outstanding on the Intercompany Loans or the Funding Loan.

Reserve Loan Facility Agreement

On the Closing Date the Property Owners will make available a loan facility (a "**Reserve Loan**") to the Borrower under the terms of a loan facility agreement made between them (the "**Reserve Loan Facility Agreement**"). On the Closing Date the Property Owners will make an advance of £19,000,000 to the Borrower under the Reserve Loan Facility Agreement. The Borrower will use such advance to establish the General Cash Reserve and the Transfer Fee Reserve. The Property Owners will be entitled to require repayment from time to time on the Reserve Loans to meet certain expenses due by them. Otherwise repayments on the Reserve Loans will be fully subordinated to the amounts due on the Funding Loan Agreement. Additionally, the Property Owners will make further advances to the Borrower under the Reserve Loan Facility Agreement as and when required to increase the balance standing to the credit of the General Cash Reserve Account or, as the case may be, the Transfer Fee Reserve Account to the General Cash Reserve Required Amount or, as the case may be, the Transfer Fee Reserve Required Amount.

Any further advance required from time to time under the Reserve Loan Facility Agreement will be made first by any Property Owner who received a repayment thereunder in respect of any Property Owner Senior Expenses payment of which gave rise to the requirement for such further advance and secondly by the other

Property Owners in amounts *pro rata* to their then outstanding obligations under the Intercompany Loan Agreement.

Tax Deed of Covenant

Under the terms of the Tax Deed of Covenant, *inter alia*:

- (a) each of the Issuer, the Borrower and the Property Owners will give certain representations and covenants as to their respective tax positions and that of their respective subsidiaries;
- (b) each of the Issuer, the Borrower and the Property Owners will give representations and covenants to the effect that they have not, nor have any of their respective subsidiaries, taken any steps nor will they take any steps which have had or will have the consequence of rendering the Issuer, the Borrower or the Property Owners liable to tax which is primarily the liability of another entity; and
- (c) each of the Borrower and the Property Owners will give representations and covenants to the effect that it will pay or will procure by its respective subsidiaries payment of all taxes for which it or any company which it controls may be liable and for which a secondary tax liability may arise for the Issuer as a result of non payment of such tax liability, and such payment shall be made within the time required for making such a payment.

The obligations of the Borrower and the Property Owners under the Tax Deed of Covenant will be secured in favour of the Issuer pursuant to the Security Trust and Intercreditor Deed.

Governing Law

The Notes and the following transaction documents will be governed by English Law: (a) the Funding Loan Agreement; (b) the Note Trust Deed; (c) the Issuer Deed of Charge; (d) the Security Trust and Intercreditor Deed; (e) the Cash Management Agreement; (f) the Bank Account Agreement; (g) the Liquidity Facility Agreement; (h) the Subscription Agreement; (i) the Paying Agency Agreement; (j) the Property Management Agreements; (k) the Tax Deed of Covenant; (l) the Master Definitions and Construction Agreement; (m) the ISDA Master Agreements; (n) the Intercompany Loan Agreement; (o) the Consultancy Deed; (p) the Consultancy Fee Deed; (q) the Corporate Officers Agreement; (r) the Tranche C Loan Agreement; (s) the Property Owners' Subordinated Loan Agreement; (t) the Moormead Loan Agreement; (u) the Reserve Loan Facility Agreement; (v) the Declaration of Trust over the Property Owners' General Account; and (w) any other document designated as such by the Issuer, the Borrower, the Note Trustee and the Security Trustee. The Issuer Corporate Services Agreement and the Declaration of Trust over the Issuer's Issued Share Capital will be governed by the laws of the Cayman Islands (and together with documents (a) to (t) above, the "**Transaction Documents**").



Estates Account. Each Property Owner, through the Managing Agent, will, where practicable, direct Tenants to pay all service charge and other items in respect of the premises within the Properties (other than any payment which includes an amount in respect of Transfer Fees and Ground Rents) into the Managing Agent's client account (the "**Estates Account**") in the name of the Managing Agent held on trust for the Tenants. Amounts representing Ground Rents will be paid by the Tenants directly into a trust account maintained by the Managing Agent and called the "**PMSL ECS Receipts Account**" and is immediately transferred overnight after the day of receipt into another trust account entitled the "**PMSL ECS Ground Rent Account**" which will then be transferred on a weekly basis to the relevant Property Owner Transaction Account. Transfer Fees are paid into a trust account for Landlords maintained by the Managing Agent and called the "**PMSL Landlords Account**" which is swept monthly within one week of the end of each calendar month into the relevant Property Owner Transaction Account.



Payment Date, monies standing to the credit of the Issuer Transaction Account will be applied in accordance with the Cash Management Agreement and the Issuer Pre-Enforcement Priority of Payments.

Borrower Transaction Account. The Cash Manager on behalf of the Borrower will deposit into the Borrower Transaction Account amounts received under the Intercompany Loans. In addition receipts under the Borrower ISDA Master Agreement and the Property Owners' ISDA Master Agreements, will be deposited in the Borrower Transaction Account. On each Loan Payment Date, monies standing to the credit of the Borrower Transaction Account will be applied in accordance with the Cash Management Agreement and the Borrower Pre-Enforcement Priority of Payments.

Property Owner Transaction Accounts. Amounts standing to the credit of the PMSL ECS Ground Rent Account in relation to Ground Rents will be transferred on a weekly basis to the relevant Property Owner Transaction Account. Transfer Fees are collected on a monthly basis, within one week of the end of each calendar month, and once collected, are transferred to the relevant Property Owner Transaction Account. In addition the Cash Manager on behalf of each of the Property Owners will deposit into the relevant Property Owner Transaction Account amounts received under the Property Owners' ISDA Master Agreements. On each Loan Payment Date, monies standing to the credit of the Property Owner Transaction Accounts will be applied in accordance with the Cash Management Agreement and the Property Owner Pre-Enforcement Priority of Payments.

General Cash Reserve Account. On the Closing Date £1,000,000 of the proceeds of issue of the Notes received from the Property Owners under the Reserve Loan will be deposited by the Borrower into the General Cash Reserve Account. On each Loan Payment Date, the Borrower will be obliged to pay any amounts needed into the General Cash Reserve Account to ensure that the balance thereof is equal to the General Cash Reserve Required Amount. The Borrower will, following the determinations of the Cash Manager on the immediately preceding Calculation Date, make such payments with further advances under the Reserve Loan Facility Agreement. The Borrower, or the Security Trustee following enforcement of the Borrower Security, will be entitled to withdraw funds standing to the credit of the General Cash Reserve Account to meet any unpaid Borrower Senior Expenses and to make repayments on the Reserve Loans to the Property Owners to meet any unpaid Property Owner Senior Expenses.

Transfer Fee Reserve Account. On the Closing Date, the Borrower will be obliged to credit the Transfer Fee Reserve Account with £18,000,000 from funds it receives from the Property Owners under the Reserve Loan. On each Loan Payment Date, the Borrower will be obliged to pay any amounts needed into the Transfer Fee Reserve Account to ensure that the balance thereof is equal to the Transfer Fee Reserve Required Amount. The Borrower will, following the determinations of the Cash Manager on the immediately preceding Calculation Date, make such payments with further advances under the Reserve Loan Facility Agreement. The Borrower, or the Security Trustee following enforcement of the Borrower Security, will be entitled to withdraw funds standing to the credit of the Transfer Fee Reserve Account to (i) meet items (1) to (11) of the Borrower Pre-Enforcement Priority of Payment; and (ii) to make repayments on the Reserve Loans to the Property Owners to enable the Property Owners to meet items (1) to (10) of the Property Owner Pre-Enforcement Priority of Payments. On each Loan Payment Date after 9 October 2009 and subject to certain conditions, the Borrower is entitled to withdraw funds standing to the credit of the Transfer Fee Reserve Account to the extent that its balance exceeds the Transfer Fee Reserve Required Amount. Such amounts will then be applied by the Borrower in accordance with the Borrower Pre-Enforcement Priority of Payments.

For a detailed description of the Transfer Fee Reserve Account, see "Description of the Assets and the Cashflows."

Capital Receipts Accounts. Any Capital Receipts received by a Property Owner will be credited to such Property Owner's Capital Receipts Account. Where amounts are credited to the Capital Receipts Accounts, such amounts shall on the next following Loan Payment Date, be applied to redeem the Notes up to a maximum of 110 per cent. of an Allocated Loan Amount. If less than 100 per cent. of an Allocated Loan Amount is received and the relevant Property Owner fails to raise such shortfall from any other source available to it, the relevant Property Owner shall inform the Borrower. In such circumstances, the Security Trustee may in its sole discretion determine that such non-payment has a material adverse effect on such Property Owners' ability to make payments on the applicable Intercompany Loan, which in turn would result in a Loan Event of Default. Where amounts are credited to the Capital Receipts Accounts fifteen (15) days or less prior to a Loan Payment Date, such amounts are allocated to the next succeeding Interest Period. No such prepayment will be due unless and until (i) the total amount of such Capital Receipts to be so applied to prepay the affected tranches of the Intercompany Loans will reduce the amount of such Intercompany Loans by at least £1,000,000 or (ii) the

Property Owners elect to make such prepayment. Capital Receipts in excess of 110 per cent. of an Allocated Loan Amount will be applied in accordance with the relevant Property Owner Priority of Payments.

Repayment Reserve Accounts. Following the occurrence of a Repayment Reserve Trigger Event, each Property Owner's respective Property Owner Available Funds (other than prepayments of such Property Owner's Intercompany Loan) in excess of amounts required to meet scheduled payments on each Intercompany Loan and certain other amounts set out in the Property Owner Pre-Enforcement Priority of Payments will be retained by such Property Owner and credited to such Property Owner's Repayment Reserve Account established at the Account Bank in the name of such Property Owner. Each Property Owner, or the Security Trustee following enforcement of the security for the Intercompany Loans, will be entitled to withdraw funds standing to the credit of its Repayment Reserve Accounts to meet payments then due on its Intercompany Loan. Additionally, on each Loan Payment Date falling in 2015, the balance (if any) of the Repayment Reserve Accounts will be applied by the Property Owners to prepay the Intercompany Loans.

The Issuer Transaction Account will be the subject of fixed charges in favour of the Note Trustee pursuant to the Issuer Deed of Charge. The Borrower Transaction Account, the Property Owner Transaction Accounts, the Capital Receipts Accounts, the General Cash Reserve Account, the Transfer Fee Reserve Account and the Repayment Reserve Accounts will be the subject of fixed charges in favour of the Security Trustee pursuant to the Security Trust and Intercreditor Deed.

Issuer General Account. The balance, if any, once all of the items ranking in priority in accordance with the Issuer Pre-Enforcement Priority of Payments or the Issuer Post-Enforcement Priority of Payments have been paid off, will be deposited to the Issuer General Account for its general corporate purposes.

Borrower General Account. The balance, if any, once all of the items ranking in priority in accordance with the Borrower Pre-Enforcement Priority of Payments or the Borrower Post-Enforcement Priority of Payments have been paid off, will be deposited to the Borrower General Account for its general corporate purposes.

Property Owners' General Account. The balance, if any, once all of the items ranking in priority in accordance with the Property Owner Pre-Enforcement Priority of Payments or the Property Owner Post-Enforcement Priority of Payments have been paid off, will be deposited to the Property Owners' General Account for their general corporate purposes.

Issuer, Borrower and Property Owners' Accounts Generally

On or before the Closing Date, the Issuer will open the Issuer Transaction Account. On each Payment Date, monies standing to the credit of the Issuer Transaction Account will be applied in accordance with the Cash Management Agreement and the order of priorities set out above in "Description of the Credit Structure—Cash Management".

The Issuer Accounts and any other accounts of the Issuer from time to time (other than the Issuer Share Capital Account) will be the subject of a first ranking charge in favour of the Note Trustee under the Issuer Deed of Charge. The Cash Manager (on behalf of the Issuer) will upon receipt of written instructions invest the credit balance from time to time on the Issuer Accounts in specified Eligible Investments. The Cash Manager (on behalf of the Issuer) will credit the Issuer Share Capital Account with the proceeds of issuing shares plus any margins made thereon.

The Cash Manager (on behalf of the Borrower or, as the case may be, the Property Owners) will upon receipt of written instructions invest the credit balance from time to time on the Borrower Transaction Account, the Property Owner Transaction Accounts, the Repayment Reserve Account, the Borrower General Account and the Property Owners' General Account and any other bank account of the Borrower or the Property Owners in specified Eligible Investments.

Cash Management Agreement

Under the Cash Management Agreement, the Cash Manager will be appointed as cash manager to perform various services including the provision of cash management services to the Issuer, the Borrower and the Property Owners and the application of monies standing to the credit of the accounts in the name of (i) the Issuer known as the Issuer Transaction Account (the "**Issuer Transaction Account**"), the Issuer General Account (the "**Issuer General Account**"), the Stand-By Account (the "**Stand-By Account**"), the Issuer Share Capital Account (the "**Issuer Share Capital Account**") and any other account established in the name of the

Issuer (such accounts (excluding the Issuer Share Capital Account) together with the Issuer Transaction Account, the Issuer General Account and the Stand-By Account, the **"Issuer Accounts"**); (ii) the Borrower known as the Borrower Transaction Account (the **"Borrower Transaction Account"**), the General Cash Reserve Account (the **"General Cash Reserve Account"**), the Transfer Fee Reserve Account (the **"Transfer Fee Reserve Account"**) and the Borrower General Account (the **"Borrower General Account"**, and together with the Borrower Transaction Account, the General Cash Reserve Account and the Transfer Fee Reserve Account, the **"Borrower Accounts"**) and (iii) the accounts in the name of each Property Owner known as the Capital Receipts Accounts (the **"Capital Receipts Accounts"**), the Repayment Reserve Accounts, (the **"Repayment Reserve Accounts"**), the Property Owner Transaction Accounts (the **"Property Owner Transaction Accounts"**) and the Property Owners' General Account (the **"Property Owners' General Account"**) and, together with the Capital Receipts Accounts, the Repayment Reserve Accounts and the Property Owner Transaction Accounts, the **"Property Owners' Accounts"**).

The Cash Manager's duties will include but are not limited to (i) instructing the Account Bank to make transfers from the Issuer Accounts, the Borrower Accounts and the Property Owners' Accounts; (ii) notifying, *inter alia*, the Note Trustee and the Security Trustee of the amounts credited to and debited from the Issuer Accounts, the Borrower Accounts and the Property Owners' Accounts; (iii) arranging for the payment of Issuer Senior Expenses and the advance of funds under the Expenses Advances requested under the Funding Loan Agreement in respect of Borrower Senior Expenses and/or Property Owner Senior Expenses by arranging for a Liquidity Drawing to the extent that such expenses cannot be paid under the applicable Priority of Payments; (iv) with the assistance of the Borrower and the Property Owners, allocating Ground Rent receipts to the Payment Date or Calculation Date in respect of which the same were invoiced; (v) making calculations, determinations and allocations in connection with prepayments of the Funding Loan with Capital Receipts; and (vi) making determinations on each Calculation Date and arranging for further advances under the Reserve Loan Facility Agreement to meet certain Property Owner Senior Expenses and to maintain the General Cash Reserve Account and the Transfer Fee Reserve Account at their respective required amounts from time to time. The Cash Manager shall, following written instructions from the Issuer, the Borrower or the Property Owners, invest in Eligible Investments certain sums standing to the credit of the Issuer Accounts, the Borrower Accounts and the Property Owners' Accounts.

For general information on the Cash Management Agreement, see "Description of Principal Documents – Cash Management Agreement".

"Eligible Investments" means any of the following investments which has a scheduled maturity no later than the next succeeding Calculation Date:

- (a) gilt-edged securities and other freely transferable and marketable debt securities issued by the Government of the United Kingdom, denominated in sterling and which constitute direct, primary and unsubordinated obligations;
- (b) bonds or notes of or guaranteed by any company or corporation, supranational entity or sovereign, the unsecured, unguaranteed and unsubordinated long-term obligations of which have a medium-term senior debt rating of Aa3 or better issued by Moody's and AA- or better issued by Fitch;
- (c) certificates of deposit or commercial paper, denominated in sterling, constituting direct, primary and unsubordinated obligations, having an outstanding maturity of less than 3 months from the date of purchase and a short-term senior debt rating of P-1 or better issued by Moody's and F1 or better issued by Fitch;
- (d) call or fixed deposits, certificates of deposits of any building society (which is an authorised institution under the Building Societies Act 1986) or bank (which is an authorised institution under the Banking Act 1987) and which has a short-term senior debt rating of P-1 or better issued by Moody's and F1 or better by Fitch; and
- (e) any senior, unsubordinated debt security, investment, commercial paper, deposit (including for the avoidance of doubt, any monies on deposit in any of the Issuer Accounts) or other debt instrument (including for the avoidance of doubt, a money market fund) denominated in sterling, and which has a short-term senior debt rating of P-1 or better issued by Moody's and F1 or better by Fitch, the investment in which would not adversely affect the then current ratings of the Notes or, if the Notes are no longer rated by either of Fitch or Moody's, the investment in which is approved by the Note Trustee.

The Cash Manager will pursuant to instructions from the relevant Swap Counterparties or relevant Deposit Taker, partially terminate (a) all Borrower Deposit Contracts and Borrower Swaps; (b) all Property Owners' Deposit Contracts and Property Owners' Swaps to reflect the effect of any prepayment or repayment of the Intercompany Loans or the Funding Loan. The Cash Manager will increase or, as the case may be, decrease the amount of each such repayment or prepayment to reflect the amounts paid or received in connection with such partial terminations.

To the extent that the Borrower or any of the Property Owners have insufficient funds to meet all payments due by them on any Loan Payment Date under the Funding Loan Agreement and the Intercompany Loan Agreement and, in each case, amounts ranking in priority thereto, the Cash Manager on behalf of the parties shall take the following actions in the following order: (a) call upon the other Property Owners to make up such shortfall under their cross-indemnities under the Funding Loan Agreement; (b) if the shortfall still exists, draw upon the General Cash Reserve Account; (c) if the shortfall still exists, draw upon the Transfer Fee Reserve Account; and (d) if the shortfall still exists, request an Expenses Advance, in each case to the extent the same is available in respect of such shortfall in accordance with the provisions of the Transaction Documents.

Bank Account Agreement

Pursuant to the Bank Account Agreement, the Account Bank will establish and maintain each of the Property Owners' Accounts in favour of the Property Owners, the Borrower Accounts in the name of the Borrower and the Issuer Accounts in the name of the Issuer. The Account Bank will undertake not to exercise any rights of set-off, counterclaim or consolidation of accounts in respect of the Property Owner' Accounts, the Borrower Accounts or the Issuer Accounts. If the Account Bank ceases to be an Eligible Bank, then the Property Owners, the Borrower and the Issuer will be required to arrange for the transfer of such accounts to an Eligible Bank.

"Eligible Bank" means an institution which is authorised to accept deposits under the Banking Act 1987, and either (i) at all times has a short-term unsecured and unsubordinated debt rating of at least P-1 by Moody's and F1 by Fitch or (ii) is acceptable to each Rating Agency.

For general information on the Cash Management Agreement, see "Description of Principal Documents – Cash Management Agreement".

DESCRIPTION OF THE ISSUER SWAP COUNTERPARTIES AND THE ISSUER DEPOSIT TAKERS

UBS AG

UBS AG, a company incorporated with limited liability in Switzerland on 29 June 1998 registered at the Commercial Registry Office of the Canton of Zurich and the Commercial Registry Office of the Canton of Basel-City with Identification No: CH-270.3.004.646-4 having its registered offices at Bahnhofstrasse 45, 8001 Zurich and Aeschenvorstadt 1, 4051 Basel, Switzerland.

With headquarters in Zurich and Basel, Switzerland, UBS AG operates in over 50 countries and from all major international centres. As of 31 December 2004, UBS AG had total invested assets of CHF 2,217 billion, a market capitalisation of CHF104 billion and employed more than 67,000 people. As at the date of this Offering Circular, UBS AG has a long-term debt credit rating of "Aa2" from Moody's and "AA+" from S&P.

UBS AG is publicly owned, and its shares are listed on the SWS Swiss Exchange, the New York Stock Exchange and the Tokyo Stock Exchange. UBS AG is subject to the informational requirements of the Securities Exchange Act of 1934 of the United States of America (the "**Exchange Act**"), and, in accordance therewith, files reports and other information with the U.S. Securities and Exchange Commission (the "**Commission**"). The reports and other information filed by UBS AG with the Commission may be inspected (and copied at prescribed rates) at the public reference facilities maintained by the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. UBS AG's common stock is listed on the NYSE under the symbol "UBS". Reports and other information filed may be inspected at the offices of NYSE at 20 Broad Street, New York, New York 10005 and can also be reviewed by accessing the Commission's Internet site at <http://www.sec.gov> (which website does not form part of this Offering Circular).

The information contained herein with respect to UBS AG relates to and has been obtained from it. The delivery of this Offering Circular shall not create any implication that there has been no change in the affairs of UBS AG since the date hereof, or that the information contained or referred to herein is correct as of any time subsequent to its date.

The information contained in preceding paragraphs has been provided by UBS AG for use in this Offering Circular. Except for the foregoing paragraphs, UBS AG and their respective affiliates have not been involved in the preparation of, and do not accept responsibility for, this Offering Circular as a whole.

HBOS Treasury Services plc

Pursuant to the applicable Issuer Swaps entered into on the Closing Date, HBOS Treasury Services plc ("**HBOSTS**") will be appointed as an Issuer Swap Counterparty in respect of the Notes and an Issuer Deposit Taker pursuant to the Issuer Deposit Contracts.

HBOSTS, a direct, wholly owned subsidiary of Bank of Scotland ("**BOS**"), was registered in England and Wales in the register of companies on 26 February 1992, as Bank of Scotland Treasury Services PLC (registered number 2692890), a public limited company under the Companies Act, for the purpose of taking over and developing Bank of Scotland's treasury operations. Following the merger of Halifax Group plc ("**Halifax**") and Bank of Scotland in 2001 ("**HBOS**"), substantially all of the treasury business of Halifax Group plc was transferred to HBOSTS with effect from 1 June 2002. On 14 June 2002, HBOSTS changed its name from Bank of Scotland Treasury Services PLC to HBOS Treasury Services plc. HBOSTS is an "authorised person" under the FSMA. HBOSTS' registered office is located at 33 Old Broad Street, London EC2N 1HZ, England, with telephone no. 020 7574 8000.

HBOSTS provides centralised wholesale multi-currency funding, liquidity management and treasury services to HBOS and its subsidiary undertakings in the United Kingdom, Ireland and to the Bank of Scotland's New York branch in the United States.

HBOSTS manages the market risk arising from the HBOS Group's Retail and Corporate Divisions. It operates in the world's foreign exchange and money markets and also provides a range of treasury services to certain of the HBOS Group's customers from its office in London and its branches in Glasgow, Grand Cayman, New York and Sydney. HBOSTS' New York branch was granted a license in January 2004 and operates under the supervision of the Office of the Comptroller of the Currency and oversight of the Board of Governors of the Federal Reserve System.

HBOSTS' branch in Grand Cayman operates under license from the Cayman Islands Monetary Authority. HBOSTS was registered as a foreign company in Australia on 23 September 2004 and on 6 July 2005 received authority from the Australian Prudential Regulation Authority ("APRA") to carry on banking business in Australia. On 4 August 2005 HBOSTS received its Australian Financial Services ("AFS") license from the Australian Securities and Investments Commission ("ASIC") to enable HBOSTS to provide financial product advice, dealing services and market making services in connection with foreign exchange, derivatives, securities and certain other financial products. HBOSTS commenced operations in Australia on 7 September 2005.

Trading transactions are undertaken to accommodate customer and HBOS Group requirements, whilst proprietary activity is maintained within approved limits. HBOSTS manages the treasury investment portfolio for the HBOS Group. HBOSTS leads the debt capital issuance and asset securitisation activities of the HBOS Group.

HBOSTS has one subsidiary, an investment company, incorporated in the Cayman Islands.

HBOS plc (Ultimate Holding Company)

HBOS plc is the holding company of the HBOS Group. HBOS plc has four principal subsidiaries: Halifax plc, The Governor and Company of the Bank of Scotland, HBOS Insurance & Investment Group Limited and Halifax Share Dealing Limited. HBOS plc was incorporated and registered in Scotland in the register of companies on 3 May 2001, with registered number SC 218813 as a public limited company under the Companies Act 1985 (the "Companies Act"). The principal legislation under which HBOS plc operates is the Companies Act. The registered office and head office of HBOS plc in the United Kingdom is at the Mound, Edinburgh EH1 1YZ, telephone no. 0870 600 500. HBOS plc together with its subsidiaries and subsidiary undertakings (as defined in the Companies Act) are collectively referred to as the "HBOS Group".

The HBOS Group is a diversified financial services group engaged in a range of banking, insurance broking, financial services and finance-related activities throughout the United Kingdom and internationally.

DESCRIPTION OF THE NOTES

Summary of Provisions Relating to the Notes in Global Form

The Class A Notes (which shall each be in the denomination of £100,000) will be represented initially by a temporary global note in bearer form without interest coupons or talons in the principal amount of £329,000,000 (the “**Class A Temporary Global Note**”) and the Class B Notes (which shall each be in the denomination of £100,000) will be represented initially by a temporary global note in bearer form without interest coupons or talons in the principal amount of £24,000,000 (the “**Class B Temporary Global Note**”), and together with the Class A Temporary Global Note, the “**Temporary Global Notes**”). The Temporary Global Notes will be deposited on behalf of the subscribers of the Class A Notes and the Class B Notes respectively, with the Common Depositary on or about the Closing Date. Upon deposit of the Temporary Global Notes, Euroclear and/or Clearstream, Luxembourg will credit each subscriber with a principal amount of Class A Notes or Class B Notes equal to the principal amount thereof for which each such subscriber has subscribed and paid.

Interests in the Class A Temporary Global Note will become exchangeable on the Exchange Date (as defined in the Class A Temporary Global Note) (provided certification of non-U.S. beneficial ownership by the holders of the Class A Notes has been received) for interests in a permanent global note, in bearer form without interest coupons or talons in the principal amount of £329,000,000 (the “**Class A Permanent Global Note**”) (the expression “**Class A Global Notes**” meaning the Class A Temporary Global Note and the Class A Permanent Global Note and the expression “**Class A Global Note**” meaning the Class A Temporary Global Note or the Class A Permanent Global Note, as the context may require). On the exchange of the Class A Temporary Global Note for the Class A Permanent Global Note, the Class A Permanent Global Note will remain deposited with the Common Depositary.

Interests in the Class B Temporary Global Note will become exchangeable on the Exchange Date (as defined in the Class B Temporary Global Note) (provided certification of non-U.S. beneficial ownership by the holders of the Class B Notes has been received) for interests in a permanent global note, in bearer form without interest coupons or talons in the principal amount of £24,000,000 (the “**Class B Permanent Global Note**”), and together with the Class A Permanent Global Note, the “**Permanent Global Notes**”) (the expression “**Class B Global Notes**” meaning the Class B Temporary Global Note and the Class B Permanent Global Note, the expression “**Class B Global Note**” meaning the Class B Temporary Global Note or the Class B Permanent Global Note, as the context may require, and the expression “**Global Notes**” meaning the Class A Global Notes and the Class B Global Notes). On the exchange of the Class B Temporary Global Note for the Class B Permanent Global Note, the Class B Permanent Global Note will remain deposited with the Common Depositary.

The Global Notes will be transferable by delivery. The Permanent Global Notes will be exchangeable for Definitive Notes (as defined in the Conditions) only in the limited circumstances described below. Each of the persons shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a Note will be entitled to receive any payment so made in respect of that Note in accordance with the respective rules and procedures of Euroclear or, as the case may be, Clearstream, Luxembourg. Each such person must give a certificate as to non-U.S. beneficial ownership as of the earlier of (i) the date on which the Issuer is obliged to exchange the Class A Temporary Global Note or, as the case may be, the Class B Temporary Global Note, for the Class A Permanent Global Note or, as the case may be, the Class B Permanent Global Note, which date shall be no earlier than the Exchange Date (as defined in the Class A Temporary Global Note or, as the case may be, the Class B Temporary Global Note) and (ii) the first Payment Date, in order to obtain any interest payment due on the Notes.

For so long as any Notes are represented by the Global Notes, interests in such Notes will be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg as appropriate.

For so long as any of the Notes are represented by the Global Notes, each person who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular principal amount of such Notes, will be entitled to be treated by the Issuer and the Note Trustee as a holder of such principal amount of such Notes, and the expression “**Noteholder**” shall be construed accordingly, but without prejudice to the entitlement of the bearers of the Global Notes to be paid principal and interest thereon in accordance with and subject to their terms. Any statement in writing issued by Euroclear or Clearstream, Luxembourg as to the persons shown in its records as being entitled to the Notes and the respective principal amounts of Notes held by them shall be conclusive for all purposes.

Principal of and interest on a Global Note will be payable against presentation of that Global Note at the specified office of the Principal Paying Agent or, at the option of the holder, at any specified office of any Paying Agent, provided that no payment of interest on a Global Note may be made by, or upon presentation of that Global Note to, any Paying Agent in the United States and subject to certification as to non-U.S. beneficial ownership as mentioned above having been received by Euroclear or Clearstream, Luxembourg. A record of each payment made on a Global Note, distinguishing between any payment of principal and payment of interest, will be endorsed for the purpose of making such payment, and such record shall be *prima facie* evidence that the payment in question has been made.

If after the Exchange Date, (i) 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 in fact does so and no alternative clearing system satisfactory to the Note Trustee is available, or (ii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom, Cayman Islands 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 by a revenue authority or a court of administration by a revenue authority or a court or in the administration of such laws or regulations, which becomes effective on or after the date of this Offering Circular, 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 were the Notes in definitive form.

Any notice to Noteholders in respect of Notes represented by Global Notes shall be deemed to have been duly given if sent to Euroclear and/or Clearstream, Luxembourg (as applicable) and published in accordance with Condition 14 (*Notice to Noteholders*).

INVESTOR REPORTS

The Borrower shall provide reports relating to the Properties on a quarterly basis to the Issuer. Subject to applicable laws and regulations and to the extent lawful without any special approvals, the Issuer will arrange for investor reports to be obtainable in Ireland at the offices of the Irish Paying Agent whilst the Notes are listed on the Irish Stock Exchange and (subject as aforesaid) will make such investor reports available on Bloomberg (or other similar financial news media) under the tickers of the Class A Notes and Class B Notes and (subject as aforesaid) will also provide such investor reports to the Note Trustee and the Rating Agencies, in each case within one calendar month of the end of each Interest Period (from April 2007).

The information contained in the investor reports will include the following:

- Ground Rents received/billed
- Transfer Fees received
- Wardens' Apartments Rentals received
- Capital Receipts received
- Enforcement Reserve Account balance
- Each Capital Receipts Account balance
- Each Repayment Reserve Account balance
- Portfolio HPI
- General Cash Reserve balance
- Transfer Fee Reserve balance
- Class A Notes balance
- Class B Notes balance
- Swap payments received/made
- Liquidity Drawings made
- Liquidity payments made
- Intercompany Loan Prepayment
- Funding Loan Prepayment
- Deposit Contract payments received/made
- Details of any material changes in the Properties, including Enfranchisements

The following information will be provided to the investors on an annual basis in each case within one calendar month of the end of each Interest Period (from April 2007):

- Updated valuation of the portfolio of Properties
- The aggregate amount of the "mark-to-market" valuation of all Swaps and all Deposit Contracts

TERMS AND CONDITIONS OF THE NOTES

The £329,000,000 Class A Secured Floating Rate Notes due 2017 (the “**Class A Notes**”) and the £24,000,000 Class B Secured Floating Rate Notes due 2017 (the “**Class B Notes**”) and, together with the Class A Notes, the “**Notes**” and any reference to a “**class**” of Notes or of Noteholders (as defined below) shall be a reference to any, or all, of the respective Class A Notes or to the Class B Notes or any, or all, of their respective holders, as the case may be), in each case of Fairhold Securitisation Limited (the “**Issuer**”), are constituted by a note trust deed dated 30 March, 2006 (the “**Note Trust Deed**”, which expression includes such note 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 Deutsche Trustee Company Limited (the “**Note Trustee**”, which expression includes its successors or any further or other trustee under the Note Trust Deed) as trustee for the holders for the time being of the Notes. The security for the Notes is created pursuant to, and on terms set out in, a deed of charge (the “**Issuer Deed of Charge**”, which expression includes such deed of charge 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) dated 30 March, 2006 and made between, *inter alios*, the Issuer and the Note Trustee. Provision is made for, *inter alia*, the payment of principal, premium (if any) and interest in respect of the Notes of each class by a paying agency agreement dated 30 March, 2006 (the “**Paying Agency Agreement**”, which expression includes such paying 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 the Issuer, the Note Trustee, Deutsche Bank AG, London Branch, as principal paying agent (the “**Principal Paying Agent**”), and in a separate capacity under the same agreement, Deutsche Bank AG, London Branch as agent bank (the “**Agent Bank**”, which expression shall include any successor agent bank appointed in respect of the Notes) and Deutsche International Corporate Services (Ireland) Limited as Irish paying agent (the “**Irish Paying Agent**”), (the Principal Paying Agent and the Irish Paying Agent, together with any further or other paying agents for the time being appointed in respect of the Notes, being, together, the “**Paying Agents**” and, together with the Agent Bank, the “**Agents**”). The Issuer will on-lend part of the proceeds of issue of the Notes to Fairhold Finance Limited (the “**Borrower**”) pursuant to the terms of a loan agreement (the “**Funding Loan Agreement**”) made on 30 March, 2006 between the Issuer, the Borrower, Fairhold Finance Holdings Limited (the “**Parent**”) and Deutsche Trustee Company Limited (the “**Security Trustee**”). The Notes will have the benefit of swaps (the “**Issuer Swaps**”) relating to interest rate and RPI exposure of the Portfolio Cashflows made on 30 March, 2006 under the ISDA Master Agreements between, *inter alios*, the Issuer and each of UBS AG, London Branch and HBOS Treasury Services plc (the “**Issuer Swap Counterparties**”) (the “**Issuer ISDA Master Agreements**”). The Notes will also have the benefit of both spot (the “**Issuer Initial Deposit Contracts**”) and forward starting deposit contracts (the “**Issuer Forward Starting Deposit Contracts**”, together with the Issuer Initial Deposit Contracts, the “**Issuer Deposit Contracts**”) dated 30 March, 2006 between the Issuer and each of UBS AG, London Branch and HBOS Treasury Services plc (the “**Issuer Deposit Takers**”). The Issuer will pass the economic benefit of the Issuer Swaps and the Issuer Deposit Contracts on to the Borrower by entering into swaps and deposit contracts (the “**Borrower Swaps**” and the “**Borrower Deposit Contracts**”) on 30 March, 2006 under the ISDA Master Agreement with the Borrower (the “**Borrower ISDA Master Agreement**”). The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Note Trust Deed, the Paying Agency Agreement and the Issuer Deed of Charge. Copies of the Note Trust Deed, the Paying Agency Agreement, the Issuer Deed of Charge and the Issuer Swaps are available for inspection during normal business hours on any Business Day (as defined in Condition 4(b)) by the Noteholders at the principal office for the time being of the Principal Paying Agent, being at the date hereof at Winchester House, 1 Great Winchester Street, EC2N 2DB, London and at the specified office of the Irish Paying Agent. 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 Note Trust Deed, the Issuer Deed of Charge and a master definitions and construction agreement dated 30 March, 2006 (the “**Master Definitions and Construction Agreement**”) made between, *inter alios*, the Issuer and the Note Trustee and the documents referred to in each of them.

The respective holders for the time being of the Class A Notes and the Class B Notes (each, a “**Noteholder**” and, collectively, the “**Noteholders**”) are referred to in these Terms and Conditions of the Notes (the “**Conditions**”) as the “**Class A Noteholders**” and the “**Class B Noteholders**”, respectively.

Capitalised terms not otherwise defined in these Conditions shall bear the meanings given to them in the Master Definitions and Construction Agreement available for inspection and detailed above. The issue of the Notes was authorised by resolution of the board of directors of the Issuer passed on 14 March, 2006.

1. Form, Denomination and Title

- (a) *Temporary Global Notes*: The Notes of each class will initially be represented by a temporary global Note of the relevant class (each a “**Temporary Global Note**”).

The Temporary Global Notes will be deposited on behalf of the subscribers of the Notes with a common depositary (the “**Common Depositary**”) for Euroclear Bank SA/N.V. as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”) on the Closing Date. Upon deposit of the Temporary Global Notes, Euroclear or Clearstream, Luxembourg, as applicable, will credit the account of each Accountholder (as defined below) with the principal amount of Notes for which it has subscribed and paid.

- (b) *Permanent Global Notes*: Interests in each Temporary Global Note will, in accordance with the terms of the Note Trust Deed and such Temporary Global Note, be exchangeable on and after 40 days following the Closing Date or, if later, the date (as notified by the Sole Bookrunner to the Principal Paying Agent) on which the Sole Bookrunner completes the sale of the Class A Notes to third party investors (the “**Exchange Date**”), provided certification of non-U.S. beneficial ownership (“**Certification**”) by the relevant Noteholders has been received, for interests in a permanent global Note of the relevant class (each a “**Permanent Global Note**”). The expression “**Global Note**” shall be read and construed to mean a Temporary Global Note or a Permanent Global Note as the context may require. On the exchange of each Temporary Global Note for the relevant Permanent Global Note such Permanent Global Note will remain deposited with the Common Depositary.

- (c) *Form and Title*: Each Global Note will be issued in bearer form without coupons or talons.

Title to the Global Notes will pass by delivery. Notes represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as appropriate.

For so long as the Notes are represented by a Global Note, the Issuer, the Note Trustee and all other parties may (to the fullest extent permitted by applicable laws) deem and treat each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of Notes (an “**Accountholder**”) in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes or interest in such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest or known error (including for the purposes of any quorum or voting requirements of, or the right to demand a poll at, meetings of the Noteholders), other than for the purposes of payment of principal and interest on such Global Notes, the right to which shall be vested, as against the Issuer, the Paying Agents and the Note Trustee, solely in the bearer of the relevant Global Note in accordance with and subject to the terms of the Note Trust Deed. The expressions “**Noteholders**” and “**holder of Notes**” and related expressions shall be construed accordingly.

In determining whether a particular person is entitled to a particular principal amount of Notes as aforesaid, the Note Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.

- (d) *Issue of Definitive Notes*: A Global Note will only be exchanged free of charge (in whole but not in part) for Notes in definitive bearer form (“**Definitive Notes**”) if at any time after the Exchange Date any of the following applies:
- (i) either Euroclear and 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 in fact does so and no alternative clearing system satisfactory to the Note Trustee is available; or
 - (ii) as a result of an amendment to, or change in, the laws or regulations of the United Kingdom, the Cayman Islands or any other jurisdiction (or of any political subdivision thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court of administration by a revenue authority or a court or in the administration of such laws or regulations which becomes effective on or after the Closing Date, the Issuer or any Paying Agent

is or will become required to make any deduction or withholding from any payment in respect of the Notes which would not be required were the Notes in definitive form.

If any such event referred to above occurs while any Notes are represented by a Temporary Global Note, then Definitive Notes will not be issued until the relevant Temporary Global Note has been exchanged for the relevant Permanent Global Note, which exchange shall not, in any event, occur before the Exchange Date. Definitive Notes, if issued, will be available at the offices of any Paying Agent.

If the Issuer fails to meet obligations to issue Notes in definitive form in exchange for a Permanent Global Note, then that Permanent Global Note shall remain in full force and effect.

- (e) *Title to and Transfer of Definitive Notes:* Each Definitive Note shall be issued in bearer form, serially numbered, in the denomination of £100,000 each with (at the date of issue) interest coupons (“**Interest Coupons**”) and principal coupons (“**Principal Coupons**”) (severally or together “**Coupons**”) and talons for further Coupons attached on issue. Title to the Definitive Notes and Coupons will pass by delivery.

The Issuer, the Paying Agents and the Note Trustee may (to the fullest extent permitted by applicable laws) deem and treat the holder of any Definitive Note and the holder of any Coupons as the absolute owner for all purposes (whether or not the Definitive Notes or the Coupons shall be overdue and notwithstanding any notice of ownership, theft or loss, of any trust or other interest therein or of any writing on the Definitive Note or Coupon) and the Issuer, the Note Trustee and the Paying Agents shall not be required to obtain any proof thereof or as to the identity of such holder.

For the purpose of these Conditions, reference herein to “**Notes**” shall include the Global Notes and the Definitive Notes.

2. Status, Security and Priority of Payment

(a) *Status and relationship between the Notes*

- (i) The Class A Notes constitute direct, secured, unconditional and limited recourse obligations of the Issuer and are secured by the same security that secures the Class B Notes. The Class A Notes rank *pari passu* without preference or priority amongst themselves.
- (ii) The Class B Notes constitute direct, secured, unconditional and limited recourse obligations of the Issuer and are secured by the same security that secures the Class A Notes. The Class B Notes rank *pari passu* without preference or priority amongst themselves but the Class A Notes will rank in priority to the Class B Notes in the event of the security constituted by the Issuer Deed of Charge being enforced. Prior to enforcement of the Issuer Deed of Charge, payments of principal, premium (if any) and interest on the Class B Notes are subordinated to, *inter alia*, payments of principal, premium (if any) and interest on the Class A Notes as provided herein. The rights of the Class B Notes in respect of priority of payment of interest and principal are set out in Conditions 2(b) (*Security*).
- (iii) (A) The Note Trust Deed contains provisions requiring the Note Trustee to have regard to the interests of the holders of the Class A Notes and the Class B Notes equally as regards all rights, powers, trusts, authorities, duties and discretions of the Note Trustee thereunder (except where expressly provided therein otherwise), but requiring the Note Trustee, in any such case, to have regard to the interests of only the Class A Noteholders (as a single class) if, in the Note Trustee’s opinion, there is a conflict between the interests of the Class A Noteholders and the interests of the Class B Noteholders; provided, however, that where the outstanding unpaid balance of the Class A Notes has fallen to less than 10 per cent. of its original amount as of the Closing Date, the Note Trustee will look to the interests of the holders of such Class A Notes together with the holders of the Class B Notes as a single class.
- (B) The Issuer Deed of Charge contains provisions requiring the Note Trustee to have regard to the interests of the Issuer Secured Creditors equally as regards all rights, powers, trusts, authorities, duties and discretions of the Note Trustee (except where expressly provided

therein otherwise), but, so long as any of the Notes are outstanding, requiring the Note Trustee in any such case to have regard (except where specifically provided otherwise) to:

- (1) the interests of only the Class A Noteholders (as a single class) if, in the Note Trustee's opinion, there is a conflict between the interests of:
 - x) the Class A Noteholders of any class; and
 - y) the other Issuer Secured Creditors (or any combination of them); and
- (2) subject as provided in sub-paragraph (1) above, the interests of only the Class B Noteholders if, in the Note Trustee's opinion, there is a conflict between the interests of:
 - x) the Class B Noteholders; and
 - y) the other Issuer Secured Creditors (or any combination of them, other than the Class A Noteholders),

provided, however, that where the outstanding unpaid balance of the Class A Notes has fallen to less than 10 per cent. of its original amount as of the Closing Date, the Note Trustee will look to the interests of the holders of such Class A Notes together with the holders of the Class B Notes as a single class. For the avoidance of doubt, nothing in this Condition 2(a)(iii)(B) obliges the Note Trustee to have regard to any voting rights of the Issuer RPI Swap Counterparties.

- (iv) In the event of an issue of Replacement Notes (as defined in Condition 16(b) (*Replacement Issues*)) or New Notes (as defined in Condition 16(c) (*New Notes*)), the provisions of the Note Trust Deed, these Conditions and the Issuer Deed of Charge, including those concerning:
 - (A) the basis on which the Note Trustee will be required to exercise its rights, powers, authorities and discretions (including in circumstances where, in its opinion, there is a conflict between the interests of any of the Issuer Secured Creditors), as referred to in this Condition 2(a) (*Status and Relationship between the Notes*);
 - (B) the circumstances in which the Note Trustee will become bound to take action, as referred to in Condition 10 (*Enforcement of Notes*);
 - (C) meetings of Noteholders and the passing of effective Extraordinary Resolutions; and
 - (D) the order of priority of payments both prior to, and upon, enforcement of the Issuer Deed of Charge,

will be modified, subject to the satisfaction of certain conditions more fully described in the Note Trust Deed and the Issuer Deed of Charge, in such manner as the Note Trustee considers necessary to reflect the issue of such Replacement Notes or, as the case may be, New Notes and the ranking thereof in relation to each other and to the Class A Notes and the Class B Notes.

If any New Notes are issued while the Notes are listed on the Irish Stock Exchange, the Issuer will advise the Irish Stock Exchange accordingly and procure the publication of a notice of the issue in a leading newspaper having general circulation in Ireland (which is expected to be *The Irish Times*).

- (v) The Note Trust Deed contains provisions limiting the powers of the Class B Noteholders, *inter alia*, to request or direct the Note 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. Except in certain circumstances, the Note Trust Deed contains no such limitation on the powers of the Class A Noteholders, the exercise of which will be binding on the Class B Noteholders, irrespective of the effect thereof on their interests; provided, however, that where the outstanding unpaid balance of the Class A Notes has fallen to less than 10 per cent. of its original amount as of the Closing Date, the holders of such Class A Notes and the holders of the Class B Notes shall be treated for the purposes of passing any Extraordinary Resolution as a single class. Except where expressly

provided otherwise, so long as any of the Notes remain outstanding the Note Trustee is not required to have regard to the interests of any other persons entitled to the benefit of the Security.

- (b) *Security*: As security for the payment of all monies payable in respect of the Notes and otherwise under the Note Trust Deed (including the remuneration, expenses and any other claims of the Note Trustee and any receiver appointed by the Note Trustee), and for the payment of certain other amounts, the Issuer has entered into the Issuer Deed of Charge creating the following security in favour of the Note Trustee for itself and on trust for the other Issuer Secured Creditors:
- (i) an assignment by way of security of the Issuer's right, title, interest and benefit, present and future, in, to and under the Funding Loan Agreement;
 - (ii) an assignment by way of security of the Issuer's right, title, interest and benefit, present and future, in, to and under a security trust and intercreditor deed (the "**Security Trust and Intercreditor Deed**"), made on 30 March, 2006 between, *inter alios*, the Borrower, the Issuer and the Security Trustee (including the security trusts created thereunder);
 - (iii) an assignment by way of security of the Issuer's right, title, interest and benefit, present and future, in, to and under the Funding Loan Agreement, the Liquidity Facility Agreement, the Issuer ISDA Master Agreements, the Borrower ISDA Master Agreement, the Subscription Agreement, the Bank Account Agreement, the Cash Management Agreement, the Issuer Corporate Services Agreement, the Corporate Officers Agreement, the Paying Agency Agreement and all other Transaction Documents subject to any rights of set-off or netting provided for in the Issuer Swaps and the Issuer Deposit Contracts;
 - (iv) a charge over all of the Issuer's right, title, interest and benefit, present and future, in and to all amounts in each of the Issuer Accounts and any replacement for such accounts or other bank account of the Issuer from time to time (other than the Issuer Share Capital Account) and amounts deposited from time to time therein and all debts represented thereby.
 - (v) a charge over all of the Issuer's right, title, interest and benefit, present and future, in, to and under all Eligible Investments purchased using monies standing to the credit of the Issuer Account; and
 - (vi) a floating charge (ranking behind the claims of certain preferential and other creditors) over all of the property, assets and undertakings of the Issuer not subject to the fixed security described in (i), (ii), (iii), (iv) and (v) above, all as more particularly set out in the Issuer Deed of Charge.

The Cash Management Agreement contains provisions regulating the priority of application of funds available to the Issuer for such purpose among the persons entitled thereto prior to the service of a Note Enforcement Notice (as defined in Condition 9(b) (*Class B Noteholders*)). The Issuer Deed of Charge contains provisions regulating the priority of application among the persons entitled thereto of the Issuer Available Funds and the proceeds of enforcement or realisation of the Issuer Security by the Note Trustee after service of a Note Enforcement Notice.

For the purposes of the Issuer Post-Enforcement Priority of Payments below, each Issuer Swap Counterparty in its capacity as Calculation Agent ("**Calculation Agent**") under its Issuer ISDA Master Agreement will calculate an aggregate termination value for its Issuer RPI Swaps subject to termination and a separate aggregate termination value for all its Issuer Interest Rate Swaps and Issuer Deposit Contracts subject to termination. If the aggregate termination value for its Issuer RPI Swaps gives rise to a payment due to the relevant Issuer Swap Counterparty or Issuer Deposit Taker then such amount, less the aggregate termination value for its Issuer Interest Rate Swaps and Issuer Deposit Contracts, (where such aggregate termination value gives rise to a payment by the relevant Issuer Swap Counterparty or Issuer Deposit Taker), will be referred to as the "**Issuer Net RPI Termination Amount**" and will rank (i) prior to enforcement, *pari passu* with interest payments on and senior to payments of principal under the Class A Notes and (ii) post enforcement, *pari passu* with interest and principal owed under the Class A Notes.

On enforcement of the security made pursuant to the terms of the Issuer Deed of Charge (the "**Issuer Security**"), the Note Trustee is required to apply monies available for distribution (other than monies standing in the credit of the Stand-by Account which will be applied in or towards payment of all amounts owing to the Liquidity Provider and other than any amounts representing

amounts attributable to assets transferred as collateral by an Issuer Swap Counterparty or an Issuer Deposit Taker, in each case, following the occurrence of a ratings downgrade in respect thereto which amount shall be applied in accordance with the relevant Issuer ISDA Master Agreement) in the following order of priority (the “**Issuer Post-Enforcement Priority of Payments**”):

First, to meet the remuneration, costs and expenses of the Note Trustee (and any receiver appointed by it) (inclusive of any value added tax (“VAT”), which may be chargeable at the then applicable rate) and any costs, charges, liabilities, indemnity claims and expenses incurred by the Note Trustee or any receiver under the Note Trust Deed, the Conditions or the Issuer Deed of Charge;

Second, pro rata, in or towards satisfaction of the fees, costs, expenses, charges and liabilities (inclusive of any VAT, which may be chargeable at the then applicable rate) of the Paying Agents, Deutsche Bank AG, London Branch (the “**Cash Manager**”), Deutsche Bank AG, London Branch (the “**Account Bank**”), Maples Finance Jersey Limited (the “**Issuer Corporate Services Provider**”), Structured Finance Management Limited (the “**Corporate Officers Provider**”) and the Rating Agencies and all amounts due in respect of other costs, charges, liabilities and expenses incurred by or owed to the Paying Agents, the Cash Manager, the Account Bank, the Issuer Corporate Services Provider and the Corporate Officers Provider under the provisions of the Paying Agency Agreement, the cash management agreement (the “**Cash Management Agreement**”), the bank account agreement (the “**Bank Account Agreement**”) the Issuer corporate services agreement (the “**Issuer Corporate Services Agreement**”) and the corporate officers agreement (the “**Corporate Officers Agreement**”) respectively;

Third, pari passu, in or towards satisfaction of (a) all amounts due and payable by the Issuer in respect of each Issuer ISDA Master Agreement other than any Issuer Net RPI Termination Amounts; and (b) all amounts due and payable to HBOS Treasury Services plc (the “**Liquidity Provider**”) under the liquidity facility agreement (the “**Liquidity Facility Agreement**”) other than Subordinated Liquidity Amounts (“**Senior Liquidity Costs**”);

Fourth, pro rata and pari passu, in or towards satisfaction of (i) all amounts of interest, principal and any other amounts due but unpaid in respect of the Class A Notes and (ii) the Issuer Net RPI Termination Amounts;

Fifth, in or towards payment (*pro rata* among the Class B Notes) of all amounts of interest, principal and any other amounts due but unpaid in respect of the Class B Notes;

Sixth, in or towards satisfaction of Additional Margin;

Seventh, in or towards payment of any amounts due and payable to the Liquidity Provider under the Liquidity Facility Agreement in respect of withholding taxes or increased costs as a result of a change in law (“**Subordinated Liquidity Amounts**”);

Eighth, to the extent amounts have been received from the Issuer Swap Counterparties and the Issuer Deposit Takers under the Issuer Swaps and the Issuer Deposit Contracts, in or towards payment of all amounts owed to the Borrower under the Borrower Swaps and the Borrower Deposit Contracts; and

Ninth, the balance (if any) be available for the Issuer’s general account (the “**Issuer General Account**”) for the general corporate purposes of the Issuer (including the payment of dividends) without limitation.

The Issuer Security will become enforceable upon the Note Trustee giving a Note Enforcement Notice (as defined in Condition 9(b) (*Class B Noteholders*))) to the Issuer 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 Note Trustee will not be entitled to dispose of the assets charged under the Issuer Deed of Charge 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 Issuer Deed of Charge to be paid *pari passu* with, or in priority to, the Notes or (ii) the Note Trustee is of the opinion, which shall be binding on the Noteholders (and any other Secured Party), 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 Issuer Deed of Charge to be paid *pari passu* with, or in priority to, the Notes or (iii) the Note Trustee considers, in its discretion, that not to effect such disposal would place the Issuer Security created by the Issuer Deed of Charge (or any part thereof) in jeopardy and provided further that the Note Trustee shall not be bound to so act unless it has been indemnified and/or secured 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 will not be available for payment of any shortfall arising therefrom, and any such shortfall will be borne among the Issuer Secured Creditors (including the Noteholders) as provided in these Conditions and the Issuer Deed of Charge. 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 Note Trustee, the Noteholders and the other Issuer Secured Creditors 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:

- (1) in the event of realisation or 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 undertaking, property and assets of the Issuer comprised in the Issuer Security;
- (2) 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 payment priorities of the Issuer Deed of Charge and all claims in respect of any shortfall will be extinguished; and
- (3) in the event that a shortfall in the amount available to pay principal of the Notes of any class exists on the Payment Date falling in October 2017 (the "**Final Maturity Date**") or on any earlier date for redemption in full of the Notes or any class of Notes, after payment on the Final Maturity Date or such date of earlier redemption of all other claims ranking higher in priority to or *pari passu* with the Notes or the related class of Notes, and the Issuer Security has not become enforceable as at the Final Maturity Date or such date of earlier redemption, 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.

3. Covenants

Save with the prior written consent of the Note Trustee, the Issuer shall not, so long as any Note remains outstanding, or unless otherwise provided in or envisaged by these Conditions or the other Transaction Documents:

- (i) *Negative Pledge*: create or permit to subsist any mortgage, sub-mortgage, charge, sub-charge, pledge, lien (unless arising by operation of law), hypothecation or other security interest whatsoever over any of its assets (including any uncalled capital) or its undertaking, present or future;
- (ii) *Restrictions on Activities*:
 - (A) engage in any activity whatsoever which is not incidental to or necessary in connection with any of the activities which the Transaction Documents provide or envisage that the Issuer will engage in;
 - (B) have any subsidiaries, any subsidiary undertaking or any employees or premises; or
 - (C) amend, supplement or otherwise modify its Memorandum and Articles of Association;

- (iii) *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;
- (iv) *Dividends or Distributions*: pay any dividend or make any other distribution to its shareholders or issue any further shares;
- (v) *Borrowings*: incur or permit to subsist any indebtedness in respect of borrowed money whatsoever, except in respect of the Notes, any Further Notes or Replacement Notes (as defined in Condition 16 (*Further Issues and Replacement Issues*)) or give any guarantee or indemnity in respect of any indebtedness or obligation of any person;
- (vi) *Merger*: consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person;
- (vii) *Variation*: permit the validity or effectiveness of any of the Transaction Documents to which it is a party, 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 Note Trust Deed, these Conditions, the Issuer Deed of Charge or any of the other Transaction Documents, or permit any party to any of the Transaction Documents or any other person whose obligations form part of the Issuer Security to be released from such obligations;
- (viii) *Bank accounts*: have an interest in any bank account other than the Issuer's Accounts, unless such account or interest therein is charged to the Note Trustee on written terms acceptable to it;
- (ix) *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 Transaction Documents and any investments and other rights or interests created or acquired thereunder, as all of the same may vary from time to time;
- (x) *VAT*: apply to become part of any group for the purposes of Section 43 of the Value Added Tax Act 1994 (the "VAT Act") 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 VAT Act, unless required to do so by applicable law or regulation, or do or permit any act or thing which might reasonably be expected to give rise to a direction, pursuant to Schedule 9A of the VAT Act, which might require the Issuer to be treated as a member of any group for the purposes of Section 43 of the VAT Act;
- (xi) *Surrender of group relief*: offer or consent to surrender to any company any amounts which are available for surrender by way of group relief within Chapter IV of Part X of the Income and Corporation Taxes Act 1988, except on arm's-length terms (including terms for full payment at the current applicable rate of corporation tax applied to the surrendered amount); or
- (xii) *Tax residence*: do any act or thing the effect of which would be to make the Issuer resident in any jurisdiction as a result of which any withholding or similar tax or deduction would be imposed on payments by the Borrower to the Issuer under the Funding Loan Agreement.

In addition, for so long as any Note remains outstanding, the Issuer shall:

- (i) *Centre of Main Interest*: conduct its business and affairs such that, at all times, its centre of main interests for the purposes of the E.U. Insolvency Regulation (EC) No. 1346/2000 of 29 May 2000 shall be and remain in England and Wales; and
- (ii) *Cash Manager*: 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 Issuer Accounts and any other account of the Issuer from time to time (other than the Issuer Share Capital Account). Under the terms of the Cash Management Agreement (a) the Cash Manager is not permitted to terminate its appointment unless a replacement cash manager acceptable to the Issuer and the Note Trustee has been appointed; (b) the appointment of the Cash Manager may be terminated by the Note Trustee if, *inter alia*, the Cash Manager defaults in any respect in the observance and performance of any

obligation imposed on it under the Cash Management Agreement which default is not remedied within ten Business Days 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 Note Trustee except that, in the case of a failure by the Cash Manager to make when due any payment required to be made by the Cash Manager on behalf of the Issuer, the appointment of the Cash Manager may be terminated immediately.

In giving any consent to the foregoing, the Note Trustee may (acting in accordance with the terms of the Note Trust Deed and subject to certain conditions specified therein and in the Issuer Deed of Charge) require the Issuer to make such modifications or additions to the provisions of any of the Transaction Documents or may impose such other conditions or requirements as the Note Trustee may deem expedient (in its absolute discretion) in the interests of the Noteholders, provided that the Rating Agencies provide written confirmation to the Note Trustee that the then applicable ratings of the Notes will not be downgraded, withdrawn or qualified as a result of such modification, additions, conditions or requirements.

4. Interest

- (a) *Period of Accrual:* Each Note shall bear interest on its Principal Amount Outstanding from (and including) the Closing Date. Each Note (or, in the case of the redemption of part only of a Note, that part only of such Note) shall 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 is made or (if earlier) the fourteenth day after notice is duly given to the holder thereof (in accordance with Condition 14 (*Notice to Noteholders*)) and 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.

Whenever it is necessary to compute an amount of interest in respect of the Notes for any period (other than any Interest Period (as defined in Condition 4(b) (*Payment Dates and Interest Periods*))), such interest shall be calculated on the basis of actual numbered days elapsed and a 365-day year.

- (b) *Payment Dates and Interest Periods:* Interest on the Notes is payable semi-annually in arrear on the 15th day of April and October 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 a “**Payment Date**”) in respect of the Interest Period ending immediately prior thereto.

In these Conditions, “**Interest Period**” shall mean in respect of the Notes the period from (and including) a Payment Date to (but excluding) the next following Payment Date; provided that the first Interest Period shall be the period from (and including) the Closing Date to (but excluding) the first Payment Date and (other than for the purposes of Condition 5 (*Redemption, Purchase and Cancellation*)) and Condition 6 (*Payments*)) “**Business Day**” shall in these Conditions mean a day (other than a bank holiday, other public holiday, Saturday or Sunday) on which banks are open for business in the City of London and the place of presentation.

- (c) *Interest Rate:* The rate of interest payable in respect of an Interest Period and the Notes (the “**Class A Interest Rate**” and the “**Class B Interest Rate**” and, together, the “**Interest Rates**”) will be determined by the Agent Bank on the Payment Date or, in the case of the first Interest Period, the Closing Date on which such Interest Rate is applied (each an “**Interest Determination Date**”).

The Interest Rates for the Interest Period beginning on the relevant Interest Determination Date shall be the aggregate of:

- (i) in respect of the Class A Notes, 6-month-LIBOR (or, in the case of the first Interest Period, two week LIBOR) plus 0.23 per cent. per annum and after the Loan Payment Date falling in October 2012 0.625 per cent. per annum; and
- (ii) in respect of the Class B Notes, 6-month-LIBOR (or, in the case of the first Interest Period, two week LIBOR) plus 1.25 per cent. per annum.

For these purposes, “**LIBOR**” shall be:

- (A) the arithmetic mean of the offered quotation to leading banks for 6 month sterling deposits (or, in the case of the first Interest Period, two week sterling deposits) in the London inter-bank market which appear on Telerate Screen Page No. 3750 (the “Screen Rate”) (rounded to four 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 in writing by the Note Trustee) as may replace the Telerate Monitor) at or about 11.00 a.m. (London time) on the relevant Interest Determination Date; or
- (B) if the Screen Rate is not then available, the arithmetic mean (rounded to four 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 4(h) (*Reference Banks and Agent Bank*) below) as the rate at which 6 month sterling deposits (or, in the case of the first Interest Period, two week sterling deposits) are offered by that Reference Bank to leading banks in the London inter-bank market at or about 11.00 a.m. (London time) on that 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 shall 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 provides the Agent Bank with such an offered quotation, the Agent Bank shall forthwith consult with the Note Trustee and the Issuer for the purposes of agreeing two banks (or, where one only of the Reference Banks provided such a quotation, one bank) to provide such a quotation or quotations to the Agent Bank (which bank or banks is or are in the opinion of the Note Trustee suitable for such purpose) and the rate for the Interest Period in question shall 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 shall be the rate in effect for the last preceding Interest Period to which subparagraph (A) shall have applied and, if there is no such rate, then the rate for the relevant Interest Period shall be the rate determined by the Note Trustee in accordance with the foregoing provisions.
- (d) *Determination of Interest Rates and Calculation of Interest Amounts:* The Agent Bank shall, on or as soon as practicable after each Interest Determination Date determine and notify the Issuer, the Note Trustee and the Paying Agents of (i) each Interest Rate applicable to the Interest Period beginning on and including that Interest Determination Date in respect of each of the Notes and (ii) the sterling amounts (each an “Interest Amount”) payable in respect of such Interest Period in respect of the Notes. Each Interest Amount shall be calculated, subject to Condition 4(a) (*Period of Accrual*), by applying the relevant Interest Rate to the then 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 366, if the last day of the Interest Period falls in a leap year) and rounding the resultant figure downward to the nearest penny.
- (e) *Publication of Interest Rates, Interest Amounts and other Notices:* As soon as practicable after receiving notification thereof, the Issuer will cause each Interest Rate and Interest Amount for each Interest Period and the immediately succeeding Payment Date to be notified to the Note Trustee and the Irish Stock Exchange (for so long as the Notes are listed on the Irish Stock Exchange) and will cause notice thereof to be given to Noteholders in accordance with Condition 14 (*Notice to Noteholders*). The Interest Amounts and the Interest Rates 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 of each class.
- (f) *Determination or Calculation by the Note Trustee:* If the Agent Bank does not at any time for any reason determine any Interest Rate and/or calculate the Interest Amount for each class of the Notes in accordance with the foregoing Conditions, the Note Trustee or its appointed agent shall (i) determine the Interest Rates (in accordance with the procedure described above), and/or (as the case may be) (ii) calculate the Interest Amount for each class of the Notes in the manner specified in Condition 4(d) (*Determination of Interest Rates and Calculation of Interest Amounts*) 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 Note Trustee shall (in the absence of wilful default, bad faith or negligence) be binding on the Issuer, the Reference Banks, the Agent Bank, the Note Trustee 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 Note 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 shall, at all times, be four Reference Banks and an Agent Bank. The initial Reference Banks shall be the principal London office of each of Barclays Bank PLC, National Westminster Bank Plc, Lloyds TSB Bank Plc and The Royal Bank of Scotland plc (together the “Reference Banks”). 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 the principal London office of such other bank as may have been previously approved in writing by the Note Trustee to act as such in its place. The Agent Bank may not resign until a successor so approved in writing by the Note Trustee has been appointed.

5. Redemption, Purchase and Cancellation

- (a) *Final Redemption:* Unless previously redeemed or purchased and cancelled in full as provided in this Condition, the Issuer shall redeem the Notes of each class at their Principal Amount Outstanding together with accrued interest on the Payment Date falling in October, 2017.

The Issuer may not redeem Notes in whole or in part prior to that date except as provided in Condition 5(b) (*Mandatory Partial Redemption of the Notes*), (c) (*Optional Redemption*) or (e) (*Redemption for Tax or other Reasons*) but without prejudice to Condition 9 (*Events of Default*).

- (b) *Mandatory Partial Redemption of the Notes*

- (i) Prior to the service of a Note Enforcement Notice (*Class B Noteholders*), the Class A Notes shall, subject to Conditions 5(c) (*Optional Redemption*) and (e) (*Redemption for Tax or other Reasons*), be subject to mandatory partial redemption in part on each Payment Date to the extent (if any) of Funding Loan Prepayments received on the Class A Tranche of the Funding Loan after payment of any and all amounts payable out of such funds in priority to payments on the Class A Notes in accordance with the Issuer Pre-Enforcement Priority of Payments.
- (ii) Prior to the service of a Note Enforcement Notice (*Class B Noteholders*), the Class B Notes shall, subject to Conditions 5(c) (*Optional Redemption*) and (e) (*Redemption for Tax or other Reasons*), be subject to mandatory partial redemption in part on each Payment Date to the extent (if any) of Funding Loan Prepayments received on the Class B Tranche of the Funding Loan after payment of any and all amounts payable out of such funds in priority to payments on the Class B Notes in accordance with the Issuer Pre-Enforcement Priority of Payments.
- (iii) Any redemption of Notes made pursuant to this Condition 5(b) shall be conditional on the Issuer having partially terminated the Issuer Swaps and Issuer Deposit Contracts to reflect the effect of such redemption and having paid from the amount of the relevant Funding Loan Prepayment, any associated termination payments.

- (c) *Optional Redemption:*

On any Payment Date on giving not more than 60 nor less than 30 days’ notice to the Note Trustee and to the Noteholders (such notice being copied to the Issuer Swap Counterparties and the Issuer Deposit Takers) in accordance with Condition 14 (*Notice to Noteholders*) and provided that, on the Payment Date on which such notice expires, the Issuer has, prior to giving such notice, certified to the Note Trustee, and provided evidence acceptable to the Note Trustee (as specified in the Note Trust Deed) to the effect that it will have the necessary funds to discharge any amounts required under the Note Trust Deed, the Issuer Deed of Charge or, as the case may be, the Cash Management Agreement to be paid in priority to or *pari passu* with each class of Notes on such Payment Date including, without limitation, any costs associated with partially terminating the Issuer Swaps and Issuer Deposit Contracts in

amounts required to reflect the effect of such redemption, which certificate shall be conclusive and binding, the Issuer may redeem the Notes of any class on such Payment Date subject to the amount of Notes to be so redeemed having a minimum aggregate Principal Amount Outstanding of £100,000 (or, if less, the then Principal Amount Outstanding of the class of Notes to be redeemed) and the excess thereafter being an integral multiple of £100,000.

Any Notes redeemed pursuant to this Condition 5(c) will be redeemed at their Principal Amount Outstanding together with, in each case, accrued but unpaid interest on the Principal Amount Outstanding of the relevant Notes up to and including the date of redemption plus in the case of any such redemption made (a) up to and including the first anniversary of the Closing Date, 1.0 per cent. of the principal amount so redeemed; (b) after the first anniversary of the Closing Date, but prior to the second anniversary of the Closing Date, 0.5 per cent. of the principal amount so redeemed; and (c) on or after the second anniversary of the Closing Date, 0.0 per cent. of the principal amount so redeemed.

- (d) *Note Principal Payments, Principal Amount Outstanding:* The principal amount (if any) to be redeemed in respect of each Note (the “**Note Principal Payment**”) on any Payment Date under Conditions 5(b)(i), 5(b)(ii) and/or Condition 5(c) (*Optional Redemption*), as applicable, shall, 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 Payment Date under Conditions 5(b)(i), 5(b)(ii) and/or Condition 5(c) (*Optional Redemption*), 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 subject to Condition 5(c).

On each 9th of April and October, or if such day is not a Business Day the following Business Day (each a “**Loan Payment Date**”), the Cash Manager shall determine (i) the amount of any Note Principal Payment due on the next following Payment Date, (ii) the Principal Amount Outstanding of each Note on the next following Payment Date (after deducting any Note Principal Payment to be paid on that Payment Date) and (iii) the Note Factors. Each determination by the Cash Manager of any Note Principal Payment, the Principal Amount Outstanding and the Note Factor of a Note 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 £100,000 (being the nominal denomination of each Note were Definitive Notes to be issued) less the aggregate amount of all Note Principal Payments in respect of such Note that have become due and payable since the Closing Date and on or prior to such date provided that, solely for the purposes of calculating the Principal Amount Outstanding under this Condition 5, all Note Principal Payments due and unpaid on or prior to such date shall also be taken into account.

The “**Note Factor**” of a Note is the fraction the numerator of which is equal to the Principal Amount Outstanding (after deducting any principal payment to be paid on such Note on that Payment Date to be applied on that Payment Date) of such a Note (calculated on the assumption that the face amount of such Note on the date of issuance thereof was £100,000) and the denominator is 100,000.

The Issuer (or the Cash Manager on its behalf) will cause each determination of a Note Principal Payment, Principal Amount Outstanding and Note Factor to be notified forthwith to the Note Trustee, the Paying Agents, the Rating Agencies, the Agent Bank and (for so long as the Notes are listed 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 Note Factor to be given in accordance with Condition 14 (*Notice to Noteholders*) at the same time as the notice referred to in Condition 5(f) (*Notice of Redemption*) to be given. If a Note Principal Payment is to be made on the Notes of a particular class or classes on a Payment Date, a notice to this effect will be given by the Issuer to the Noteholders in accordance with Condition 14 (*Notice to Noteholders*) with a copy delivered to the Note Trustee and the Security Trustee.

If the Cash Manager does not at any time for any reason determine a Note Principal Payment and/or Principal Amount Outstanding and/or Note Factor in accordance with the preceding provisions of this Condition 5, such Note Principal Payment and/or Principal Amount Outstanding and/or Note Factor may be determined by the Note Trustee in accordance with this Condition 5 and each such determination shall be conclusive and shall be deemed to have been made by the Cash Manager.

(e) *Redemption for Tax or Other Reasons:* If the Issuer at any time satisfies the Note Trustee immediately prior to giving the notice referred to below that by virtue of:

(i) a change in tax law (or the application or official interpretation thereof) from that in effect on the Closing Date:

(A) the Issuer would on the next Payment Date 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 United Kingdom other than the holding of Notes) (other than in respect of default interest);

(B) the Issuer would on the next Loan Payment Date be required to deduct or withhold from any payment under either the Issuer ISDA Master Agreement or the Borrower ISDA Master Agreement; or

(C) the Borrower would on the next Loan Payment Date be required to deduct or withhold from any payment under the Funding Loan Agreement, the Borrower ISDA Master Agreement or any Property Owner ISDA Master Agreement; or

(D) any Property Owner would on the next Loan Payment Date be required to deduct or withhold from any payment under the Intercompany Loan Agreement or any Property Owner ISDA Master Agreement; or

(E) any Issuer Swap Counterparty or Issuer Deposit Taker would be required to deduct or withhold from any payment in respect of an Issuer ISDA Master Agreement,

in each case 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 United Kingdom, the Cayman Islands or any political sub-division thereof or authority thereof or therein; or

(ii) it becomes unlawful for the Issuer to make or to continue to make advances available to the Borrower under the Funding Loan Agreement or for the Borrower to make or continue to make advances available to the Property Owners under the Intercompany Loan Agreement,

then the Issuer shall inform the Note Trustee accordingly and shall, in order to avoid the relevant event described in (i) or (ii) above, use its best endeavours to arrange the substitution of a company incorporated in another jurisdiction approved in writing by the Note Trustee as principal debtor under the Notes. If the Issuer is unable to arrange such a substitution which would have the result of avoiding the relevant event described above, then the Issuer may, on any Payment Date on which the relevant event described above is continuing, having given not more than 60 nor less than 30 days' notice to the Note Trustee, the Security Trustee, the Paying Agents and to the Noteholders in accordance with Condition 14 (*Notice to Noteholders*), redeem all, but not some only, of the affected Notes at their respective Principal Amount Outstanding plus accrued interest up to and including the date of redemption provided that the Issuer delivers to the Note Trustee a certificate signed by two of its directors certifying that it will have the necessary funds for the purpose and to discharge all amounts ranking *pari passu* with or in priority to the Notes in accordance with the Issuer Deed of Charge or, as the case may be, the Cash Management Agreement.

(f) *Notice of Redemption:* Any such notice as is referred to in Condition 5(c) (*Optional Redemption*) and Condition 5(e) (*Redemption for Tax or Other Reasons*) above shall be irrevocable and, upon the expiration of such notice, the Issuer shall be bound to redeem the Notes of the relevant class or classes in the amounts specified in these Conditions.

(g) *Purchase by Issuer and the Borrower:* The Issuer may not purchase Notes. However, the Borrower may purchase Notes (subject to certain conditions set out in the Funding Loan Agreement) and any Notes so purchased by the Borrower will be forthwith surrendered to and cancelled by the Issuer.

(h) *Cancellation:* All Notes redeemed in full or purchased by the Borrower and surrendered to the Issuer pursuant to the foregoing provisions will be cancelled forthwith and may not be re-issued.

(i) *Other information:* The Issuer will provide the Principal Paying Agent with:

- (i) the audited annual consolidated financial statements of the Parent (including balance sheet, profit and loss and cashflow statements) and related auditors reports, together with a management presentation package and a proposal for a management presentation; and
- (ii) unaudited quarterly consolidated financial statements of the Parent (including balance sheet and profit and loss accounts showing EBITDA, net worth, turnover and total outstanding debt), together with a management commentary (on a site by site basis) thereon.

These financial statements will be available for inspection by the Noteholders during normal business hours on any Business Day at the registered office for the time being of each of the Principal Paying Agent and the Irish Paying Agent. Upon receipt of such information, the Principal Paying Agent will make copies available to the Irish Paying Agent.

6. Payments

- (a) 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 the Principal Paying Agent. A record of each payment so made, distinguishing 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 Principal Paying Agent, which endorsement shall be prima facie evidence that such payment has been made. Payments to holders of interests in such Notes shown in the records of Euroclear or Clearstream, Luxembourg as being entitled to receive payments in respect of the Global Notes (such holders being the “**Euroclear/Clearstream Holders**”) will be paid in sterling.

A Euroclear/Clearstream Holder shall receive payments in respect of its interest in any Global Notes in accordance with Euroclear’s or, as the case may be, Clearstream, Luxembourg’s rules and procedures. None of the persons shown from time to time in the records of Euroclear or Clearstream, Luxembourg as the holder of a Note of the relevant Class shall have any claim directly against the Issuer or the Note Trustee in respect of payments due on such Note whilst such Note is represented by a Global Note and the Issuer or the Note Trustee, as the case may be, shall be discharged by payment of the relevant amount to the bearer of the relevant Global Note.

Payments in respect of the Global Notes will be made in sterling at the specified office of the relevant Paying Agent by transfer to a sterling account maintained by the payee with a bank in London.

Payments of principal and interest in respect of any Definitive Note (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 and interest, as the case may be, will be made against surrender of such Note) will be made by sterling cheque drawn on a bank in London posted to the holder (or to the first-named of joint holders) at the specified office of any Paying Agent.

- (b) 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.
- (c) 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 4(a) (*Period of Accrual*) will be paid (in respect of a Global Note) against presentation of such Global Note at the specified office of any Paying Agent.
- (d) The Principal Paying Agent and its initial specified office are listed at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Note Trustee, at any time to vary or terminate the appointment of the Principal Paying Agent, the Irish Paying Agent 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 Ireland. The Issuer will cause at least 30 days’ notice of any change in or addition to the Agents or their specified offices to be given in accordance with Condition 14 (*Notice to Noteholders*). If European Council Directive 2003/48/EC or any other Directive implementing the

conclusion of the ECOFIN Council Meeting of 26 to 27 November, 2000 is brought into force or any law implementing or complying with, or introduced in order to conform to, such Directive is introduced, a Paying Agent will be maintained by the Issuer in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to any such Directive or law.

- (e) (i) Upon the due date for redemption of any Definitive Note, unmatured Coupons relating to such Definitive Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (ii) Where any Definitive Note is presented for redemption without all unmatured Coupons, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (iii) If the due date for redemption of any Definitive Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest shall only be payable against presentation (and surrender if appropriate) of the relevant Definitive Note.
- (f) If any Note is presented for payment on a day which is not a business day in the place where it is so presented, payment shall be made on the next succeeding day that is such a business day and no further payments of additional amounts by way of interest, principal or otherwise shall be due in respect of such Note. For the purposes of Condition 5 (*Redemption, Purchase and Cancellation*) and this Condition 6 (*Payments*), a business day shall mean, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments in that place and in London and Dublin (a "**Business Day**").
- (g) If interest is not paid in respect of a Note of any class on the date when due and payable (other than because the due date is not a Business Day or by reason of non-compliance with Condition 5(a) (*Final Redemption*)), then such unpaid interest shall itself bear interest at the Interest Rate plus 1 per cent. per annum applicable to such Notes, in each case applicable from time to time until such interest and interest thereon is paid and notice thereof has been duly given in accordance with Condition 14 (*Notice to Noteholders*).
- (h) (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 shall be translated into, and/or any amount becoming payable under the Notes thereafter as specified in these Conditions shall be paid in, the currency or currency unit of the United Kingdom selected by, and in the manner designated by, the Principal Paying Agent.

Any such translation shall be made at the official rate 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 the Conditions relating to such Notes shall be amended in the manner agreed by the Issuer and the Note Trustee so as to reflect that change and, so far as practicable, to place the Issuer, the Note 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 6(h) will be binding upon holders of such Notes.
- (iii) Notification of the amendments made to Notes pursuant to this Condition 6(h) will be made in accordance with Condition 14 (*Notice to Noteholders*) which will state, *inter alia*, the date on which such amendments are to take or took effect, as the case may be.

7. 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 ("**Taxes**") unless the Issuer or any Paying Agent is required by applicable law 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) shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the

amount so required to be withheld or deducted. None of the Issuer, the Note Trustee, the Security Trustee and any Paying Agent will be obliged to make any additional payments to holders of Notes in respect of such withholding or deduction.

8. Prescription

Claims for principal in respect of Global Notes shall 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 shall 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 shall subject to Condition 6(e) (*Unmatured Coupons*) 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 8, the “**relevant date**” means the date on which a payment first becomes due, but if the full amount of the moneys payable has not been received by the relevant Paying Agent or the Note 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 14 (*Notice to Noteholders*).

9. Events of Default

- (a) *Class A Noteholders*: For so long as any Class A Notes are outstanding, the Note Trustee at its absolute discretion may, and if so requested in writing by the holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Class A Notes, or if so directed by or pursuant to an Extraordinary Resolution of the Class A Noteholders (or if the Principal Amount Outstanding of the Class A Notes has been reduced to less than 10 per cent. of the Principal Amount Outstanding of such class as of the Closing Date, 25 per cent. in aggregate Principal Amount Outstanding of, or an Extraordinary Resolution of, the Class A Noteholders and the Class B Noteholders together as a single class) shall, (subject, in each case, to the Note Trustee being indemnified to its satisfaction) give notice (a “**Class A Note Enforcement Notice**”) to the Issuer declaring the Notes to be due and repayable at any time after the happening of any of the following events (each a “**Note Event of Default**”):
- (i) non-payment for a period of five Business Days in the payment of principal or interest (other than Additional Margin) on, any Class A Note or, if there are no Class A Notes outstanding, any Class B Note when and as the same ought to be paid in accordance with these Conditions; or
 - (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 Note Trust Deed, the Issuer Deed of Charge or any other Transaction Document to which it is party and in any such case (except where the Note Trustee certifies that, in its sole 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 Note 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 9(a)(iv), ceases or, through an official action 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 as and when they fall due within the meaning of Section 123(1) and (2) of the Insolvency Act 1986 (as that Section may be amended); 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 Note Trustee in writing or by an Extraordinary Resolution of the most senior class of Noteholders then outstanding; or
 - (v) proceedings shall be 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) or an administration order shall be granted or an administrative receiver or other receiver, liquidator or other similar official shall be appointed in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer, or an encumbrancer shall take possession of the whole or any substantial part of the

undertaking or assets of the Issuer, or a distress or execution or other process shall be levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer and such possession or process (as the case may be) shall not be discharged or otherwise ceases 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 9(a)(ii), the Note 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 the Class A Notes have been redeemed in full, the Class B Noteholders provided further, however, that where the outstanding unpaid balance of the Class A Notes has fallen to less than 10 per cent. of their original amount as of the Closing Date, the holders of such Class A Notes and the holders of the Class B Notes shall be treated for the purposes of requesting the Note Trustee to serve a Note Enforcement Notice pursuant to this Condition 9(a) as a single class.

- (b) *Class B Noteholders:* This Condition 9(b) shall have no effect if, and for as long as, any Class A Notes are outstanding. Subject thereto, and for so long as any Class B Notes are outstanding, the Note Trustee at its absolute discretion may, and if so requested in writing by the holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Class B Notes, or if so directed by or pursuant to an Extraordinary Resolution of the Class B Noteholders shall, (subject, in each case, to being indemnified to its satisfaction) give notice (a “**Class B Note Enforcement Notice**” and such notice alone or together with a Class A Note Enforcement Notice shall be a “**Note Enforcement Notice**”) to the Issuer declaring the Notes to be due and repayable at any time after the happening of any Note Event of Default.
- (c) *Effect of Declaration by the Note Trustee:* Upon any declaration being made by the Note Trustee in accordance with this Condition 9, all classes of the Notes then outstanding shall immediately become due and repayable at their Principal Amount Outstanding together with accrued interest as provided in the Note Trust Deed and the Issuer Security shall become enforceable.

10. Enforcement of Notes

The Note Trustee may, at any time, at its discretion and without notice, take such proceedings against the Issuer or any other person as it may think fit to enforce the provisions of the Notes or any of the other Transaction Documents and, at any time after the service of a Note Enforcement Notice, the Note Trustee may, at its discretion and without further notice, take such steps as it may think fit to enforce the Issuer Security constituted by the Issuer Deed of Charge, but shall not be bound to take any such proceedings or steps unless:

- (a) subject to Condition 10(b), it is directed to do so by an Extraordinary Resolution of the Class A Noteholders or 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 the Class A Notes or the Class B Notes then outstanding (or if the Principal Amount Outstanding of the Class A Notes has been reduced to less than 10 per cent. of the Principal Amount Outstanding of such class as of the Closing Date, a notice in writing signed by 25 per cent. in aggregate of the Principal Amount Outstanding of, or an Extraordinary Resolution of, the Class A Noteholders and the Class B Noteholders together as a single class); 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* for so long as any Class A Note is outstanding, the Note Trustee shall not be bound to act at the direction of Class B Noteholders unless (A) to do so would not, in the opinion of the Note Trustee, be materially prejudicial to the interests of the Class A Noteholders or (B) such action is sanctioned by, or the Note Trustee has also 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.

11. Meetings of Noteholders, Modification and Waiver

- (a) The Note Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of the

Noteholders of a modification of the Notes (including these Conditions) or the provisions of any of the Transaction Documents.

- (b) The Note Trust Deed further provides that at any meeting of Noteholders relating to any Reserved Matter (as defined below), the Issuer Swap Counterparties from time to time will be entitled to attend such meeting and vote on any resolution proposed thereat as if they were a Class A Noteholder holding Class A Notes (or, if the Class A Notes have been redeemed in full, a Class B Noteholder holding Class B Notes) having a principal amount of Notes equal to the then "mark-to-market" value of their respective Issuer RPI Swaps calculated as at close of business on the second Business Day immediately preceding the relevant meeting by an independent financial institution appointed by the Note Trustee (such amount being the "**Deemed Holding**") provided however that if no such financial institution will have been appointed to this function by the fifth Business Day preceding the relevant meeting then the "mark-to-market" value of the Issuer RPI Swaps will be such rate as notified to the Note Trustee by the Issuer Swap Counterparties as prevailing as at close of business on the second Business Day immediately preceding the relevant meeting. In this Condition 11 references to Notes and Noteholders and, as applicable the Principal Amount Outstanding in relation to any meeting or resolution relating to a Reserved Matter shall be construed (save where expressly provided to the contrary) to include each Deemed Holding and each Issuer Swap Counterparty as holder thereof.

In these Conditions, "**Reserved Matter**" means any amendment, waiver or modification to any Transaction Document which would have the effect of: (i) modifying the date of maturity of the RPI Swaps; (ii) postponing any day for the payment of any amount on the RPI Swaps; (iii) increasing, reducing or cancelling the amount of any payment on the RPI Swaps; (iv) modifying the method of calculating the amount payable or the date of payment or the priority of payment in respect of any payment on the RPI Swaps; (v) modifying the definition of Reserved Matter; (vi) altering the currency of payment of the RPI Swaps; (vii) altering the quorum or majority required to pass any resolution (including an Extraordinary Resolution); (viii) releasing, or modifying any provisions in respect of, the Issuer Security (or any part thereof); (ix) sanctioning any compromise, abrogation, variation or arrangement between the transaction parties which would have the effect of modifying any quorum requirements of a meeting of Noteholders; or (x) which would have the effect of appointing any persons as a committee to represent the rights of the Noteholders.

- (c) An Extraordinary Resolution passed at any meeting of the Class A Noteholders shall be binding on all Class A Noteholders and Class B Noteholders irrespective of the effect upon them, except an Extraordinary Resolution to sanction a modification of these Conditions or any of the Transaction Documents (including a Basic Terms Modification) or a waiver or authorisation of any breach or proposed breach of any of the provisions of any of the Transaction Documents will not take effect unless the Note Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class B Noteholders or it shall have been sanctioned by an Extraordinary Resolution of the Class B Noteholders provided that, if the Principal Amount Outstanding of the Class A Notes has been reduced to less than 10 per cent. of the Principal Amount Outstanding of such class as of the Closing Date, all such decisions shall be taken by the holders of the Class A Notes and the holders of the Class B Notes voting together as a single class.

Subject to the foregoing, an Extraordinary Resolution passed at any meeting of Class B Noteholders shall not be effective for any purpose unless either:

- (i) the Note 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; or
 - (iii) none of the Class A Notes remains outstanding.
- (d) Subject as provided below, the quorum at any meeting of Noteholders (or any class thereof) for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority of the Notes (in Principal Amount Outstanding) (or the relevant class or classes thereof) or, at any adjourned meeting, one or more persons being or representing Noteholders (of the relevant class or classes), whatever the aggregate Principal Amount Outstanding of the Notes (of the relevant class or classes) held or represented by them.

- (e) The quorum at any meeting of Noteholders (or any class thereof) for passing an Extraordinary Resolution (i) sanctioning a modification of the date of maturity of the Notes (or any of them); (ii) which would have the effect of postponing any day for the payment of interest on the Notes (or any of them); (iii) which would have the effect of increasing, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes (or any of them); (iv) which would have the effect of modifying the method of calculating the amount payable or the date of payment or the priority of payment in respect of any interest or principal in respect of the Notes (or any of them); (v) modifying or which would have the effect of modifying the definition of Basic Terms Modification; (vi) altering the currency of payment of the Notes (or any of them); (vii) which would have the effect of altering the quorum or majority required to pass an Extraordinary Resolution; (viii) which would have, the effect of releasing, or modifying any provisions in respect of, the Issuer Security (or any part thereof); (ix) which would have the effect of sanctioning any compromise, abrogation, variation or arrangement between the Noteholders, the Issuer and/or the Note Trustee which would have the effect of modifying any quorum requirements of a meeting of Noteholders; or (x) which would have the effect of appointing any persons as a committee to represent the rights of the Noteholders (each a “**Basic Terms Modification**”) shall be one or more persons holding or representing not less than three quarters or, at any adjourned meeting, not less than one third of the Principal Amount Outstanding of the Notes (of the relevant class of classes) for the time being outstanding. The foregoing notwithstanding, the implementation of Basic Terms Modifications will be subject to the receipt of written confirmation from each Rating Agency then rating the Notes that the then current ratings of each class of Notes rated thereby will not be qualified, downgraded or withdrawn as a result of such modification. Additionally, written notice of such modifications shall be provided to the Irish Stock Exchange.

An Extraordinary Resolution passed at any meeting of the Noteholders (or any class thereof) shall be binding on all Noteholders (or, as the case may be, all Noteholders of such class) whether or not they are present at such meeting.

- (f) The Note Trustee may in its sole discretion agree, without the consent of the Noteholders of any class, (i) to any modification and amendment (except a Basic Terms Modification) of, or to any waiver or authorisation of any breach or proposed breach of, the Notes, the Note Trust Deed (including these Conditions) or any of the other Transaction Documents which, in the opinion of the Note Trustee, is not materially prejudicial to the interests of the Noteholders of any class or (ii) to any modification of the Notes, the Note Trust Deed (including these Conditions) or any of the other Transaction Documents which, in the opinion of the Note Trustee, is to correct a manifest error or a proven (to the satisfaction of the Note Trustee) error or is of a formal, minor or technical nature and the Note Trustee may also, without the consent of the Noteholders of any class, determine that a Note Event of Default shall, or shall not subject to specified conditions, be treated as such; provided always that the Note Trustee shall not exercise such powers of modification, amendment, waiver, authorisation or determination in contravention of any express written direction given by the Noteholders pursuant to Condition 10 (*Enforcement of Notes*) or by an Extraordinary Resolution of the most senior class of Noteholders then outstanding (provided that no such direction shall affect any modification, amendment, authorisation, waiver or determination previously made or given) provided that, if the Principal Amount Outstanding of the Class A Notes has been reduced to less than 10 per cent. of the Principal Amount Outstanding of such class as of the Closing Date, such Class A Notes shall be treated as Class B Notes and shall vote with the Class B Notes as a single class for the purpose of any such Extraordinary Resolution or written notice. Any such modification, amendment, waiver, authorisation or determination shall be binding on the Noteholders and, unless the Note Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 14 (*Notice to Noteholders*).
- (g) The Note Trustee may, without the consent of the Noteholders, but subject to the Note Trustee having obtained the prior written consent of the Issuer Swap Counterparties for the same agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this condition) as the principal debtor in respect of the Notes, the Issuer Deed of Charge and the Note Trust Deed of another body corporate (being a single purpose vehicle) provided that each Rating Agency then rating the Notes has confirmed in writing to the Note Trustee that the then current ratings of each class of Notes rated thereby will not be qualified, downgraded or withdrawn as a result of such substitution, and subject to certain other conditions set out in the Note Trust Deed being complied with or to be complied with (or suitable arrangements in place to ensure compliance with such conditions). In the case of substitution of the Issuer (or of any such previous substitute), the Irish Stock Exchange shall be notified of such substitution, a supplemental offering circular will be prepared and filed with the Irish

Stock Exchange and notice of the substitution will be given to the Noteholders in accordance with Condition 14 (*Notice to Noteholders*) as soon as practicable thereafter.

- (h) Where the Note Trustee is required, in connection with the exercise of its powers, trusts, authorities, duties and discretions under or in relation to the Note Trust Deed, the Notes, the Conditions or any other Transaction Documents, to have regard to the interests of the Noteholders or, as the case may be, the Noteholders of any class, it shall have regard to the interests of such Noteholders as a class provided that, where the Principal Amount Outstanding of any class of Notes has been reduced to less than 10 per cent. of the Principal Amount Outstanding of such class as of the Closing Date, the Note Trustee shall for the purposes of this Condition treat such class as a single class with any outstanding *pari passu* ranking class the Principal Amount Outstanding of which is at least 10 per cent. of the Principal Amount Outstanding of such class as of the Closing Date or, failing which, the Class B Notes and, in particular, but without prejudice to the generality of the foregoing, the Note 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 Note Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer or the Note Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.
- (i) The Note Trustee shall be entitled to determine, in its own opinion, for the purposes of exercising any power, trust, authority, duty or discretion under or in relation to the Notes (other than any Deemed Holding), the Conditions or any of the Transaction Documents, that such exercise will not be materially prejudicial to the interests of the Noteholders (other than any Deemed Holding) or any class of Noteholders and in making such a determination shall be entitled to take into account, without enquiry among any other things it may, in its absolute discretion, consider necessary and/or appropriate, any confirmation by a Rating Agency, (if available) that the then current ratings of the Notes or, as the case may be, the Notes of such class will not be downgraded, withdrawn or qualified as a result by such exercise. For the avoidance of doubt, such rating confirmation or non-receipt of such rating confirmation shall, however, not be construed to mean that any such action or inaction (or contemplated action or inaction) or such exercise (or contemplated exercise) by the Note Trustee of any right, power, trust, authority, duty or discretion under or in relation to the Note Trust Deed or any of the other Transaction Document is or is not materially prejudicial to the interests of the holders of that class of Notes.
- (j) Notwithstanding the generality of the foregoing provisions of this Condition 11 where pursuant to the terms of this Condition, an Extraordinary Resolution passed by any class of Notes binds any more junior class or classes of Notes, if the Principal Amount Outstanding of any such senior class of Notes has been reduced to less than 10 per cent. of the Principal Amount Outstanding of such class as of the Closing Date, such senior class of Notes shall not be considered as outstanding for the purposes of this Condition, the power of passing such an Extraordinary Resolution binding any more junior class or classes of Notes shall pass to the next most senior class of Notes then outstanding and the holders of the Notes of such senior class shall for the purposes of passing such an Extraordinary Resolution be counted as a single class with the next most senior class of Notes then outstanding.

12. Indemnification and Exoneration of the Note Trustee

The Note Trust Deed, the Issuer Deed of Charge and certain of the other Transaction Documents contain provisions governing the responsibility (and relief from responsibility) of the Note Trustee, and for its indemnification in certain circumstances, including provisions relieving it from taking enforcement proceedings under the Issuer Deed of Charge unless indemnified to its satisfaction. The Note Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Security, or any deeds or documents of title hereto, being uninsured or inadequately insured or being held by or to the order of other parties to the Transaction 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 Note Trustee.

The Note Trust Deed contains provisions pursuant to which the Note 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 Transaction Documents and/or any of its 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

Transaction Documents 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 Note Trust Deed also relieves the Note 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 Issuer Deed of Charge and the other Transaction Documents to which it is party.

The Note Trustee has no responsibility in relation to the validity, sufficiency and enforceability of the Issuer Security. The Note Trustee will not be obliged to take any action which might result in its incurring personal liability unless indemnified to its satisfaction or to supervise the performance of the Paying Agents, the Cash Manager, the Account Bank and the Liquidity Provider, or any other person of their obligations under the Transaction Documents and the Note Trustee shall assume, until it has actual knowledge to the contrary, that all such persons are performing their duties, notwithstanding that the Issuer Security (or any part thereof) may, as a consequence, be treated as floating rather than fixed security.

13. Replacement of Notes

If a Note is lost, stolen, mutilated, defaced or destroyed, it shall, upon satisfactory evidence of such loss, theft, mutilation, defacement or destruction being given to the Issuer and the Note Trustee, become void and a duly executed and authenticated replacement Global Note will be delivered by the Issuer to the Common Depositary only upon surrender, in the case of mutilation or defacement, of the relevant Note. Replacement thereof will only be made upon payment of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer and the Principal Paying Agent may reasonably require.

14. Notice to Noteholders

For so long as the rules of the Irish Stock Exchange so require, any notice to the Noteholders shall be validly given in any manner the Issuer and the Note Trustee choose, provided that the Irish Stock Exchange receives a copy of such notice no later than the day the Noteholders received such notice. Any such notice published in a newspaper 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. If publication is not practicable in any such newspaper, notice will be valid if given in such other manner, and shall be deemed to have been given on such date, as the Note Trustee shall determine.

Whilst the Notes are represented by Global Notes notices to Noteholders will be valid if published as described above, for so long as the rules of the Irish Stock Exchange so require and, at the option of the Issuer, if delivered to Clearstream, Luxembourg and/or Euroclear for communication by them to Noteholders. Any notice delivered to Clearstream, Luxembourg and/or Euroclear as aforesaid shall be deemed to have been given on the day of such delivery.

A copy of each notice given in accordance with this Condition 14 shall be provided to each Issuer Swap Counterparty and (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, to Moody's Investor Services Limited ("**Moody's**") and Fitch Ratings Ltd. ("**Fitch**", together with Moody's, the "**Rating Agencies**") to which reference in these Conditions shall include any additional or replacement rating agency appointed by the Issuer 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.

The Note Trustee, acting in its sole discretion, 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 Note Trustee shall require.

15. Subordination

- (a) *Interest*: Subject to Condition 9 (*Events of Default*), in the event that, on any Payment Date, the Issuer Available Funds, after deducting the amounts referred to in items *First to Eighth* of the Issuer Pre-Enforcement Priority of Payments (the “**Interest Residual Amount**”), are not sufficient to satisfy in full the aggregate amount of interest due, subject to this Condition 15(a), and payable on the Class B Notes, on such Payment Date, there shall instead be payable on such Payment Date, by way of interest on each Class B Note only a *pro rata* share of the Interest Residual Amount on such Payment Date calculated by dividing the Interest Residual Amount by the number of Class B Notes then outstanding.

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 on any Payment Date in accordance with this Condition 15(a) falls short of the aggregate amount of interest payable on the Class B Notes on that date pursuant to Condition 4 (*Interest*). Any such shortfall arising in respect of the Class B Notes shall itself accrue interest at the rate of 1 per cent. per annum above the relevant rate of interest and shall be payable together with such accrued interest on any succeeding Payment Date only if and to the extent that, on such Payment Date, the Issuer Available Funds, after deducting the amounts referred to in items *First to Eighth* of the Issuer Pre-Enforcement Priority of Payments are sufficient to make such payment.

- (b) *Principal*: Subject to Condition 9 (*Events of Default*), in the event that, on any Payment Date, the Issuer Available Funds, after deducting the amounts referred to in items *First to Ninth* of the Issuer Pre-Enforcement Priority of Payments (the “**Principal Residual Amount**”), are not sufficient to pay in full the aggregate amount of principal due, subject to this Condition 15(b), on the Class B Notes on such Payment Date, there shall instead be payable on such Payment Date, by way of principal on each Class B Note only a *pro rata* share of the Principal Residual Amount on such Payment Date calculated by dividing the relevant Principal Residual Amount by the number of Class B Notes then outstanding.

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 principal paid on the Class B Notes on any Payment Date in accordance with this Condition 15(b) falls short of the aggregate amount of principal payable on the Class B Notes on that date pursuant to Condition 5 (*Redemption, Purchase and Cancellation*). Such shortfall shall accrue interest at the same rate as that payable in respect of the Class B Notes and shall be payable together with accrued interest on any succeeding Payment Date only if and to the extent that on such Payment Date the Issuer Available Funds, after deducting the amounts referred to in items *First to Ninth* of the Issuer Pre-Enforcement Priority of Payments are sufficient to make such payment.

- (c) *General*: Subject to Condition 9 (*Events of Default*), any amounts of principal or interest in respect of the Notes otherwise payable under these Conditions which are not paid by virtue of this Condition 15 together with accrued interest thereon shall become payable on the Payment Date falling in October 2017 or on such earlier date as the Class B Notes become immediately due and repayable under Condition 9 (*Events of Default*).
- (d) *Notification*: As soon as practicable after becoming aware that any part of a payment of interest or principal on the Class B Notes will be deferred or that a payment previously deferred will be made in accordance with this Condition 15, the Issuer will give notice thereof to the Class B Noteholders in accordance with Condition 14 (*Notice to Noteholders*) and, so long as the Class B Notes are listed on the Irish Stock Exchange, to the Irish Stock Exchange.

16. Further Issues and Replacement Issues

- (a) *Further Issues*: The Issuer shall be at liberty, without the consent of the Noteholders, but subject always to the Conditions (in particular Condition 16(e) (*Conditions Precedent*) below) and the provisions of the Note Trust Deed and the Issuer Deed of Charge to raise further funds, from time to time, on any date prior to the Payment Date following in October 2012 (subject to certain conditions contained in the Note Trust Deed being met), by the creation and issue of (i) further Class A Notes (the “**Further Class A Notes**”) and (ii) further Class B Notes (the “**Further Class B Notes**”) and, together with the Further Class A Notes, the “**Further Notes**”) in bearer form carrying the same terms and conditions in all respects (other than the issue date, the first Interest Period and the first Payment Date) so that the same shall be consolidated and form a single series and rank *pari passu* with, and share the same security as, the relevant class of Notes.

(b) *Replacement Issues*

- (i) If the Issuer exercises its option to redeem in whole one or more classes of Notes pursuant to Condition 5(c) (*Optional Redemption*), the Issuer shall have the right to issue prior to the Payment Date following in October 2012 one or more classes of Replacement Notes ("**Replacement Notes**") on terms which may differ from the then outstanding Notes (including the Notes which are to be redeemed under and in accordance with Condition 5(c) (*Optional Redemption*)) provided always that the conditions to the issue of Further Notes as set out in Condition 16(e) (*Conditions Precedent*) are and will be met in respect of such Replacement Notes as if references therein to Further Notes were references to Replacement Notes.
 - (ii) If the Issuer exercises its option to redeem in whole one or more classes of Notes pursuant to Condition 5(c) (*Optional Redemption*), the Issuer shall have the right to issue prior to the Payment Date following in October 2012 one or more classes of Replacement Notes which carry the same terms and conditions in all respects (except in relation to (aa) the first Interest Period and (bb) the rate of interest applicable to the Replacement Notes as the class or classes of Notes which are to be so redeemed, such Replacement Notes on issue to be in an amount which in aggregate does not exceed the then aggregate Principal Amount Outstanding of the class or classes to be so redeemed, provided always that the conditions to the issue of Further Notes as set out in Condition 16(e) (*Conditions Precedent*) are and will be met in respect of such Replacement Notes as if references therein to Further Notes were references to Replacement Notes.
- (c) *New Notes*: The Issuer shall be at liberty, without the consent of the Noteholders (but subject always to the provisions of the Conditions and the Note Trust Deed) to raise further funds from time to time and on any date by the creation and issue prior to the Payment Date following in October 2012 of new notes (the "**New Notes**") in bearer form which may rank *pari passu* with the Class A Notes (or after the Class A Notes but ahead of, or *pari passu* with the Class B Notes) carrying terms which differ from the Class A Notes and the Class B Notes and which do not form a single series with the Class A Notes or the Class B Notes provided that the conditions to the issue of Further Notes as set out in Condition 16(e) (*Conditions Precedent*) are met in respect of the issue of such New Notes as if reference therein to Further Notes were references to New Notes.
- (d) *Supplemental Trust Deeds and Security*: Any such Further Notes, New Notes or Replacement Notes will be constituted by a further deed or deeds supplemental to the Note Trust Deed and have the benefit of security pursuant to the Issuer Deed of Charge as described above in Condition 2 (*Status, Security and Priority of Payment*).
- (e) *Conditions Precedent*: It shall be a condition to the issue of any Further Notes, New Notes or Replacement Notes that:
 - (i) application is made to the Irish Stock Exchange for the Further Notes, New Notes or Replacement Notes to be listed;
 - (ii) the aggregate principal amount of all Further Notes, New Notes or Replacement Notes to be issued on such date is not less than £15,000,000;
 - (iii) the Further Notes, New Notes or Replacement Notes will be rated and, in the case of any Further Notes or Replacement Notes, will be assigned the same ratings as are then applicable to the relevant class of Notes to which they relate;
 - (iv) the Rating Agencies have confirmed that ratings to be assigned to the Further Notes, New Notes or Replacement Notes will be based solely on the value of the new assets being acquired as part of either a corporate acquisition or direct property acquisition of a portfolio of sheltered housing (each a "**Permitted Acquisition**") or, where there is no such confirmation, the Issuer Swap Counterparties and the Issuer Deposit Takers have provided their prior written consent to the Further Notes, New Notes or Replacement Notes;
 - (v) the Rating Agencies have confirmed in writing to the Issuer and the Note Trustee that the ratings of the Class A Notes and the Class B Notes will not be downgraded or placed on a creditwatch with negative implications by such issue;

- (vi) there has been no Funding Loan Event of Default and no Intercompany Loan Event of Default in the last two interest periods; and
- (vii) the proceeds of any such issue of Further Notes, New Notes or Replacement Notes will be ultimately used (in whole or in part) for the purposes of a Permitted Acquisition or to refinance all or part of an existing Term Advance in accordance with the terms of the Funding Loan Agreement.

17. Privity of Contract

The Notes do not confer any right on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term 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. Limited Recourse and Non-Petition

No Noteholder shall be entitled to proceed directly against the Issuer or any other party to the Transaction Documents or to enforce the Issuer Security unless the Note Trustee, having become bound to do so, fails to do so within a reasonable period and such failure shall be continuing provided that no Class B Noteholder for so long as any Class A Notes is outstanding shall be entitled to take proceedings for the winding up, liquidation or administration of the Issuer. The Note Trustee cannot, while any of the Notes are outstanding, be required to enforce the Issuer Security at the request of any other Issuer Secured Creditor under the Issuer Deed of Charge. Enforcement of the Issuer Security shall be the only remedy available to the Note Trustee and the Noteholders for the repayment of the Notes and any interest on the Notes.

If the net proceeds of realisation of, or enforcement with respect to, the Issuer Security are not sufficient to discharge all of the Issuer Secured Obligations, the Issuer's other assets will not be available for payment of any shortfall arising therefrom, which shortfall will be borne in accordance with the provisions of these Conditions and the Issuer Deed of Charge. 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 Note Trustee, the Noteholders and the other Issuer Secured Creditors shall have no further claim against the Issuer in respect of such unpaid amounts. Each Noteholder, by subscribing for or purchasing Notes, as applicable, is deemed to acknowledge and accept 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 the Issuer Security and (ii) the Issuer will have duly and entirely fulfilled its payment obligations by making available to each Noteholder its relevant proportion of the proceeds of realisation or enforcement of the Issuer Security in accordance with these Conditions and the Issuer Deed of Charge, and all claims in respect of any shortfall will be extinguished.

Parties to the Transaction Documents have agreed with the Issuer not to take any action or commence any proceedings against the Issuer to recover any amounts due and payable by the Issuer under the Transaction Documents except as permitted by the provisions in the Transaction Documents. Parties to the Transaction Documents have agreed with the Issuer not to take any action or commence any proceedings or petition a court for the liquidation of the Issuer, nor enter into any arrangement, reorganisation or insolvency proceedings in relation to the Issuer whether under the laws of the Cayman Islands or other applicable bankruptcy laws until one year and one day after the payment of all liabilities of the Issuer.

19. Governing Law

The Notes and the Transaction Documents (save for the Issuer Corporate Services Agreement and the Declaration of Trust over the Issuer's Issued Share Capital which shall be governed by the laws of the Cayman Islands) are governed by and shall be construed in accordance with English law.

USE OF PROCEEDS

The gross proceeds of the issue of the Notes which are expected to amount to £353,000,000 will be applied by the Issuer to make the Advances to the Borrower under the Funding Loan Agreement.

CERTAIN TAXATION CONSIDERATIONS

General

The following is a general description of certain United Kingdom and Cayman Islands tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the United Kingdom and Cayman Islands of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date. This summary does not take into consideration any United Kingdom or Cayman Islands tax implications of a substitution of the Issuer.

United Kingdom Taxation

The comments below are of a general nature based on current United Kingdom law and HM Revenue & Customs practice. They relate only to the position of persons who are the absolute beneficial owners of their Notes and Coupons relating thereto and may not apply to certain classes of persons such as dealers. They do not necessarily apply where the income is deemed for tax purposes to be income of any other person. Any Noteholders who are in doubt as to their personal tax position should consult their professional advisers.

A. *Taxation of interest paid*

1. The Notes will constitute “quoted Eurobonds” provided they 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 a recognised stock exchange for this purpose. So long as the Notes are quoted Eurobonds, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.
2. In all other cases, interest on the Notes may be paid under deduction of United Kingdom income tax at the lower rate (currently 20 per cent.) subject to any direction to the contrary by HM Revenue & Customs pursuant to the provisions of any appropriate double taxation treaty. If interest is paid under deduction of United Kingdom income tax, the Issuer will not be obliged to pay any additional amount in respect of the Notes.

B. *Other Rules relating to United Kingdom Withholding Tax*

1. 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 in any applicable double taxation treaty.
2. The references to “interest” in A above mean “interest” as understood in United Kingdom tax law. The statements in A above do not take any account of any different definitions of “interest” or “principal” which may prevail under any other law or which may be created by the terms and conditions of the Notes or any related documentation.

C. *European Directive on the Taxation of Savings*

Under the EU Savings Tax Directive 2003/48/EC (the “Savings Tax Directive”), which came into force on 1 July 2005, each E.U. Member State is required to provide to tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State. Austria, Belgium and Luxembourg may instead apply a withholding system for a transitional period in relation to such payments.

Any Noteholder resident in a “prescribed territory” who is an individual or “residual entity” (essentially a body or organisation that is not a legal person) should note that the Principal Paying Agent and the Irish Paying Agent are required under legislation implementing the Savings Tax Directive to provide certain information to their local tax authority regarding payments of interest and related income to that Noteholder. This includes the amount of the payment and the identity and country of residence of an individual Noteholder or the person on whose behalf the Noteholder is receiving the payment. This information will in turn be passed on to the tax authorities in the Noteholder’s “prescribed territory” of residence (if he is an individual) or establishment (if it is

a “residual entity”). For these purposes, “prescribed territory” means any other EU Member State, Gibraltar, Aruba, the British Virgin Islands, Guernsey, the Isle of Man, Jersey, Montserrat and the Netherlands Antilles.

D. Direct Assessment of Non-United Kingdom Resident Noteholders to United Kingdom Tax on United Kingdom Interest

1. Interest on the Notes will have a United Kingdom source and accordingly will be within the charge to United Kingdom tax even if paid without withholding or deduction except that exemption from or reduction in any United Kingdom tax payable on the interest might be available in appropriate circumstances under the provisions of an applicable double taxation convention.
2. By way of exception to the charge described in section 1 above, interest on the Notes received without deduction or withholding for United Kingdom income tax will not be chargeable to United Kingdom income tax in the hands of a Noteholder who is not resident for tax purposes in the United Kingdom unless that holder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom 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).

E. United Kingdom Capital Gains Tax – Individual Noteholders

Noteholders who are resident or ordinarily resident in the United Kingdom or carrying on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable, may be treated as realising chargeable gains (or allowable losses) on any disposal (which includes redemption) of the Notes by such Noteholders.

F. United Kingdom – Accrued Income – Individual Noteholders

Where there is a transfer (which includes redemption) of a Note by a Noteholder who is resident or ordinarily resident in the United Kingdom or carrying on a trade in the United Kingdom through a branch or agency with which the ownership of the Note is connected, the Noteholder may be chargeable to United Kingdom tax on income such amount as is just and reasonable (under rules known as the accrued income scheme contained in Chapter II of Part XVII of the Income and Corporation Taxes Act 1988) as representing interest accrued on the Note at the time of transfer.

G. United Kingdom – Corporate Noteholders

Noteholders which are within the charge to corporation tax by virtue of residence in the UK or a trade carried on in the UK through a permanent establishment will be charged to tax on all profits and gains on, and fluctuations in value of, the Notes (whether attributable to currency fluctuations or otherwise), in relation to periods of account beginning before 1 January 2005, broadly, in accordance with their statutory accounting treatment provided an authorised accruals or mark to market method of accounting is used, and in relation to periods of account beginning on or after 1 January 2005, broadly, consistently with the way such profits, gains and fluctuations in value are recognised in their accounts provided their accounts are prepared in accordance with international accounting standards or United Kingdom generally accepted accounting practice.

H. Stamp Duty and Stamp Duty Reserve Tax

No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of the Global Notes or on the issue or transfer by delivery of a Note in definitive form.

Cayman Islands Taxation

The Issuer has been incorporated under the laws of the Cayman Islands as an exempted company and, as such, has obtained the following undertaking from the Governor in Council of the Cayman Islands:

"The Tax Concessions Law

(1999 Revision)

Undertaking as to Tax Concessions

In accordance with Section 6 of the Tax Concessions Law (1999 Revision), the Governor in Council undertakes with

FAIRHOLD SECURITISATION LIMITED

(the "Company")

- (a) that no Law which is hereafter enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

These concessions shall be for a period of TWENTY years from 23 August 2005."

SUBSCRIPTION AND SALE

The Sole Bookrunner will, in a subscription agreement to be dated on or about the date hereof (the “Subscription Agreement”) agree to subscribe and pay for upon the terms and subject to the conditions contained therein, the Class A Notes at their issue price of 100 per cent. of their principal amount and for the Class B Notes at their issue price of 100 per cent. of their principal amount. The Issuer will pay the Sole Bookrunner or procure that the Sole Bookrunner is paid an underwriting commission of £1,000,000. The Issuer will agree to reimburse the Sole Bookrunner for certain of its costs and expenses incurred in connection with the issue of the Notes. Under the Funding Loan Agreement, the Borrower will agree to pay or procure payment by the Property Owners to the Issuer of a lending fee equal to such costs and expenses incurred in connection with the issue of the Notes. The Sole Bookrunner is entitled in certain circumstances to be released and discharged from its obligations under the Subscription Agreement prior to the issue of the Notes. The Issuer, *inter alia*, will agree to indemnify the Sole Bookrunner against certain liabilities in connection with its subscription for Notes as more particularly described in the Subscription Agreement.

United States of America

1. The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Sole Bookrunner will represent and agree that it has not offered or sold, and will not offer or sell the Notes (i) as part of its distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering of the Notes and the Closing Date or, if later, the date (as notified by the Sole Bookrunner to the Principal Paying Agent) on which the Sole Bookrunner completes the sale of the Class A Notes to third party investors, except in accordance with Rule 903 of Regulation S under the Securities Act and, accordingly, that neither it nor any of its affiliates (including any person acting on behalf of it or any of its affiliates) has engaged or will engage in any directed selling efforts with respect to the Notes.

Terms used in this Section 1 have the meanings given to them by Regulation S under the Securities Act.

2. In addition:

- (a) the Sole Bookrunner will represent and agree that, except to the extent permitted under United States Treasury Regulation Section 1.163-5(c)(2)(i)(D) (the “D Rules”), (a) it has not offered or sold, and during the restricted period will not offer or sell, any Notes to a person who is within the United States or its possessions or to a United States person, and (b) it has not delivered and will not deliver in definitive form within the United States or its possessions any Notes that are sold during the restricted period;
- (b) the Sole Bookrunner will represent and agree that it has, and throughout the restricted period will have, in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes are aware that the Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules of the United States Internal Revenue Code;
- (c) if it is a United States person, the Sole Bookrunner will represent that it is acquiring the Notes for purposes of resale in connection with their original issuance and if it retains Notes for its own account, it will only do so in accordance with the requirements of the D Rules;
- (d) with respect to each affiliate of the Sole Bookrunner that acquires Notes from the Sole Bookrunner for the purpose of offering or selling such Notes during the restricted period, the Sole Bookrunner will either (a) repeat and confirm the representations and agreements contained in paragraph 2(a), (b) and (c) on its behalf or (b) agree that it will obtain from such affiliate for the benefit of the Issuer the representations and agreements contained in paragraphs 2(a), (b) and (c); and
- (e) terms used in this Section 2 have the meanings given to them by the United States Internal Revenue Code and regulations thereunder, including the D Rules.

United Kingdom

The Sole Bookrunner will further represent and agree that:

- (a) (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell the Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 ("FSMA") by the Issuer;
- (b) 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 the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Ireland

The Sole Bookrunner has represented and agreed that it will not underwrite or place Notes otherwise than in conformity with the provisions of the Investment Intermediaries Act, 1995 of Ireland, as amended, including, without limitation, Sections 9 and 23 (including advertising restrictions made thereunder) thereof and the codes of conduct made under Section 37 thereof or, in the case of a credit institution exercising its rights under the Banking Consolidation Directive (Directive 2000/12/EC of 20th March, 2000) in conformity with the codes of conduct or practice made under Section 117(1) of the Central Bank Act, 1989, of Ireland, as amended, in each case with respect to anything done by it in relation to the Notes if operating in, or otherwise involving, Ireland.

Cayman Islands

No invitation whether directly or indirectly may be made to the public in Cayman Islands to subscribe for the Notes unless the Issuer is listed on the Cayman Islands Stock Exchange.

General

Other than the approval by the Financial Regulator in Ireland of this Offering Circular as a prospectus in accordance with the requirements of the Prospectus Directive and implementing measures in Ireland and listing the Notes on the Official List of the Irish Stock Exchange and admitting the Notes to trading on the regulated market of the Irish Stock Exchange, 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.

The Sole Bookrunner will undertake 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 "Notices to Investors" above.

GENERAL INFORMATION

1. The creation and issue of the Notes has been authorised by a resolution of the Board of Directors of the Issuer passed on or before 14 March, 2006.
2. It is expected that the admission of the Notes to the Official List and the regulated market of the Irish Stock Exchange will be granted on or about the Closing Date, 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.
3. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for the Class A Notes is XS0248216680 and the common code is 024821668. The ISIN for the Class B Notes is XS0248216763 and the common code is 024821676.
4. There are no governmental, legal or arbitration proceedings, including any which are pending or threatened, of which the Issuer is aware, which may have, or have had since 15 August 2005 (being the date of incorporation of the Issuer), a significant effect on the financial position of the Issuer.
5. There are no governmental, legal or arbitration proceedings, including any which are pending or threatened, of which the Borrower is aware, which may have, or have had since 19 July 2005 (being the date of incorporation of the Borrower), a significant effect on the financial position of the Borrower.
6. There are no governmental, legal or arbitration proceedings, including any which are pending or threatened, of which any of the Property Owners are aware, which may have, or have had in the 12 months preceding the date of this Offering Circular (or in the period since the date of incorporation of a Property Owner if shorter), a significant effect on the financial position of such Property Owner.
7. Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Issuer since 15 August 2005 (being the date of incorporation of the Issuer) and, since such date, save as disclosed in this Offering Circular, there has been no material adverse change in the financial position of the Issuer.
8. Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Borrower since 19 July 2005 (being the date of incorporation of the Borrower) and, since such date, save as disclosed in this Offering Circular, there has been no material adverse change in the financial position of the Borrower.
9. Save as disclosed in this Offering Circular, there has been no material adverse change in the financial or trading position of any of the Property Owners since the date of the last published audited financial statements of the relevant Property Owner.
10. Mercer Oliver Wyman has given, and has not withdrawn, its written consent to the inclusion of their reports in this Offering Circular in the form and context in which they are included and have authorised the contents of that part of the Offering Circular. Signatories to the Mercer Oliver Wyman report are Fellows of the Institute of Actuaries ("FIA").
11. The Issuer Deed of Charge and the Security Trust and Intercreditor Deed will provide that the Note Trustee and Security Trustee may rely on reports or other information from professional advisors or other experts in accordance with the Issuer Deed of Charge and the Security Trust and Intercreditor Deed, whether or not such report or other information, engagement letter or other document entered into by the Note Trustee or Security Trustee and the relevant professional advisor or expert in connection therewith contains any limit on the liability of that relevant professional advisor or expert.
12. For so long as the Notes are outstanding, copies of the following documents may be inspected in electronic form during normal business hours at the offices of the Principal Paying Agent:
 - (a) the Memorandum and Articles of Association of the Issuer;
 - (b) the Memorandum and Articles of Association of the Borrower;
 - (c) the Funding Loan Agreement;

- (d) the Deposit Contracts;
 - (e) the Note Trust Deed;
 - (f) the Issuer Deed of Charge;
 - (g) the Liquidity Facility Agreement;
 - (h) the Security Trust and Intercreditor Deed;
 - (i) the Cash Management Agreement;
 - (j) the Bank Account Agreement;
 - (k) the Subscription Agreement;
 - (l) the Paying Agency Agreement;
 - (m) the Property Management Agreements;
 - (n) the Tax Deed of Covenant;
 - (o) the Master Definitions and Construction Agreement;
 - (p) the Swaps;
 - (q) the Intercompany Loan Agreement;
 - (r) the Tranche C Loan Agreement;
 - (s) the Reserve Loan Facility Agreement;
 - (t) the Property Owners' Subordinated Loan Agreement;
 - (u) the loan agreement between the Borrower and the Sponsor (the "**Moormead Loan Agreement**");
 - (v) the Consultancy Deed;
 - (w) the fee deed governing the fees payable for the services of the Consultant (the "**Consultancy Fee Deed**");
 - (x) the Issuer Corporate Services Agreement;
 - (y) the Corporate Officers Agreement;
 - (z) the Declaration of Trust over the Issuer's Issued Share Capital;
 - (aa) the Property Owners' General Account declaration of trust (the "**Declaration of Trust over the Property Owners' General Account**"); and
 - (bb) the actuarial valuation of the sheltered housing portfolio.
13. Copies of the documents referred to in paragraph 12 above, the Property Due Diligence Matrix and all future published financial statements of the Issuer and the Borrower will be available free of charge at the offices of the Paying Agent in Ireland whilst the Notes are listed on the Irish Stock Exchange. Copies of the investor reports referred to in "Investor Reports" above, which are to be prepared by the Borrower based on information received from the Cash Manager and the Managing Agent will be issued by the Issuer on a semi-annual basis and will (subject as stated above) be made available by the Issuer free of charge at the offices of the Paying Agent in Ireland whilst the Notes are listed on the Irish Stock Exchange.
14. The Issuer and the Borrower both publish audited annual financial statements. None of the Issuer, the Borrower, or the Property Owners publish interim financial statements. The Auditors to the Issuer and the Borrower are Baker Tilly whose registered office is at The Clock House, 140 London Road, Guildford, GU1 1UW and are regulated by the Institute of Chartered Accountants in England and Wales.

15. The financial year end of the Issuer and the Borrower is currently 31 October 2006. The published audited financial statements of the Issuer and the published audited financial statements of the Borrower for the period from the date of incorporation of the Issuer 15 August 2005 and the Borrower 19 July 2005 respectively to 31 October 2006 will be available within four months of the end of such period.
16. 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 company with limited liability under the Companies Law (2004 Revision) of the Cayman Islands, the authorisation of the issue of the Notes, the entering into the Transaction Documents and matters referred to or contemplated in this Offering Circular and matters which are incidental or ancillary to the foregoing. As at the date of this Offering Circular, no accounts have been drawn up in respect of the Issuer.
17. It is a condition to the issuance of the Notes that they receive the following credit ratings from Moody's and Fitch:

Class of Notes	Expected Ratings Moody's/Fitch
A	Aaa/AAA
B	Baa2/BBB

The ratings of the Notes should be evaluated independently from similar ratings on other types of securities. A security rating is not a recommendation to buy, sell, or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency.

There can be no assurance as to whether any rating agency not requested to rate the Notes will nonetheless issue a rating and, if so, what such rating would be. A rating assigned to the Notes by a rating agency that has not been requested by the Issuer to do so may be lower than the ratings assigned by the Rating Agencies pursuant to the Issuer's request.

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**£353,000,000 Secured Floating Rate
Notes**

**FAIRHOLD SECURITISATION
LIMITED**

**£329,000,000 Class A Floating Rate
Notes due 2017**

**£24,000,000 Class B Floating Rate
Notes due 2017**

100 per cent.

OFFERING CIRCULAR

UBS Investment Bank HBOS Treasury Services plc